



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Who stands behind European FDI investors?

A novel characterisation of pass-through within the EU

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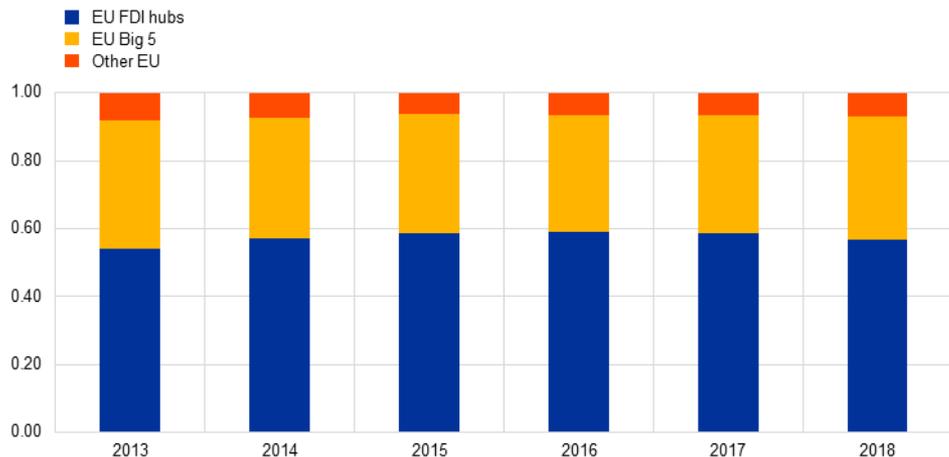
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# 1. Introduction

*Starting point: oversized importance of EU financial centers as FDI investors*

**Chart 1: Main intra-EU investors in official FDI statistics**

Proportion of overall intra-EU FDI assets



Source: Authors' calculations based on quarterly balance of payments data, ECB.

Note: "EU FDI hubs" include BE, CY, IE, LU, MT, NL, HU. "EU Big 5" includes GB, DE, FR, IT, ES. "Other EU" includes the remaining EU countries not singled-out in the chart. EU is intended as EU-28, thus including the current EU-27 composition plus GB. FDI includes both equity and debt assets.

Traditional FDI dataset →  
EU FDI hubs responsible for  
almost 60% of intra-EU FDI  
activity as immediate  
investors in recent years

Not possible to distinguish  
who is ultimately behind  
these large FDI investments

- Is it EU FDI hubs themselves?
- Is it other EU large countries?
- Is it other extra-EU advanced or emerging markets?

## 2. Methodology

*Decomposing standard outward FDI by global ultimate owner (GUO)*

$$FDI_{i,h} = FDI_{i,h}^i + FDI_{i,h}^h + \sum_{f \in F} FDI_{i,h}^f \quad (1)$$

Standard bilateral FDI from country  $i$  to country  $h$  decomposed in:

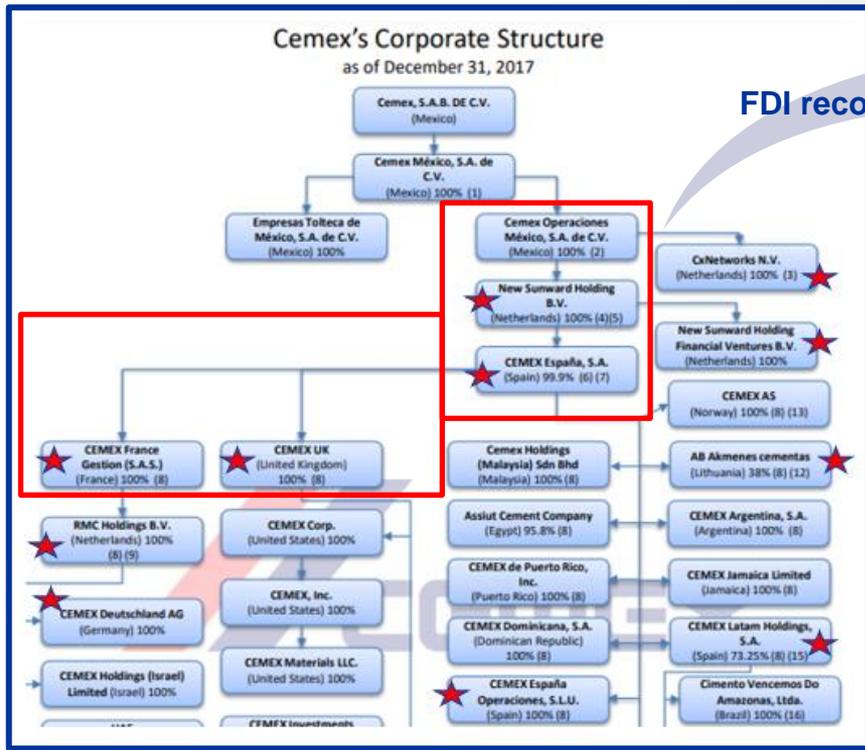
- a **domestic-controlled component**,  $FDI_{i,h}^i$ ,
- a **host-country controlled** (or round-tripping) component,  $FDI_{i,h}^h$
- a **foreign-controlled** (or third country) component,  $\sum_{f \in F} FDI_{i,h}^f$ .

Aggregating *country i's* investment over the set  $W1$  of host countries, *country i's* FDI position can then be decomposed into **domestic-controlled** and **foreign-controlled** (including round-tripping component).

$$FDI_{i,W1} = FDI_{i,W1}^i + FDI_{i,W1}^F \quad (2)$$

# 2. Methodology

A (simplified) real example of a global MNEs corporate structure and extended FDI recording



**Standard FDI data: INV.HOST bilateral info**  
MX.NL → MX.W1  
NL.ES → NL.W1  
ES.FR; ES.UK → ES.W1

**Extended FDI data: (GUO)\_INV.HOST triad info**  
(MX)\_MX.NL → (DOM)\_MX.W1  
(MX)\_NL.ES → (FOR)\_NL.W1  
(MX)\_ES.FR; (MX)\_ES.UK → (FOR)\_ES.W1

- Allows to separate countries' FDI positions in domestically and foreign controlled
- Fully consistent with standard FDI presentation
- Provide info on who ultimately controls FDI links worldwide

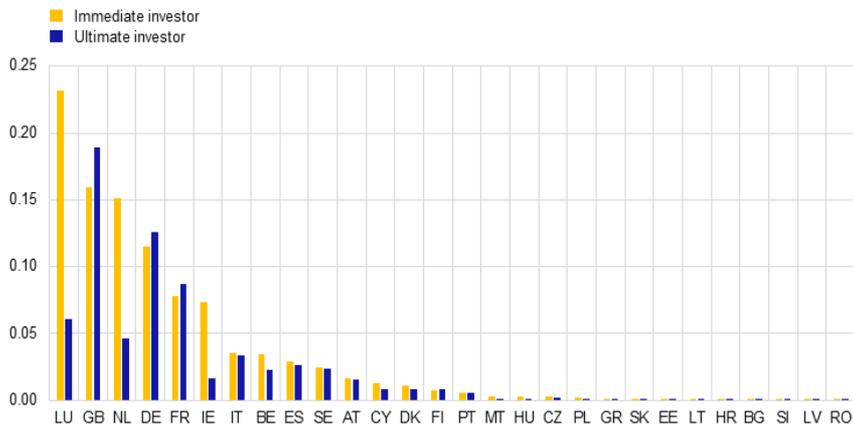
★ → Subsidiaries in the EU

# 3. Main findings

## Stark discrepancy in EU countries' relevance as immediate vs ultimate owners of intra-EU FDI

**Chart 2: EU countries' contribution to intra-EU FDI**

Country's proportion of intra-EU FDI assets, 2018

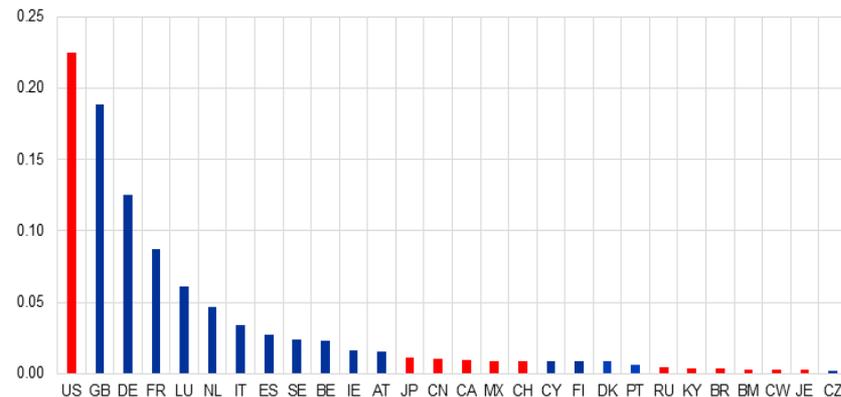


Source: Authors' calculations based on Orbis data.

Note: Yellow bars represent EU countries' contribution to intra-EU FDI as immediate source of FDI investment: they sum up to 1; blue bars represent EU countries' contribution to intra-EU FDI as ultimate sources of FDI investment: they do not sum-up to 1 as some of the intra-EU FDI is ultimately controlled by extra-EU countries.

**Chart 3: Who is ultimately behind intra-EU FDI linkages?**

Ultimate controlling parents of intra-EU FDI assets, proportion of overall intra-EU FDI, 2018



Source: Authors' calculations based on Orbis data.

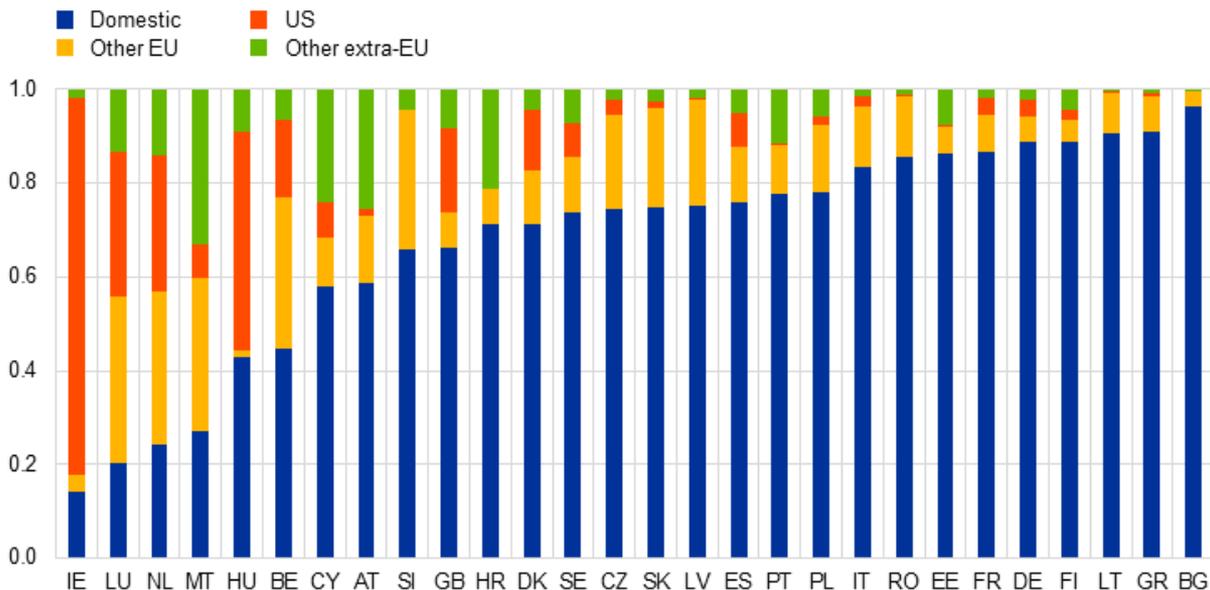
Note: Countries highlighted in red are extra-EU countries. Only countries which contribute individually (as ultimate corporate owners) to at least 0.2% of intra-EU FDI are shown. Overall, the countries shown in the chart contribute, as ultimate corporate owners, to around 98% of intra-EU FDI.

# 3. Main findings

*For EU FDI hubs foreign companies ultimately control >50% of outward FDI*

**Chart 4: Domestic vs foreign-controlled intra-EU FDI assets**

Domestic vs foreign-controlled, proportion of country's intra-EU FDI, 2018



FDI hubs' FDI largely controlled by foreign groups

**US groups** particularly relevant for FDI by IE, HU, LU and NL

**Other EU groups** particularly relevant for FDI by LU, NL, MT, BE

**Other extra-EU groups** particularly relevant for FDI by MT, CY, AT

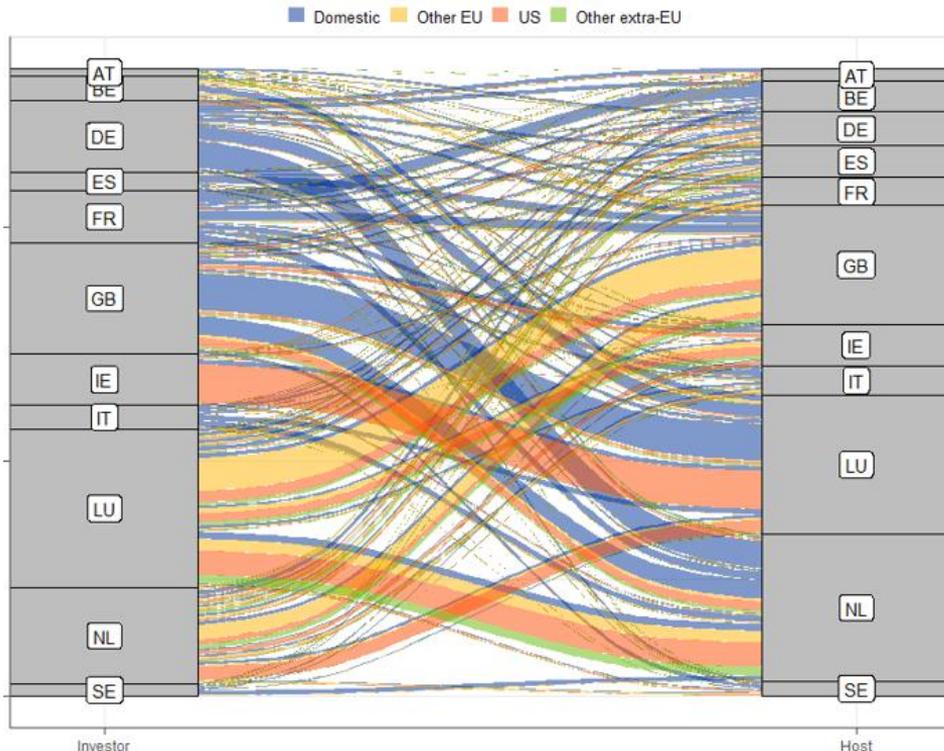
Source: Authors' calculations based on Orbis data.

Note: The blue part of the stacked bar represents the percentage of EU countries' intra-EU FDI which is controlled by domestic corporate groups; the yellow part shows its intra-EU investment ultimately attributable to corporate groups from other EU-countries; red bars for its intra-EU investment controlled by US corporate groups; green for its intra-EU investment controlled by corporate groups from outside the EU (and not US groups).

# 3. Main findings

## Decomposing the intra-EU bilateral FDI Network by country of ultimate owner

Chart 5: Intra-EU FDI linkages, by type of ultimate owner  
EUR billion, 2018



Considerable part of domestic-originated FDI from large EU countries is invested to EU FDI hubs:

- Stays in the country
- Re-invested in other EU countries
- Round-tripping
- Re-invested outside the EU

Source: Authors' calculations based on Orbis data.

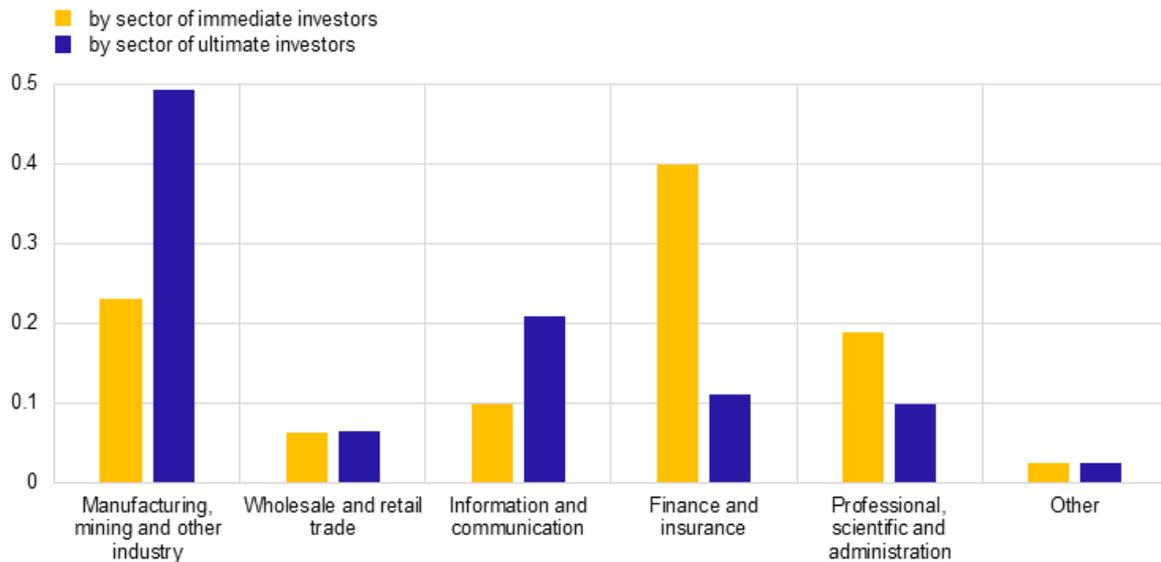
Note: Only EU countries representing at least 1% of intra-EU FDI as immediate investors in our dataset are shown. The size of the grey boxes (nodes) on the Y-axis represents the country's proportion of intra-EU FDI as immediate investor and immediate host. The size of the links shows the proportion of bilateral FDI linkages with respect to the intra-EU FDI. The colouring of the links represents enhanced information on the ultimate controlling parent behind otherwise standard bilateral FDI links.

# 3. Main findings

## Stark discrepancy in sectoral relevance as immediate vs ultimate owner of intra-EU FDI

Chart 6: Most relevant economic sectors of intra-EU FDI investors

Proportion of total, 2018



FDI by **sector** of ultimate investors provides additional insights on sectors behind FDI

*Finance and insurance and Professional, scientific and administration see a reduced role (SPEs, holding/head office)*

*Manufacturing, mining and other industry and ICT see an increased role*

Source: Authors' calculations based on Orbis data.

Note: Only Orbis linkages with information on the NACE code for both immediate and ultimate investors are used. Only individual FDI links larger than 1 million EUR are taken into account.

# 4. Conclusions

## *Main takeaways*

- Providing an additional dimension to standard FDI data helps putting in context the **large role of financial centers** as global FDI investors
- If a large share of FDI activity is generated by **foreign-controlled corporate groups**, the overall size of FDI assets reflects domestic-decision making only to a limited extent
- Information on the **ultimate owners** of resident FDI investors could be rather easily available to FDI compilers and can thus be added as a **supplementary dimension to standard FDI datasets**
- A **sectoral breakdown** of the ultimate owners behind intermediate FDI linkages improves the understanding of the **global network of FDI linkages by industry**