U.S. FDI in the European Union:
The Experience of the United Kingdom

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ABSTRACT
This paper examines the determinants, allocation and level of U.S. FDI in the United Kingdom, during the period, 1986 through 2010, when there was significant enlargement of the EU, pressures to accelerate monetary integration, and the creation of the Eurozone. The results suggest a number of implications for economies participating in or considering membership in regional trade blocs that are committed to future economic/monetary union and to greater authority vested in supranational regional institutions and for foreign investors looking for market-seeking investment opportunities with high return and acceptable risks in economically integrating regional markets.

Using stepwise and ordinary least squares multiple regression techniques, our empirical models examine a number of macro-economic determinants of U.S. FDI in the United Kingdom, during a period of significant growth in the EU and increased economic and financial integration. Data from domestic and international (U.S. Bureau of Economic Analysis, the IMF, The World Bank) sources adjusted for consistency and rounding errors were used in our regression estimates.

This paper validates a number of macroeconomic determinants of FDI proposed and analyzed in previous studies as well as some country-specific variables and also identifies some traditional determinants that do not seem to apply to the UK. Additionally, this paper confirms that Eurozone membership may have significantly influenced U.S. investment decisions on where to enter or expand within the European Union, given similar institutional, legal, and risk environments within the EU member countries, by testing empirically our model for Belgium and comparing the regression outcomes.

From a U.S. investor’s perspective, the EU was and continues to be the primary host region for FDI, relative to all other regions and in fact, to the rest of the world, and the United Kingdom continues to be the major recipient of U.S. FDI. This paper confirms that U.S. FDI in the United Kingdom has been influenced by market growth, and statutory corporate tax rates, as is the experience of many countries, but also that the country’s attractiveness to foreign investors may have been negatively impacted by the creation of the Eurozone. For Belgium, the results suggest that membership in the Eurozone and EU enlargement had a positive impact on U.S FDI, although recent events in the region may significantly change that dynamic relationship!!
About the Authors

C. Richard Torrisi received his Ph.D. in International Economics from Syracuse University and a Post-Doctoral Certificate in International Business from New York University. He is the former Dean of Graduate Programs at Sawyer Business School of Suffolk University. His consulting, teaching, and research have focused on FDI and export strategy in the EU and for emerging markets in Latin America, Southeast Asia, and Central Europe. He was a Fulbright scholar for the 2006-2007 academic year in Poland and France and a member of the Fulbright Review Board for Central Europe. Currently, he is Associate Professor of International Business and Finance at Suffolk University and visiting faculty at a number of business schools in Europe and Brazil.

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