State of the Nations research series

FOREIGN DIRECT INVESTMENT IN THE UK'S CREATIVE INDUSTRIES

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About the Creative Industries Policy and Evidence Centre

The Creative Industries Policy and Evidence Centre (Creative PEC) works to support the growth of the UK's creative industries through the production of independent and authoritative evidence and policy advice. Led by Newcastle University, with the Royal Society of Arts and funded by the Arts and Humanities Research Council, Creative PEC comprises a core consortium of Newcastle University, Work Advance, the University of Sussex and the University of Sheffield.

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About the State of the Nations reports

The Creative PEC's 'State of the Nations' series analyses the latest data across four thematic areas to inform the development of policies relating to the creative industries. Its scope is the whole of the United Kingdom, and wherever possible data is presented for all the nations and regions. Regular reports on each area will be published annually over the five years of the Arts and Humanities Research Council funding. The themes and corresponding research partners are:

- R&D, Innovation and Clusters (University of Sussex)
- Internationalisation (Newcastle University)
- Arts, Culture and Heritage Sectors (University of Sheffield)
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Foreword

"The strategy's goal is to capture a greater share of international mobile investment in strategic sectors and spur domestic businesses to boost their investment and scale up their growth – an essential step in achieving, sustainable, inclusive and resilient growth."

So says the UK government's industrial strategy green paper (DBT, 2024[1]). But assessing the success of government policy going forward in achieving this strategic goal will need baseline data: high-quality, detailed data on foreign direct investment (FDI) at the sectoral level.

This is what we address for the UK's creative industries in our latest State of the Nations report, presenting data that we will update in future editions.

Specifically, using project-level data for both inward and outward FDI for the UK for the period 2013–2023, we produce a granular, sub-sector-level picture of investment by type (greenfield or mergers and aquisitions (M&A)), destination/origin, geography and rationale. Importantly, where possible, we include global rankings against which policymakers can benchmark the UK's future performance.

The report is required reading for policymakers and creative industries businesses looking to grow their international investment activities. Some of the data we present updates that which we introduced in previous Creative PEC research. Some, like that on outward FDI in the creative industries, we believe is being presented for the very first time. As ever, I'd be delighted to hear what you think!

Professor Hasan Bakhshi,
Director, Creative PEC

Executive summary

This report examines the nature of foreign direct investment (FDI) in the UK creative industries from the perspective of inward and outward FDI. It analyses 'project'-level data, which captures the individual investment decisions or projects of foreign investors over the period 2013–2023. The report finds that the UK is a competitive destination for inward creative FDI as well as a major source of outward FDI, second only to the USA for the location and generation of FDI creative projects.

On average, 10% of all inward UK FDI projects over the period 2013–2023 are accounted for by the creative industries, highlighting the importance of these industries for UK FDI, demonstrating how the creative industries are a success story for the UK and cementing the UK's position as a FDI creative hub. A similar pattern also arises for outward FDI.[2] However, this share of inward FDI has fallen from a peak of 12% in 2021, and absolute numbers of inward FDI projects have also fallen since 2019. There is a similar story for outward creative FDI. Against the backdrop of falling FDI flows for the overall UK economy, this decline suggests that initiatives for both attracting and generating creative FDI should be a priority for policymakers.

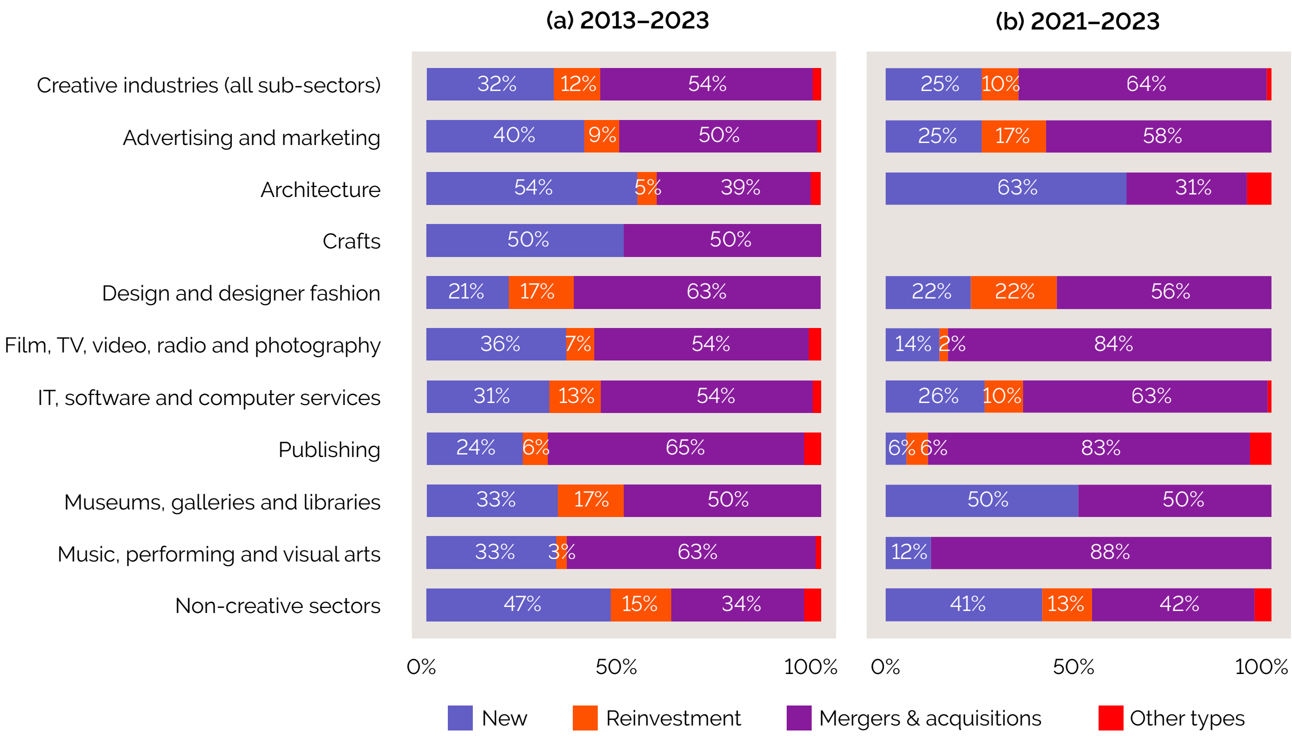
Figure i: Top 10 destinations for inward FDI projects in the creative industries, 2013–2023

Country	Global share of creative industry FDI	Rank	Global share of all FDI	Rank	Creative share of country's own FDI
USA	12.9%	1	13.7%	1	7.4%
UK	9.3%	2	7.0%	2	10.3%
Germany	8.4%	3	6.4%	4	10.3%
India	4.9%	4	3.0%	7	12.7%
Canada	4.6%	5	2.6%	8	13.6%
France	3.5%	6	3.4%	6	7.9%
Australia	3.4%	7	2.4%	10	10.8%
Spain	3.3%	8	3.5%	5	7.3%
China	3.0%	9	6.7%	3	3.5%
Singapore	2.9%	10	1.9%	12	12.0%
Other	43.8%		49.3%		6.7%
Total	**100%**		**100%**		

Note: Authors' calculations using Orbis Crossborder Investment data.

Analysis of the nature of inward creative FDI finds that FDI is concentrated at the sub-sectoral level, with the IT, software and computer services sub-sector accounting for over 70% of projects over the period. However, this concentration has lowered over the past five years from a peak of 80% of creative FDI, suggesting less reliance on FDI in this sub-sector. Inward creative FDI is also relatively concentrated in mergers and acquisitions (M&As) projects compared with new (or greenfield) projects, which contrasts with the evidence on non-creative FDI. This trend has become even more prominent over the past three years, albeit against a backdrop of declining new inward FDI projects across the UK economy.

Figure ii: Inward creative FDI by project type

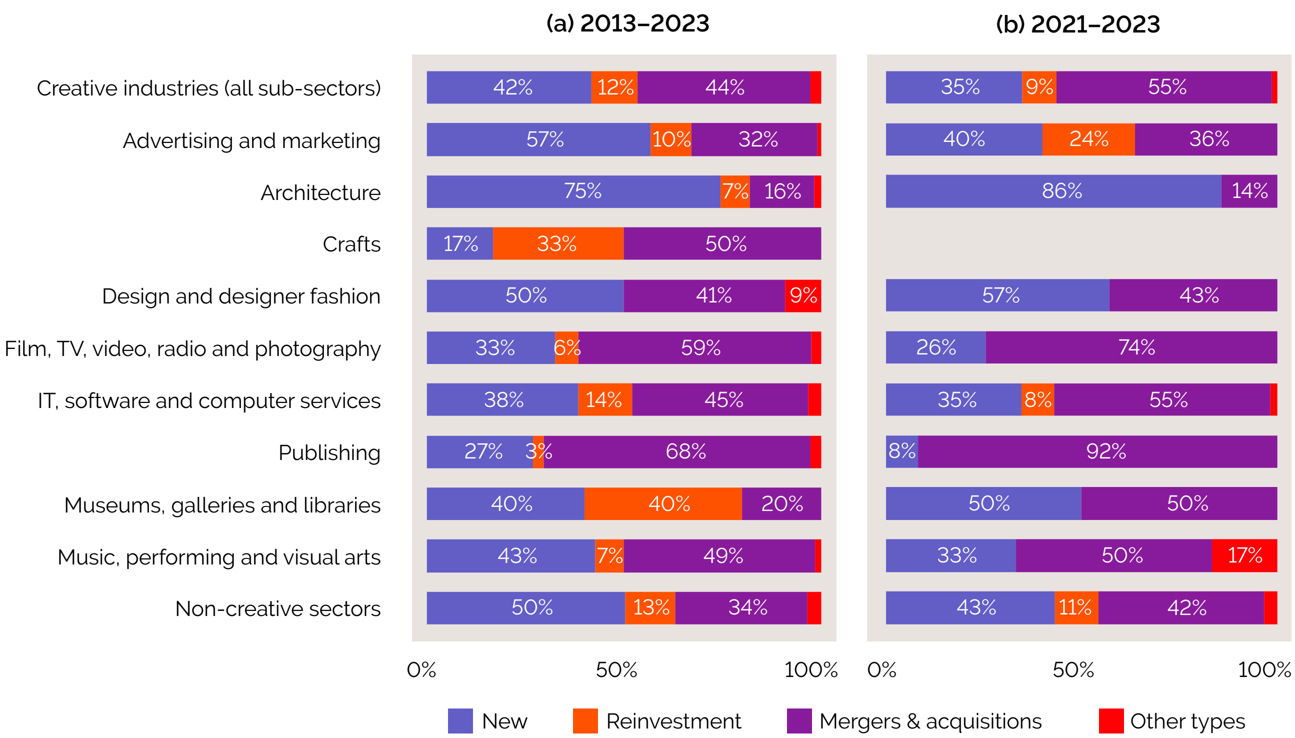


Note: Authors' calculations using Orbis Crossborder Investment data. New projects involve new construction on an undeveloped site so they are often labelled as greenfield projects. Other projects relate to relocations and joint ventures. No recorded projects for the Crafts sub-sector over the period 2021–2023.

The report analyses a range of features in relation to the nature of inward creative FDI. This covers the source of the investment – M&A projects from the USA are particularly prominent, but there is notable investment in new projects from Europe, India and China. The report also analyses the geographic pattern of the locations of UK inward investment (accounting for the underlying size of the regions). M&A projects are found to be clustered around the South East of England, while analysis at the sub-sectoral level finds a varied geographic pattern across the UK regions and nations. For example, Advertising and marketing is often found in the South East and IT, software and computer services in the main urban areas of the UK, while Architecture; Film, TV, radio and photography; and Publishing are spread across differing regions of the UK. This suggests the regional forces that attract FDI location are different across creative sub-sectors and that the existence of regional creative clusters may have an important role in attracting FDI.

As with inward FDI, most outward FDI occurs in the IT, software and computer services sub-sector (over 60% of all outward FDI). The majority of M&As also arise in this sub-sector (and relatively more compared with new outward projects). Overall, however, outward FDI is found to be less concentrated in M&As, suggesting that either domestic UK creative firms are relatively more attractive to foreign firms or that UK creative firms are less able to engage in M&A activity as acquirers. A relatively more globalised and diverse pattern also arises for outward FDI relationships, as there is greater association with countries outside Europe and North America.

Figure iii: Outward creative FDI by project type



Note: Authors' calculations using Orbis Crossborder Investment data. No recorded projects for the Crafts sub-sector over the period 2021–2023.

Given the prevalence of M&A activity for inward creative FDI and the concentrated nature of this by source location and sector, the report also undertakes more specific analysis of the rationale behind M&A projects. Textual analysis of the rationales for inward M&A projects shows the importance of games and software within IT, software and computer services.

Topic modelling also shows that strategic motivations for investing in the UK via M&A are quite similar regardless of whether we consider all creative projects or only those in IT, software and computer services, which contrasts with the rest of the economy. These are customer-oriented, organisation-oriented and global market growth-oriented reasons.

Figure iv: M&A rationales: word cloud comparison of creative versus IT, software and computer services projects

Creative M&A projects | IT, software and computer services M&A projects | All M&A projects

Note: Authors' calculations using Orbis Crossborder Investment data. Word frequency is adjusted using the square of inverse document frequency (IDF). The analysis has been adjusted by removing stop words.

This report arises in the policy context of successive UK governments seeking to increase investment to boost economic growth and with the creative industries identified as a key sector for both investment and growth, as highlighted by the recent green paper *Invest 2035: the UK's modern industrial strategy* (UK Government, 2024). From a policy standpoint, the report stresses the importance of continuing to attract inward creative FDI while supporting UK firms to expand internationally. Local and regional policy strategies are essential for attracting specific types of creative FDI, with emphasis given to understanding and mapping regional capabilities. This could follow the recent positive efforts in the Midlands (DBT, 2023) to map and showcase the local ecosystem for international investors.

Further analysis on FDI is required to understand the long-term impact of FDI on job creation, regional economies and creative industry clusters. More data on the size and value of creative FDI projects is also necessary to assess the broader economic impact, such as FDI spillovers. Research into the role of M&As in the creative sector and their effects on intellectual property and firm growth would also help shape future policy directions.

1 Introduction

1.1. Context and aims

The size and role of the creative industries in the UK economy are well-documented. The previous UK government recognised the creative industries as one of the five priority sectors for delivering economic growth (House of Lords, 2024a). To facilitate this growth, the creative industries have been the subject of a Sector Vision that noted the importance of increasing investment, including inward foreign direct investment (FDI) (DCMS, 2023).[3] The importance of the sector to the UK economy is also highlighted by the culture secretary's position in the new government's Growth Mission Board (Thomas, 2024) and by the identification of the creative industries as one of the growth-driving sectors in *Invest 2035: the UK's modern industrial strategy* (UK Government, 2024).

FDI refers to the cross-country flow of capital that "establishes a lasting interest in and significant degree of influence" in the overseas enterprise (OECD, 2015).[4] As a result, FDI is seen as a channel to grow the domestic economy. Increasing private investment is a central aim in the new government's manifesto for growth (Labour Party, 2024), because the UK has had private sector investment below the G7 average since 2005 (IPPR, 2023). Increasing international competition for such investment also led to the recent *Harrington Review of Foreign Direct Investment* by the previous UK government (HM Treasury, 2023a). The creative industries formed part of the terms of reference for the review, which provided a number of recommendations for boosting investor confidence in the UK (HM Treasury, 2023b). The main goals of the *Harrington Review* have also been supported by the new UK government, which has emphasised the importance of breaking down barriers to investment to increase economic growth and explicitly mentioned the attraction of inward FDI in their manifesto (House of Lords, 2024b).

There has been a long-standing interest in the role of FDI in the UK economy, across the impact on productivity (Driffield and Love, 2007), employment (Williams, 2003) and the effect of FDI on the regional economy (Jones and Wren, 2016). There has, however, been a lack of evidence on UK FDI in the creative industries (Fazio, 2019), although recent studies by Creative PEC have begun to analyse the nature of FDI in the UK economy. Studies have analysed the location patterns of foreign investors, albeit at a relatively aggregated spatial level, to uncover a nuanced location pattern across the creative industries when accounting for the size of the regional economy, as well as highlighting the relative prominence of mergers and acquisitions (M&As) in the creative industries relative to other industries (Jones and Fazio, 2022). There has also been analysis on the motives behind FDI location decisions, with a range of motives uncovered, such as market and resource seeking as well as finding an important role for institutions and agglomeration economies (Jones and Maioli, 2023).

This report builds upon the previous Creative PEC work on FDI and furthers our understanding of FDI in the UK creative industries. Consultations with key stakeholders emphasised the need to shed light on a range of themes, from characteristics of investors, types of investment and locations of investment to broader policy implications of FDI. Such a wide spectrum of issues highlights the underlying deficiency of knowledge regarding FDI in the UK creative industries, which is also symptomatic of the lack of accessible data on FDI in these industries.

Given the above, this report pursues the following aims.

- Update and extend the evidence on the locations of inward FDI in the UK: the report offers a comprehensive guide to the location of inward investors in the creative industries over recent years, allowing insights into the post-Brexit and post-Covid-19 patterns of FDI. This captures FDI for the sub-sector groupings of the creative industries. Further, it highlights the location of these investments at the granular level of spatial disaggregation defined by the urban area (city/town) location, which unlocks unique insights into the geographic distribution of FDI in the creative industries. The characteristics of FDI investors are also investigated in relation to their source country and the type of investment undertaken. In the latter's case, this entails distinguishing between the type of FDI: new (or greenfield) investment and M&As of UK-based firms.
- Analyse the nature of FDI from the UK to the rest of the world: while the focus of attention on FDI tends to be predominantly on inward investment, a full understanding of the internationalisation of UK creative businesses needs to also cover the nature of UK firms' investment abroad (i.e. outward FDI), for which there is an extremely limited evidence base.
- Provide a descriptive overview of the rationales behind foreign M&As of UK-based firms: the greater share of M&As as a mode of foreign entry in the UK creative industries compared with non-creative industries warrants further investigation into the rationale for M&As.

1.2. Foreign investor data

Data for the cross-border flows of FDI at the macro/country level is recorded by organisations like UN Trade and Development (UNCTAD), the Organisation for Economic Co-operation and Development (OECD) and Eurostat, which also distinguish between inward and outward FDI flows. Inward FDI refers to investment into a given country (e.g. total UK inward FDI relates to flows into the UK from all other countries) and outward FDI means investment originating from a given country (e.g. total UK outward FDI relates to flows out of the UK to all other countries). These data sources are, however, limited for identifying FDI in the creative industries: the data availability varies in terms of the level of aggregation by industrial classification and geographic coverage.[5] FDI can also be measured in terms of its stock – that is, the total level of investment at a given point in time in a country – but again, it suffers from the same data access limitations as highlighted above.

For data specifically relating to the UK, the Office for National Statistics (ONS) releases both flows and stocks of FDI, which includes a sectoral breakdown, covering the creative industries.[6] The quality of data, however, can be affected by disclosure restrictions, especially for finer levels of geographic disaggregation and more so when cross-referenced with other characteristics of the investment. The data is also limited: it cannot identify the type of investment (i.e. new business creation or M&As) or provide details of specific investments.

As such, an alternative way to understand FDI flows is to exploit data at the project level, which captures the individual investment decisions, or projects, of foreign investors (DBT, 2024). This report utilises project-level data from the Bureau van Dijk Orbis Crossborder Investment database, a proprietary database provided by Moody's Analytics, which tracks and records information on daily cross-border investment.[7] Alternative sources for project-level data for FDI are available from the Department for Business and Trade, EY and *Financial Times* fDi Markets – although the latter two exclude M&A projects. Appendix Figure A1 in the online supplementary material compares these data sources over time using index values (base year 2016) to account for the differences in the collection and nature of the data sources. It highlights the common trend across the different data sources, with FDI increasing in the UK throughout the 2010s before declining from 2019 in the post-Covid-19 and post-Brexit period.[8] This project-level data has been used previously to analyse FDI in a range of settings (see for example Davies, et al, 2018; Serwicka, et al, 2024), including some initial exploration of FDI in the creative industries (Jones and Fazio, 2022; Jones and Maioli, 2023). A limitation of the project data, however, is the lack of comprehensive coverage on the size of investments, such as the value of projects or the number of jobs associated with projects, although emphasis in this report is on the location and characteristics of FDI.

Importantly, the Orbis Crossborder Investment data allows analysis of the characteristics of both inward FDI flows into the UK and outward FDI flows from the UK across a range of project types and characteristics. The data includes information on the industrial activity of the investment, which can be used to identify the sub-sector groupings of the creative industries as categorised by the Department for Culture, Media and Sport (DCMS).[9] The data also includes the source country of the investment (where it has originated from) and the location of the foreign investment in the host country (i.e. for inward UK FDI this would be the location within the UK). It further encompasses type of investment, so that we can distinguish between different types of projects: new (or greenfield), reinvestments (i.e. where these occur subsequent to an existing investment at the location) and M&As.[10] Further details on the data are provided in Jones and Fazio (2022).[11]

Box 1: Definition of new and M&A project data

Definition of new and M&A project data	
New project	
A new operation, such as a production plant, regional headquarters or sales office. A new project involves new construction on an undeveloped site, so it is often labelled as a greenfield project.	
M&A project	
A merger (one-for-one share swap and as such involves a 'merger' of equals) or an acquisition (the acquiring firm ends up with a controlling stake in the target's equity, defined as ≥ 10%).	
Example of FDI projects from Orbis Crossborder Investment data	
New (greenfield) projects	M&A projects
• In the music industry, Tennessee-based record label Big Machine Records from the USA established a UK office in London in 2016 to expand its international presence.	• Playmaker Capital acquired leading digital product agency Two-Up in 2021.
• In 2023, German-owned Kilimanjaro Live – Winner of the Music Week Live Promoter of the Year Award 2023 – opened an event promotion office in Wales.	• John Wiley and Sons acquired London-based open access publisher Hindawi in 2021.
• In other creative industries, US company Blackhall Global Partners, through its UK subsidiary Blackhall Studios, announced plans to build a Hollywood-style film and TV production studio complex in Reading in 2020 – it is set to be ready for use by the end of 2024.	• In 2021, Investcorp acquired leading global digital corporate communications and marketing company Investis Digital.
• After a more recent new investment by US company Amazon, Shepperton Studios in Surrey, for a time, became the world's second-largest film studio after its expansion announcement in 2019.	• Video game giant Electronic Arts acquired UK-based game developer and publisher Codemasters in 2021.

The structure of the report is in line with the aims stated above. The next section analyses the nature of UK inward FDI in the creative industries, before Section 3 provides a discussion on outward FDI. Section 4 delves into the rationale of M&A projects. In the last section, conclusions and policy implications are raised.

2 UK inward FDI in the creative industries

2.1. UK creative FDI in a global context

The UK has a long-standing record of being a prominent destination for inward foreign direct investment (FDI) (Girma, et al, 2001; Kneller and Pisu, 2004; Driffield, et al, 2013; UNCTAD, 2022, 2023).[12] Table 1 shows that the UK has been the second most popular location globally for inward FDI projects in the creative industries over the past decade and that this is also the case for total FDI projects aggregated across all industries in the UK.[13] The top ten destinations for number of inward creative industry FDI projects account for over half of all creative FDI projects. Given that nine of these countries also account for the top ten destinations for all FDI (i.e. across all sectors), it suggests that countries that attract high levels of FDI in general also do so in the creative industries. On average, for these countries, around 10% of all FDI is in the creative industries, which is higher than those countries outside of the main destinations. China is a notable exception, ranking ninth highest for attracting creative industry FDI but third highest for attracting overall FDI.

Table 1: Top 10 destinations for inward FDI projects in the creative industries, 2013–2023

Country	Global share of creative industry FDI	Rank	Global share of all FDI	Rank	Creative share of country's own FDI
USA	12.9%	1	13.7%	1	7.4%
UK	9.3%	2	7.0%	2	10.3%
Germany	8.4%	3	6.4%	4	10.3%
India	4.9%	4	3.0%	7	12.7%
Canada	4.6%	5	2.6%	8	13.6%
France	3.5%	6	3.4%	6	7.9%
Australia	3.4%	7	2.4%	10	10.8%
Spain	3.3%	8	3.5%	5	7.3%
China	3.0%	9	6.7%	3	3.5%
Singapore	2.9%	10	1.9%	12	12.0%
Other	43.8%		49.3%		6.7%
Total	**100%**		**100%**		

Note: Authors' calculations using Orbis Crossborder Investment data.

The UK is also a main destination across the various creative industries sub-sectors. Table 2 shows the ranking of the top ten countries globally for number of creative industries FDI projects, as identified in Table 1, by each of the creative industry sub-sectors. The UK is in the top two for attracting FDI in six of the nine sub-sectors and in the top three for two of the remaining sub-sectors, with the exception being the attraction of FDI projects in the Crafts sub-sector.[14] The USA is the leading global destination across all sub-sectors. Germany is also a consistently attractive location for inward FDI, being in the top four destinations across all the sub-sectors. Outside of these countries there is a more mixed pattern – so that, overall, the UK emerges as a competitive destination for inward FDI projects across the creative industries.

Table 2: Ranking of top 10 destinations for inward creative FDI across sub-sectors, 2013–2023

	Advertising and marketing	Architecture	Crafts	Design and designer fashion	Film, TV, video, radio and photography	IT, software and computer services	Museums, galleries and libraries	Music, performing and visual arts	Publishing
USA	1	1	1	1	1	1	1	1	1
UK	2	2	14	2	2	3	3	2	2
Germany	3	4	3	3	3	2	2	4	4
India	13	16	11	18	11	4	10	28	12
Canada	9	7	5	6	4	5	14	6	9
France	5	9	10	5	5	8	9	3	5
Australia	7	12	18	8	12	6	-	9	19
Spain	12	20	41	7	9	7	6	10	6
China	6	3	9	4	7	10	7	7	24
Singapore	4	5	22	16	13	9	20	17	17

Note: Top 3 ranking Top 4-7 ranking Top 8-10 ranking Outside top 10 ranking No projects recorded

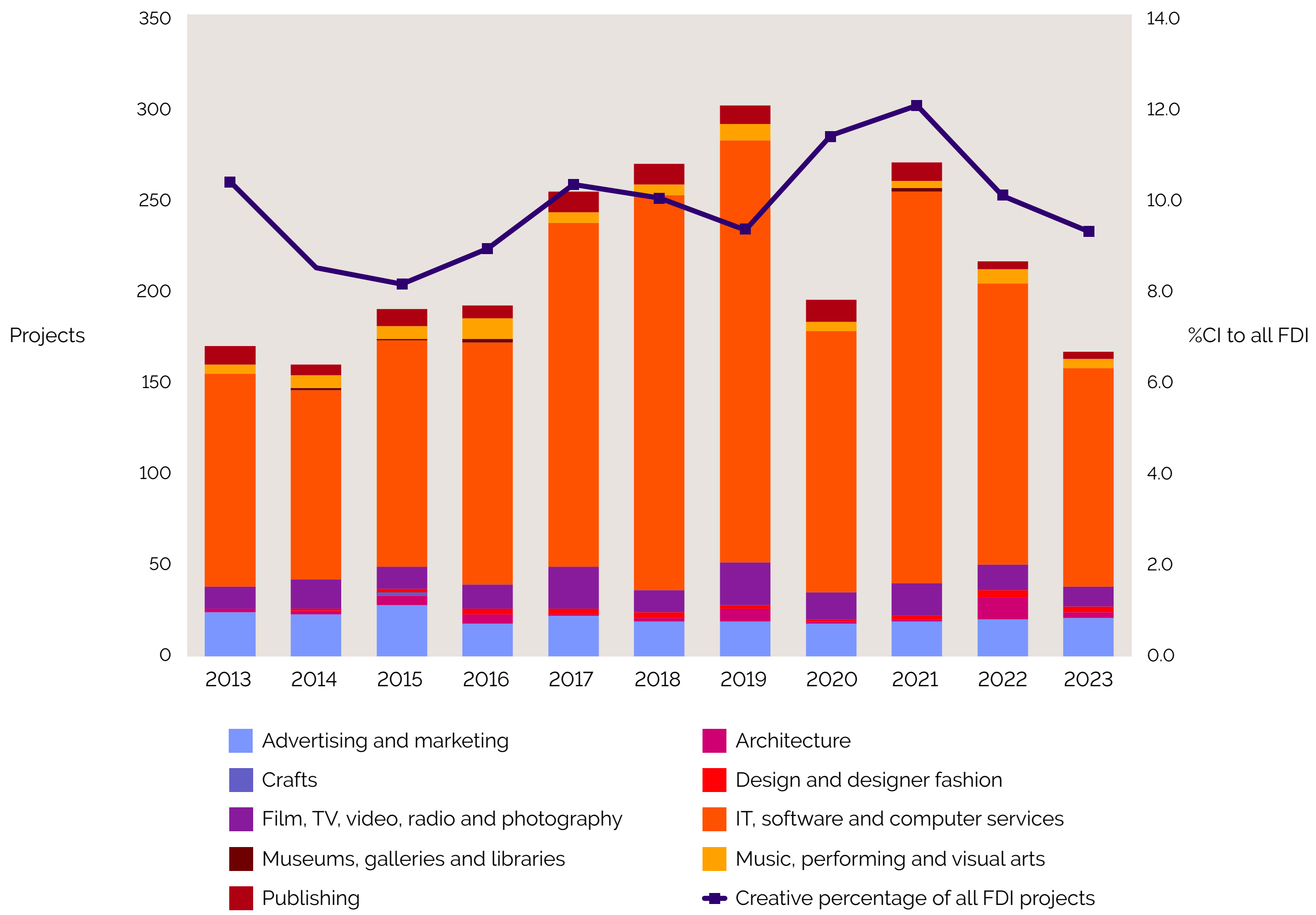
Authors' calculations using Orbis Crossborder Investment data.

2.2. Nature of UK inward creative FDI

Temporal and sub-sectoral pattern

Despite the UK being a prime destination for inward FDI, there has been a notable decline in absolute terms since 2019 following the aftermath of Brexit and the Covid-19 pandemic (see Appendix Figure A1 in the online supplementary materials for an overview of total UK inward FDI).[15] Figure 1 shows that this has also been the case for the creative industries, with the number of inward FDI projects having fallen by nearly 50% when comparing 2019 and 2023. As a proportion of all inward UK FDI, FDI in the creative industries, however, has remained relatively stable accounting, on average, for 10% of all FDI over the last ten years, although this has fallen from over 12% of UK FDI in 2021 to below 10% in 2023.[16] Of course, as highlighted above, the UK is a leading attractor of both all FDI and creative FDI amongst its international competitors.

Figure 1: Inward UK creative FDI by year and sub-sector, 2013–2023



Note: Authors' calculations using Orbis Crossborder Investment data.

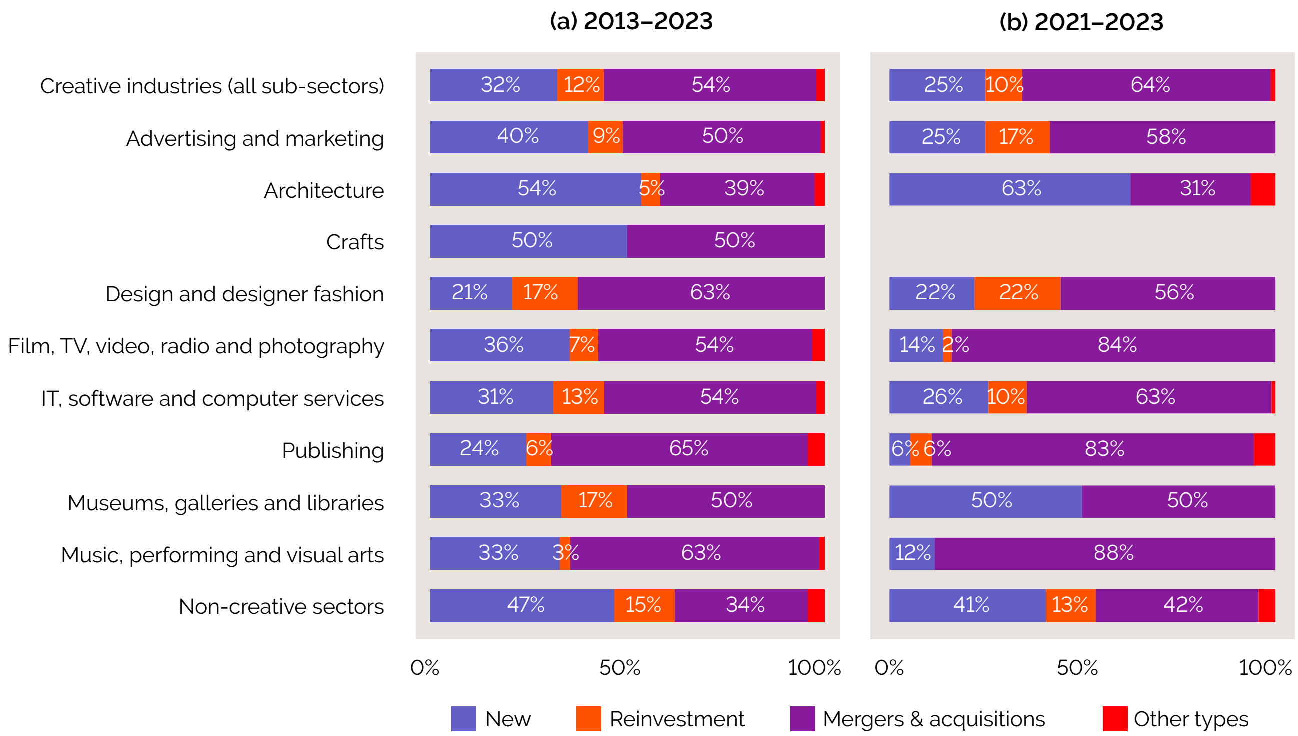
Figure 1 also shows the breakdown of FDI by creative industry sub-sector, with notably over 70% of projects in IT, software and computer services in 2023 (see Appendix Table A1 in the online supplementary materials for a breakdown of the number of projects by sub-sector).[17] While many projects are concentrated within this sub-sector, its percentage share has declined from 77% in 2019 and from a peak of 80% in both 2018 and 2021.[18] The remaining share of inward FDI projects is distributed predominately in the Advertising and marketing and Film, TV, radio and photography sub-sectors, with 10% and 7% of projects respectively across the period 2013–2023. Advertising and marketing's share has more than doubled from 6% in 2019 to 13% in 2023. Overall, these three sub-sectors account for 90% of projects in the creative industries over the period, with the remaining share of projects mainly across the Publishing (4%), Music, performing and visual arts (3%), and Architecture (2%) sub-sectors.

FDI by project type: new, M&As and reinvestments

The mode of entry of the foreign investors, that is, new or merger and acquisition (M&A), and whether the foreign investors are reinvesting (i.e. occurring after an existing investment at the location), is explored in Figure 2(a). The figure shows that, with the exception of Architecture, the dominant type of project over the past decade is through M&As.[19] For the creative industries as a whole, 54% of projects are M&As, with 32% new (or greenfield) projects, in contrast with non-creative industries where around one-third of projects are through M&As and nearly half are new projects (see Appendix Table A1 in the online supplementary material for a full breakdown of the number of projects). The emphasis on M&As is apparent across the majority of sub-sectors, particularly Publishing (65%), Music, performing and visual arts (63%), Design and designer fashion (63%), Film, TV, radio and photography (54%), and IT, software and computer services (54%).

The dominance of M&As in the creative industries is even more pronounced if focus is placed on the last three years, as shown in Figure 2(b), with 64% of projects being M&As and even higher proportions in: Publishing; Film, TV, radio and photography; and Music, performing and visual arts. Over this recent period, however, M&As have also increased as a proportion of all FDI projects, accounting for over 40% of non-creative FDI between 2021 and 2023. This reflects an overall drop-off and subsequent lack of recovery of new FDI projects post 2019.[20] Further, the drop in greenfield FDI projects is in line with findings from UN Trade and Development (UNCTAD) (2024a, Table I.3), which reports a change in the number of inward greenfield projects for developed economies – in particular Europe by -6% and -8% respectively in 2022 and 2023, while between 2021 and 2023 the change was 0% and -7% respectively.

Figure 2: Inward creative FDI by project type



Note: Authors' calculations using Orbis Crossborder Investment data. Other projects relate to relocations and joint ventures. No recorded projects for the Crafts sub-sector over the period 2021–2023.

Origin of investment

FDI in the UK creative industries over the past decade has been dominated by North American and European investors, with over 80% of inward FDI originating from these global locations. Figure 3 shows the top twenty-five source countries of creative UK FDI over the past decade, which account for over 90% of all inward creative FDI (the top ten countries account for nearly 80% of all FDI).[21] The USA is the main investor, providing nearly 45% of inward FDI in the UK. Canada is the second-largest investor (7%), while Europe generated roughly 30% of FDI projects over the period. Indeed, twelve of the top twenty source countries are European, although each of these countries is relatively small in terms of numbers of projects: for example, France is the largest European investor with 5% of FDI in the creative industries. Outside of these regions, investors come from India (3%), Australia (3%) and the Far East, including Japan (2%), China (2%) and Singapore (1%).[22]

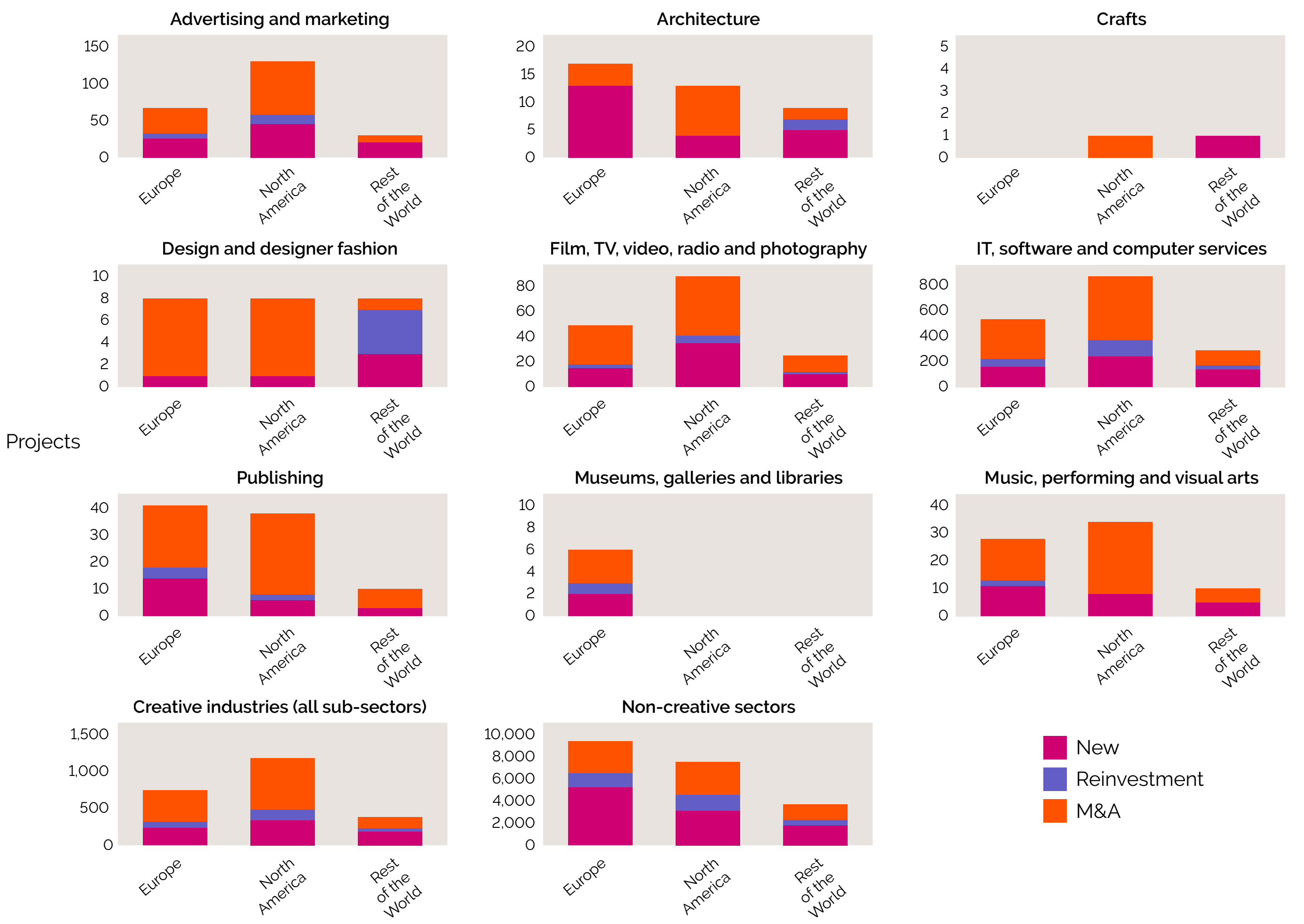
Figure 3: Top 25 source countries for UK inward creative FDI, 2013–2023

Note: Authors' calculations using Orbis Crossborder Investment data.

The share of European inward FDI in the UK creative industries has increased over the past three years, as seen in Appendix Figure A4 in the online supplementary material, with a notable shift from below 30% in 2020 to close to 40% in 2021 and 2022. This may reflect changing investment strategies post-Brexit, with investors deciding to locate within the UK to avoid new trade barriers, or a more general impact relating to post-Covid-19 uncertainty, with investment from outside of the main North American and European blocs suffering a declining share of inward UK FDI in the creative industries.[23]

A further breakdown by project type and origin for each of the creative industry sub-sectors is provided in Figure 4. It shows that North America is dominant across Advertising and marketing; Film, TV, radio and photography; IT, software and computer services; and Music, performing and visual arts. With the exception of the latter, North America accounts for over 50% of inward FDI in these sub-sectors. In turn, these are related to large inflows of M&As, which is the dominant mode of entry in the creative industries for North American investment. Europe, however, is the main source of FDI for Architecture; Publishing; and Museums, galleries and libraries. Within these sub-sectors, Europe is notably the main source for new projects, particularly so in the case of Architecture.[24] Europe is also the main source of new projects within the Music, performing and visual arts sub-sector. Outside of North America and Europe, the largest shares are in Architecture and IT, software and computer services. For the IT sub-sector, there are similar shares with European new projects.

Figure 4: Origin of FDI by creative sub-sector and project type, 2013–2023



Note: Authors' calculations using Orbis Crossborder Investment data.

Of course, being the dominant source of creative FDI, the USA is the leading investor across both new and M&As (as well as reinvestments). Figure 5, which maps the top twenty-five source countries for new and M&A creative FDI, reflects this. The USA's dominance is greater within M&As, where it accounts for 45% (and overall North America 53%) of all M&As but 40% (and North America 44%) of new projects. Europe still accounts for a sizeable 32% of M&A projects and 30% of new FDI projects. In terms of new projects, and relative to M&As, there is notable investment from India, which has been the second-largest investor of new FDI projects over the period with 6% of new projects. China also appears in the top ten investors of new projects.[25] Finally, Appendix Figure A7 in the online supplementary material provides a further breakdown by creative sub-sector. As well as capturing the dominance of the USA across sub-sectors, it also highlights Canada in Film, TV, video, radio and photography and IT, software and computer services; France in Advertising, IT, software and computer services, Publishing, and Music, performing and visual arts; Netherlands in Architecture; and India, Ireland and Germany in IT, software and computer services – in the case of India, the sub-sector accounts for over 80% of their creative FDI to the UK.

Figure 5: Top 25 source countries of UK inward creative FDI by project type, 2013–2023

(a) Origins of creative inward FDI into UK (New projects)

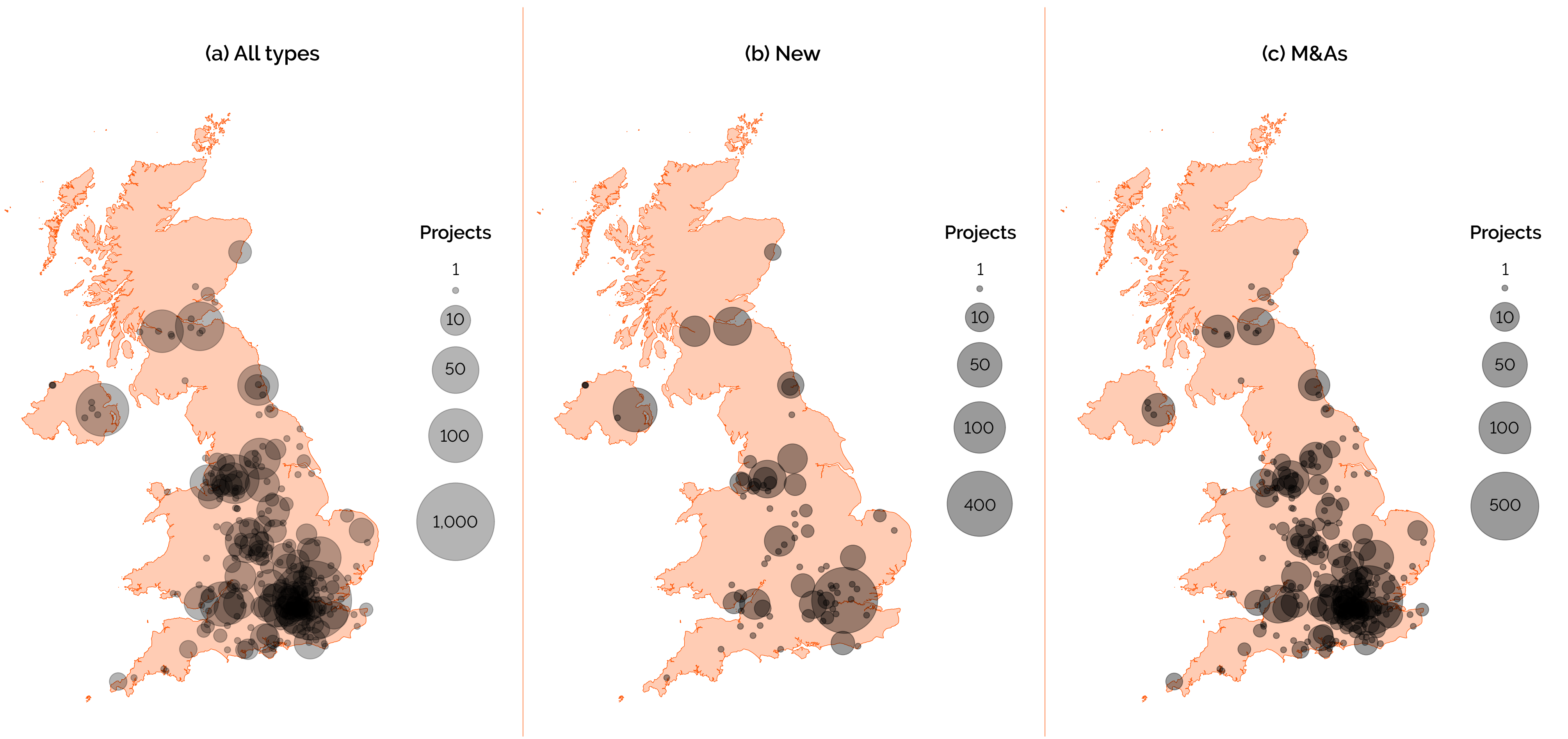
(b) Origins of creative inward FDI into UK (M&A projects)

Note: Authors' calculations using Orbis Crossborder Investment data.

2.3. UK location of creative FDI

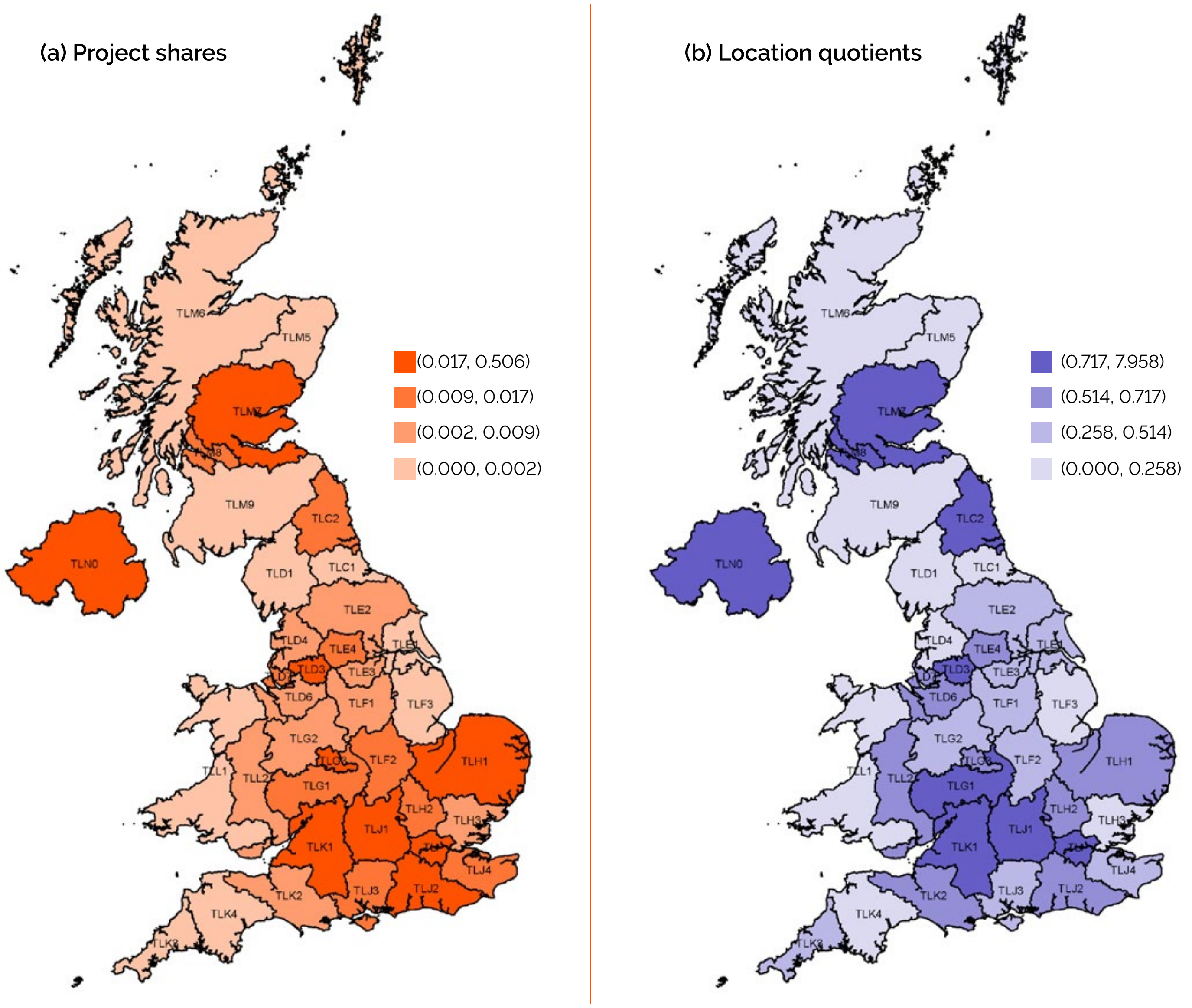
The location of creative inward investment in the UK at the urban level is illustrated in Figure 6 for (a) all creative industries, (b) new projects and (c) M&A projects.[26] The figure illustrates a concentrated pattern into the main UK urban areas: there is a spread across the UK but particularly in London where, in the case of all creative FDI projects, over half of investment is located.[27] London's attraction is relatively more prominent for new projects (61%) compared with M&A projects (46%), so it is not solely M&As driving the concentrated pattern. Indeed, M&As are more geographically spread outside of London than new FDI, although they are still concentrated, with the top ten M&A destinations accounting for just under 60% of all M&A projects. For new projects, the top ten locations account for over 80% of new investors (and for all creative FDI, over 70% accounts for the main ten locations). The same eleven locations make up the largest FDI destinations across all creative FDI projects, new projects and M&A projects, although there is variation in the ranking of these locations.[28] Notably, Belfast, Manchester and Glasgow are ranked higher for new FDI than M&As, whereas Bristol, Reading and Cambridge are ranked higher for M&As.[29] M&As seem to cluster around London, so that their geographic distribution becomes increasingly concentrated around the South East.

Figure 6: Location of inward creative FDI by UK urban area, 2013–2023



Note: Authors' calculation using Orbis Crossborder Investment data.

Figure 7: Project shares and location quotients for inward creative FDI, 2013–2022



Note: Authors' calculation using Orbis Crossborder Investment data. Regions are defined according to ITL2; London is defined at ITL1. ITL geographical hierarchy boundaries and lookups are provided by the Office for National Statistics, licensed under the Open Government Licence v.3.0 and containing OS data © Crown copyright and database right (2021).

To allow for the spatial build-up of FDI around urban areas, the location of investment can also be analysed at a higher level of spatial aggregation. Figure 7(a) illustrates the location pattern at the ITL2 regional level, with the regions ranked according to quartiles of their UK project shares.[30] The figure highlights the build-up of FDI around the London area, extending around the South East, into the Midlands and across to the South West. Project shares tend to fade away the further the distance from London, notwithstanding the main urban areas in the North West, Scotland and Northern Ireland (as also highlighted in Figure 6).

To account for the underlying size of regions (i.e. larger and more economically active areas might be expected to attract greater shares of FDI), Figure 7(b) extends the analysis to look at quartiles of location quotients (LQs). An LQ divides a region's project share by its share of economic output, so an LQ above 1 indicates greater levels of FDI relative to economic output.[31] Comparing Figure 7(b) with Figure 7(a) suggests that creative FDI relative to the economic size of the region spreads further away from the London and South East areas and across into the West Midlands and North West. The central belt of Scotland and the North East England region capturing Newcastle are also in the highest quartile for LQs, as is Northern Ireland, which reflects its relatively high share of projects.[32]

The above pattern does, however, also vary by sub-sector. The FDI project shares and LQs by creative sub-sectors are also provided in Appendix Figures A11 and A12 respectively in the online supplementary material. For both project shares and LQs, London remains prominent across all sub-sectors, while the South East regions are concentrated with regards to Advertising and marketing. For IT, software and computer services, the LQs are much less concentrated in the South East regions compared with project shares, reflecting the large project inflows across the urban areas of the UK. For the remaining sub-sectors there is a more varied pattern, with Music, performing and visual arts located mainly across the south of England, while Architecture; Film, TV, radio and photography; and Publishing are spread across all regions of the UK both in relation to projects and LQs.

3 UK creative FDI abroad

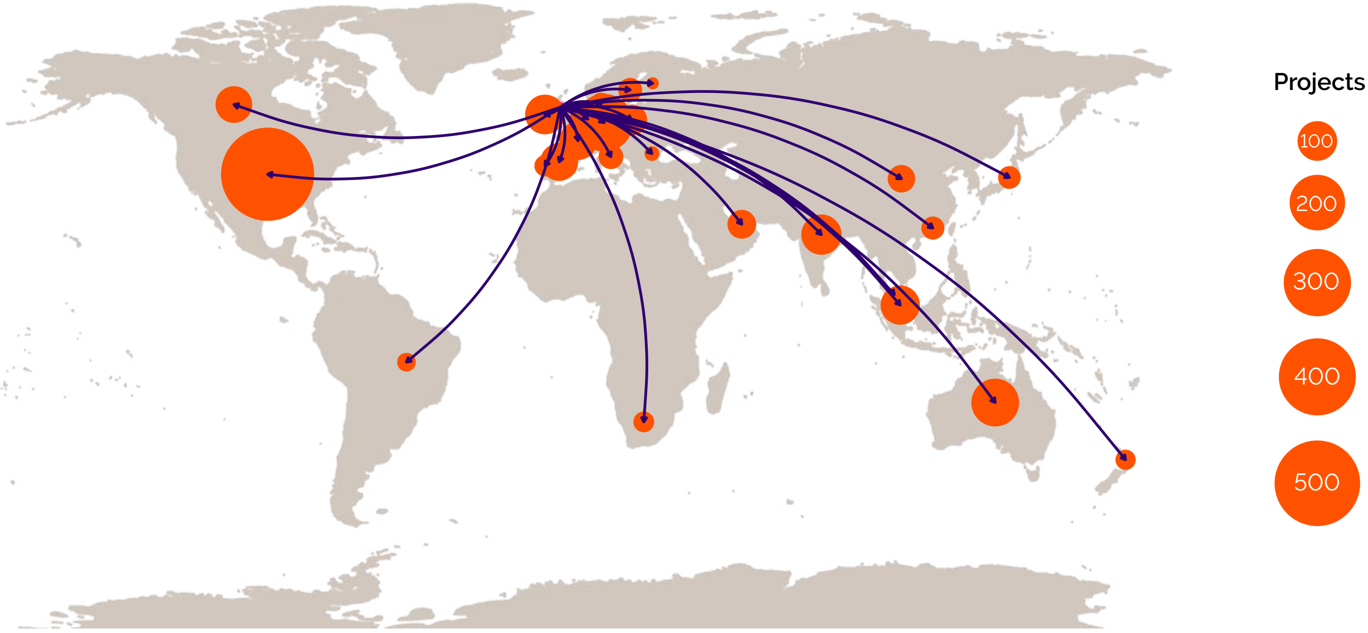
This section provides an overview of outward foreign direct investment (OFDI) in the creative industries (i.e. where the UK acts as the investor abroad and acquires at least 10% ownership in a foreign creative business). The section starts to build the missing evidence base to showcase UK OFDI and covers the destination of creative projects, as well as breaking OFDI down by project type, by creative sub-sectors and by the temporal changes over the 2013–2023 period analysed. Just as in the section on inward FDI, this section is based on the number of FDI projects, not FDI flows in value.

3.1. Destination countries

The UK has traditionally been one of the principal nations for undertaking OFDI. During the 2013–2023 period, the UK ranked second – after the USA – for creative OFDI by project count. Further, Appendix Table A2 in the online supplementary material highlights that UK creative FDI accounted for 11% of all FDI leaving the UK during the 2013–2023 period. Regarding the destinations of these investments, Figure 8 shows the top twenty-five destination countries for UK creative OFDI – collectively, these twenty-five countries cover 86% of all UK creative OFDI. The USA is the largest single destination, accounting for just under one-quarter of creative OFDI projects. The USA is also the preferred destination by the UK for total OFDI covering all sectors of the economy, with 20% of all UK outward projects located there. This reinforces the leading position of the USA as the most important source and destination country, respectively, for UK inward and outward investment in the creative industries – and for both inward and outward total FDI.

After the USA, the leading destinations for UK creative OFDI are Germany (9% of all UK creative OFDI), Australia (6%), India (4%), Ireland (4%), Singapore (4%), France (4%), Spain (4%), Canada (3%) and, in tenth position, the Netherlands (3%). Among the top twenty-five destination countries for creative OFDI, thirteen are EU countries and, in total, Europe represents 41% of all outward creative investment, while the USA represents 24% and non-European/non-USA countries account for 35% of creative OFDI. This shows a relatively more globalised and diverse picture of UK creative OFDI relationships compared with UK creative inward FDI, with the latter relying mostly on the USA and European source countries.

Figure 8: Top 25 destination countries for UK outward creative FDI, 2013–2023

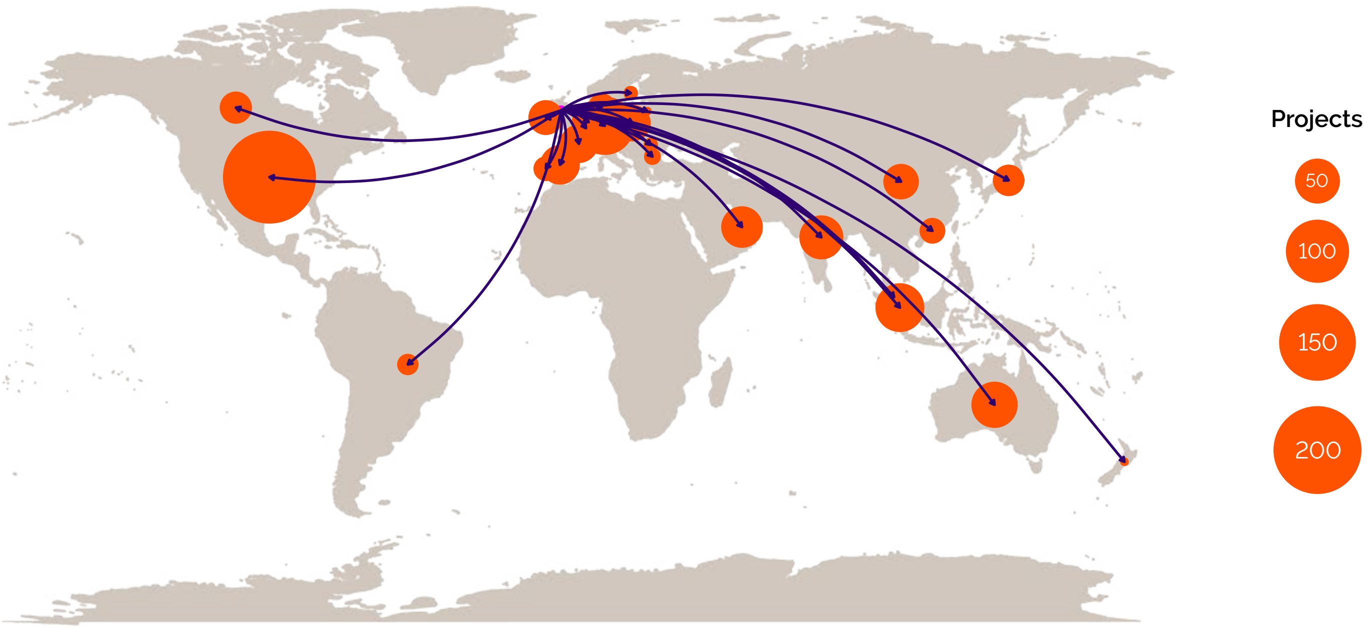


Note: Authors' calculation using Orbis Crossborder Investment data.

The predominant position of the USA in OFDI holds also when disaggregating by new and merger and acquistion (M&A) projects, as shown in Figure 9. In particular, Figure 9(a) illustrates that 21% of UK outward new projects in the creative industries found locations in the USA. The top twenty-five destination countries for new OFDI in Figure 9(a), which overall account for 87% of all UK new OFDI, are broadly the same as outlined previously for total OFDI in Figure 8. For example, Germany is the second-most-preferred location, attracting 8% of new projects. However, there is notable difference in that the next four top preferred locations are all extra-European countries, namely Singapore (with 6% of new OFDI), Australia (5%), India (5%) and the United Arab Emirates (4%).[33]

Figure 9: Top 25 destination countries for UK outward creative FDI by project type, 2013–2023

(a) Destinations of creative outward FDI from UK (New projects)



(b) Destinations of creative outward FDI from UK (M&A projects)

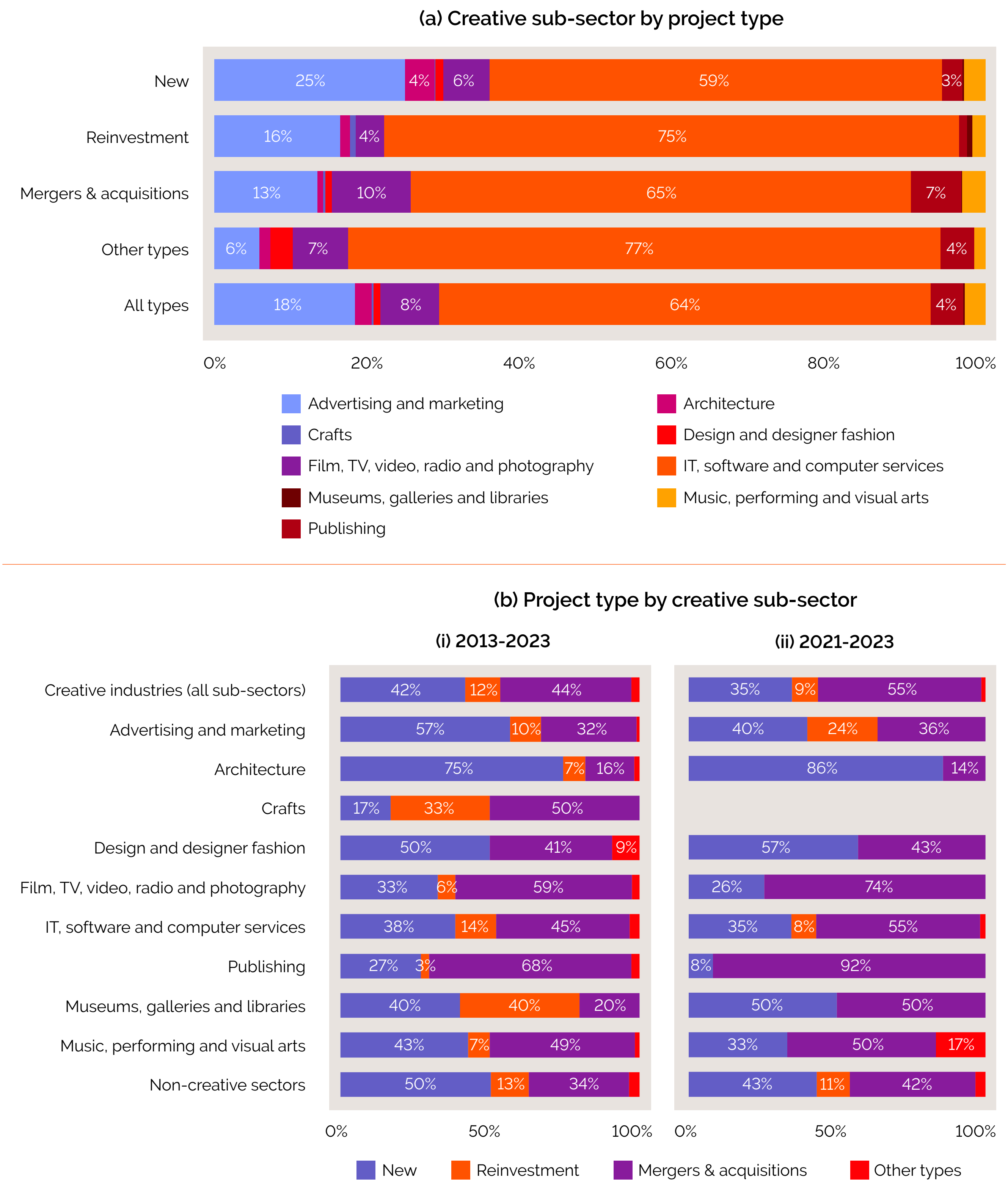
Note: Authors' calculation using Orbis Crossborder Investment data.

The pattern for M&A projects in Figure 9(b) again highlights the USA as the top attractor in the creative industries from the UK, with 26% of M&As targeting US companies. The top twenty-five destination countries attract 89% of all M&As undertaken by UK creative investors. This percentage is similar to the percentage share of new projects located in the group of top twenty-five countries, but the map reveals a slightly more concentrated distribution of M&As across the USA and Europe, with fewer M&As taking place in Asia compared with new investments. This shows that creative investors tend to invest broadly in the same countries, whether through new or M&A projects – but that they prefer the more established markets of the USA, Europe and Australia for M&As, whereas they hold a more global outlook for new investment projects, particularly towards Asian countries.

3.2. Outward creative FDI by sub-sectors

When looking at the count of OFDI projects disaggregated by sub-sector and type, Figure 10(a) illustrates that IT, software and computer services account for the majority of both new projects (59%) and M&A projects (65%), while absorbing about three-quarters of reinvestment projects (75%) and other types of OFDI (77%). Overall, this sub-sector accounts for the largest proportion (64%) of creative outward UK FDI (see Appendix Table A2 in the online supplementary material) so that, as is the case for inward FDI, it is the dominant form of creative FDI. Advertising and marketing is the second main creative sub-sector of the outward UK creative investors, generating nearly one in five creative OFDI projects. This increases to one in four for new outward projects but is lower for M&A projects (13% of creative M&As) and reinvestment projects (16%).[34]

Figure 10: Outward creative FDI projects by type and sub-sector, 2013–2023



Note: Authors' calculations using Orbis Crossborder Investment data. Other projects relate to relocations and joint ventures. No recorded projects for the Crafts sub-sector over the period 2021–2023.

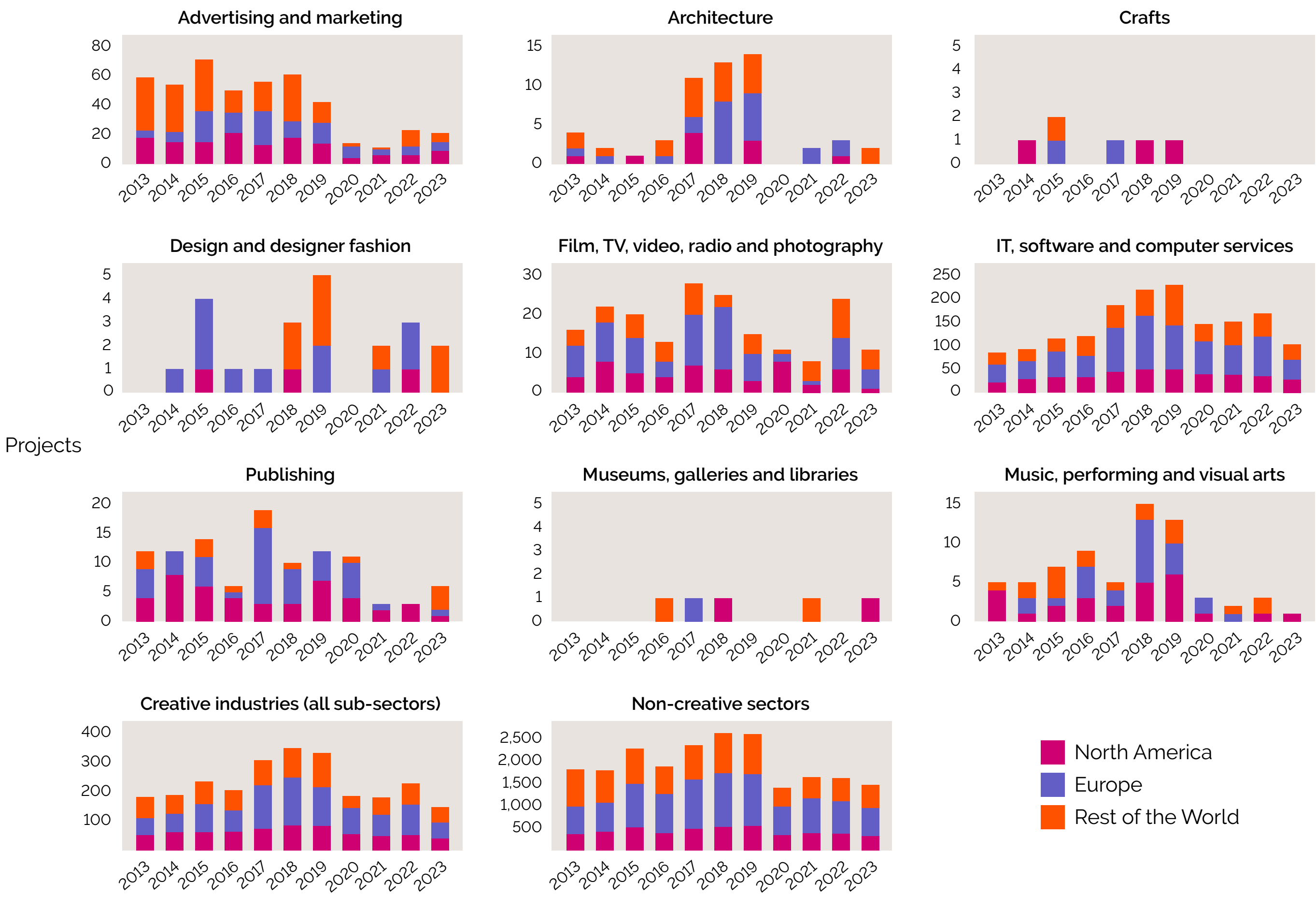
Figure 10(b)(i) describes the project type by sub-sector and by total creative and non-creative industries, with Figure 10(b)(ii) also highlighting the recent trend. While overall the creative industries feature a similar proportion of outward new (42%) and M&A (44%) projects over the period, with 12% of reinvestments, UK non-creative investors split their projects abroad, undertaking more new projects (50%), fewer M&As (34%) and reinvesting (13%) in a similar proportion to creative investors. This pattern has changed to some extent in recent years, with a greater proportion of M&A activity, highlighting the importance of M&As for both inward and outward creative FDI. However, in comparison with Figure 2, M&As are less prominent in outward than inward creative FDI.[35]

Appendix Figure A13 in the online supplementary material visualises the breakdown of OFDI at a finer sub-sectoral level. It is evident that Computer programming activities and Other software publishing, combined, constitute more than half the count of creative outward UK FDI during 2013–2023, although this is a smaller percentage than for inward FDI. Within the Advertising and marketing sub-sector, Advertising agencies accounts for about two-thirds of OFDI projects, a similar proportion to inward FDI. Within Film, TV, video, radio and photography, more than half of OFDI projects are related to Motion picture, video and television programme production activities. Meanwhile, in Music, performing and visual arts, more than half of OFDI projects target Sound recording and music publishing activities, which is again similar to the pattern for inward creative FDI.[36]

3.3. Outward UK creative FDI over time

The evolution of OFDI in the creative sub-sectors over the period 2013–2023 is shown in Figure 11, where the destination locations are split across the regions of North America, Europe and Rest of the World. It emerges that there has been a contraction of creative OFDI from 2020 following the global pandemic. However, this is in line with the pattern shown for OFDI in the non-creative sectors (and indeed for inward FDI as discussed earlier). UK OFDI to North America and Europe for all sub-industries reached a peak in the years preceding the pandemic and significantly declined in number by 2023 without returning to pre-pandemic levels. However, UK OFDI to the rest of the world reached an unprecedented high for Film, TV, video, radio and photography in 2022, and for Publishing in 2023, showing possible avenues of increased diversification for OFDI across the creative industries.

Figure 11: Destination of creative UK OFDI by sub-sector over time, 2013–2023



Note: Authors' calculations using Orbis Crossborder Investment data.

As a postscript, none of the creative industries have recovered in recent years to the same level of pre-pandemic OFDI, showing the lingering effects on the confidence and opportunities of UK investors to undertake projects abroad in the creative industries. This deteriorated performance is in the context of global outflows values dropping by about 10% in 2023 and the value of cross-border M&As originating from developed countries dropping by 53% in 2023, as highlighted in the UN Trade and Development (UNCTAD) *World Investment Report* (2024a), which does not feature the UK among the top twenty countries for OFDI by value in 2023 (the UK suffered a drop in OFDI to $2 billion in 2023 from $95.4 billion recorded in 2022). A decline has also been recorded for the value of inward FDI, although, as with the case for OFDI projects, the UK remains a leading provider and destination for FDI project numbers.

4 International M&As of UK creative companies

As highlighted in Jones and Fazio (2022) and in earlier sections of this report, mergers and acquisitions (M&As) are the prevalent mode of foreign entry in the UK creative industries.[37] They also stand out as more prevalent in the creative industries than in the non-creative industries. Among M&As, most projects over 2013–2023 were acquisition projects.[38]

Between 2013 and 2023, the annual number of announced acquisitions to gain full ownership of UK creative firms peaked significantly in 2021 and has since remained higher than pre-2021 levels (see Appendix Figure A14 in the online supplementary material). Of all acquisitions targeting UK creative firms, more than four-fifths involved directly acquiring full ownership without having any stake in the UK firm prior to the deal. Most acquisitions targeting UK creative industries ended with full foreign ownership of the targeted firm: in every creative sub-sector except Film, TV, video, radio and photography, at least 93% of the acquisitions ended with foreign ownership of the majority stake or full ownership of the UK target firm (Appendix Figure A15 in the online supplementary material).[39]

Jones and Maioli (2023) did a statistical analysis of the motives behind inward foreign direct investment (FDI) projects into the UK, but their analysis excluded M&As. Based on in-depth interviews, a scoping study of UK video games company acquisitions commissioned by the British Film Institute and Creative PEC shortlists the benefits of acquisitions, such as better upstream and downstream supply chain connections for the acquired firm (BFI, 2023). In acquisitions, the acquirer also stands to gain from access to new technology or innovation as well as finance (Driffield, et al, 2015). No large-scale analysis has investigated the motivations behind M&A projects. To gain preliminary insights in this direction we exploit textual analysis techniques, including word clouds and topic modelling, to mine the text that is included in the 'rationale' for M&A projects in the Orbis Crossborder Investment data. Using these techniques, we extract from the text the key reasons behind international investors' decisions to pursue M&As of UK creative businesses. These textual analysis techniques allow investigation into a very large sample of cases to draw out the cross-cutting themes, which would not be possible using more in-depth qualitative case studies reliant on smaller sample sizes.

Word cloud analysis

Figure 12 compares word clouds of rationales associated with each M&A project recorded over the period 2013–2023 for: all projects; creative projects; non-creative projects; and projects in IT, software and computer services (the most frequent target of FDI and M&A projects). Textual analysis allows insights into the type of activities targeted by M&As in this specific sub-sector, and, given the uncertainty around the appropriate classification of companies in this sub-sector, it presents advantages over conventional industry classifications.

Naturally, the word clouds of all projects are characterised by more general keywords which can be associated with internationalisation strategies, like “groups”, “global”, “brand”, “digital”, “technology”, “client”, “solutions”, “development”, “opportunity”, etc. Filtering the creative projects does not greatly affect these keywords, although some become slightly more prominent, like “energy” and “Europe”.

Creative M&A projects, meanwhile, are dominated by more sector-specific keywords, like “software”, “digital”, “games”, “media”, “music”, “design”, “publishing”, “data” and “cloud”, but also keywords that sound more strategic, like “solutions”, “technology”, “content”, “talent”, “creative”, “clients”, “vision”, “security” and “communication”. The word cloud of the 930 M&As in IT, software and computer services between 2013 and 2023 allows us to confirm, in a large-scale analysis, the previously anecdotal prevalence of projects related to games and software.[40]

Figure 12: Word cloud of rationales for inward creative M&A projects, 2013–2023

Note: Authors' calculations using Orbis Crossborder Investment data. Word frequency is adjusted using the square of inverse document frequency (IDF). The analysis has been adjusted by removing sets of stop words. An M&A project is considered as creative if at least one of the targets has a primary 4-digit Standard Industrial Classification (SIC) code that corresponds to the DCMS definition of creative industries.

Topic modelling

To help shed further light on the nature of these investments, we undertake exploratory topic modelling analysis of all UK inward creative M&As and inward M&As in the IT, software and computer services sub-sector, aiming to highlight specific themes behind the projects' rationale.[41] Figure 13 returns the topic modelling for a set of four topics, whose 'labelling' requires some interpretation of the keywords in each topic.[42] Overall, however, three of the topic rationales in Figure 13(a) for all creative projects and (b) for projects in IT, software and computer services are quite similar and can broadly be labelled as customer-oriented, organisation-oriented and market growth-oriented. "Media", "games" and "content" appear as topic four among all creative sub-sector M&A projects. Digital technology is, instead, central to the fourth topic of panel (b) for the IT sub-sector.

These results can be read together with recent acquisitions. For example, Codemasters Group Holdings plc, a Southam, UK-based video game developer holding company, was acquired by Electronic Arts Inc. (EA) via its subsidiary Codex Games, estimated at $1.3 billion. Andrew Wilson, Chief Executive Officer of EA, explained how they sought to combine EA's "technology, platform expertise, and global reach" with Codemasters' "creative" and "talented team" to expand EA's video games racing category. Codemasters had produced various well-known sports and racing franchises such as F1, DiRT, DiRT Rally, GRID and Project CARS. The "combined group" was also expected to enable "growth" in profitability by delivering experiences to a global audience. This desire, to acquire a team of creative talent to form a stronger group and facilitate growth of the global fanbase through M&A, is consistent with themes generated through the topic modelling shown in Figure 13.

Figure 13: Topics and word clouds related to creative M&As

(a) All creative sub-sectors

Technology- and customer-oriented solutions

Organisation-oriented

Group and global market growth

Creative content and media (world context)

(b) IT, software and computer services sub-sector

Global customer-oriented services

Organisation-oriented

Group and global market growth

Digital technology and platform

Note: Authors' calculations using Orbis Crossborder Investment data. Word probabilities and topics are generated under topic modelling using Stata command ldagibbs while removing sets of stop words.

5 Conclusions

5.1 Summary

This report has presented evidence on the nature of both UK inward and outward foreign direct investment (FDI) in the creative industries. It helps to fill an evidence gap on creative FDI that is limited for creative inward investment and uncharted for outward investment.

The main findings of the report are collated below:

- The UK is the second-most-preferred destination for creative FDI after the USA. Between 2013 and 2023, creative FDI averaged 10% of total UK FDI, peaking at 12% in 2021, but has declined since 2019. Inward creative FDI is highly concentrated, with 90% in three sub-sectors: IT, software and computer services; Advertising and marketing; and Film, TV, radio, and photography. Mergers and acquisitions (M&As) dominate creative inward FDI, while there is a particular decline in new project investments.
- Geographically, North America – especially the USA – and Europe are the primary sources of inward FDI. However, there is also notable investment in new projects from emerging markets like India and China.
- A concentrated pattern is also a feature of the geographic distribution of inward creative FDI in the UK, with London a dominant location, especially for new projects. M&A projects are less concentrated within London but are clustered around the South East of England region. When accounting for the economic size of the region, however, new projects become distributed further away from the South East. Across the different sub-sectors, and accounting for the size of regions, inward FDI has a varied geographic pattern, suggesting the forces that attract FDI location are potentially different across creative sub-sectors.
- The creative industries also account for 10% of the UK's outward FDI (OFDI), which has a broader global presence than inward FDI, although the USA is a key destination. UK OFDI in the creative industries mirrors inward trends in terms of mode of investment, with M&As being the predominant form, mainly in IT, software, and computer services. However, the ability of UK firms to expand abroad, particularly through M&As, is slightly less predominant compared with foreign firms investing in the UK. Post-pandemic, there has been a decline in both inward and outward creative FDI, aligning with global trends.
- Textual analysis shows how the rationales behind creative M&A projects are quite sector-specific. In IT, software and computer services, in particular, the importance of games and software emerges. The rationales emerging from a topic modelling analysis behind all creative projects and IT, software and computer services projects are quite similar and are related to customer-oriented, organisation-oriented and market growth-oriented reasons.

5.2. Policy considerations

This report into creative FDI in the UK economy comes against a backdrop of declining FDI both into and out of the UK. The UK, however, remains in a leading position as a recipient and participant of FDI projects, albeit in a context of ever-increasing competition on the global stage. The report also arises in the policy context of successive UK governments seeking to increase investment as a means of boosting economic growth. Indeed, the creative industries are identified as a key sector for both growth and investment, with the importance and growth of the UK's creative industries now being a well-highlighted success story of the UK economy. This can now be seen to extend into creative FDI, with the UK not only being a key destination for foreign creative firms, but also a country where UK firms can grow and compete on the international stage. It suggests that policy considerations should focus on the twin aims of attracting inward FDI and enabling UK firms to invest abroad.

A range of benefits can accrue from OFDI, including increased global competitiveness, access to technology, greater exports and an increase in the overall international image of the UK (UNCTAD, 2024b). In a post-Brexit context, FDI can also help UK firms jump exports hurdles in serving directly foreign markets. Direct support to help firms with their broader internationalisation strategies, such as that offered by the UK Global Screen Fund, would increase the reach of UK firms abroad. Strategies could also involve, in the first stage, greater assistance for exporting, as highlighted in previous Creative PEC research (Di Novo, et al, 2021), with the longer-term aim that exporting behaviour will eventually lead to further levels of internationalisation, such as overseas direct investment. Size and productivity can also matter for FDI. Given the smaller average size of creative firms (Beckett, 2022), it is important to understand the barriers to growth and scaling-up – like access to finance – for them to expand both domestically and internationally. Further, developing linkages between countries and supporting innovation, such as through the UK-China Creative Industries Research and Innovation Hub, can fuel innovation that in turn helps firms overcome barriers to internationalisation.

The attraction of UK inward investment has been very much on the wider policy agenda, most notably through the *Harrington Review of Foreign Direct Investment* (HM Treasury, 2023a) and the recent UK International Investment Summit 2024. These are relevant to the creative as well as wider non-creative industries. The *Harrington Review* highlights aspects such as improvements to the general UK business environment in terms of planning reforms, simplicity of tax and regulation systems, and improved ease of access to finance for overseas investors. The existence of a clear business strategy to communicate the UK government's approach to investment was also highlighted in the review. The creative industries, through the published Sector Vision, should theoretically already be able to capitalise from this policy visibility and use this to signal to foreign investors the UK's long-term commitment to the creative industries. The new UK government will continue to highlight the strengths of the creative industries through a proposed industrial strategy that will be important to maintain visibility and indicate further commitment to the sector.

This report finds creative inward FDI has a varied geographic pattern across sub-sectors, suggesting the need to strengthen regional and national policy to identify, support and promote investment at the regional and urban level (where the role of 'place' is identified in the recent proposed UK Invest 2035 green paper). Such a varied location pattern of creative FDI also suggests that the forces that attract FDI location are possibly different across sub-sectors and regions. Mapping local skills, clusters, research and development hubs, infrastructures, and supply chains to highlight the capabilities of regions can also help advertise the strengths of the UK's regions for foreign investors and target relevant place-based and sector-specific FDI. Examples of such mapping already exist, such as in the Midlands (DBT, 2023), and could be replicated in other parts of the UK. This may also lead to local and devolved governments having greater agency to develop their own strategies away from central government, to target specific types of FDI in specific sectors and meet their own regional needs and abilities, such as the International Strategy documents by Wales and Scotland (Welsh Government, 2020; Scottish Government, 2023).

Policymakers should also be aware of the intricacies of different forms of FDI, in particular the difference between new and M&A FDI. The descriptive textual analysis in this report highlights how the rationales behind creative M&A projects are grounded in the strengths of the sector, particularly games and software in the IT, software and computer services sub-sector. Understanding the rationales for this form of investment in the creative industries is important for future policy interventions.

5.3. Future research

FDI can boost the wider economy through generating new jobs directly associated with the investment or indirectly via supply chains and business linkages. There may also be longer-term impacts on growth, through for example agglomeration economies that lead to spillovers of knowledge and skills into the domestic economy and the subsequent location of further investment, which is attracted to the area by the presence of these firms and pools of skilled labour (see Jones and Wren, 2016 for a review of the literature). There has, however, been no analysis of such impacts on the role of FDI in the UK creative industries. This ultimately casts a shadow on policy initiatives designed to increase FDI because the net impact of the investment is unknown, but future research can help determine this impact.

In addition, further evidence is required to identify the significant factors that determine the location pattern of creative FDI, such as skills or agglomerations of creative clusters, which can be used by local policymakers to help develop their own strategies to attract specific FDI. Future research employing econometric analysis of these factors, such as utilising data on existing cluster mappings of the creative industries (Siepel, et al, 2023) as well as wider innovation clusters (DSIT, 2024), can be used to identify the significant location factors that attract FDI.

This report has utilised data on FDI projects but was unable to gain insight into the size of creative FDI in the UK economy. To further extend the analysis, then, gaining data on the size of projects (i.e. number of jobs and value of the investment) would help identify not only where the investment is located but also the scale of this investment, which would inform policy in relation to the UK government's recent emphasis on attracting high-value projects as a priority for investment.

For OFDI, future research may examine the relationship between size of firms and investing abroad (i.e. the threshold size that a firm must achieve before undertaking OFDI). As with inward FDI, there is a need to measure the value of creative OFDI, in addition to understanding what characteristics drive UK firms to choose between M&A and new projects abroad (and where to locate them), and what benefits are reaped with the investment (e.g. size of profits repatriated, type of intellectual property acquired, value of intra-firm exports of creative goods and services from the UK to the host countries) in order to fully gauge the repercussions of OFDI on the UK's economy.

FDI comes in different guises, with a feature of creative FDI – as highlighted in this report – being the prevalence of M&A activity. M&As are different in form to new investments in that they involve the transfer of ownership of existing firms, rather than the set-up of new greenfield productive investment. As such, M&A projects may not lead to the same gains for the domestic enterprise, if the aim of the inward investor is to simply acquire its assets. Conversely, if the domestic enterprise is an underperforming enterprise, then the inward M&A may lead to productivity gains through transfer of knowledge from the acquiring firm. Further, the acquisition by the foreign firm may lead to subsequent investments in the domestic enterprise that may not have otherwise been possible. Such investment may be particularly helpful in the creative industries, where the average firm size is smaller than non-creative firms and access to finance can be challenging (Beckett, 2022), thus also helping to increase firm growth and the overall scaling-up of the industry. Access to finance for small and medium sized enterprises is also a continuing challenge regardless of the sector the firm operates within (British Chambers of Commerce, 2024). Further research into the subsequent behaviour of M&A firms, such as by tracking the growth rates and closure rates of these firms over time, would help determine the nature of M&A activity in the creative industries and inform debate on the impact of foreign-owned acquisitions in the creative industries. Research could also take the form of more qualitative case studies from the perspective of the foreign investors to determine their underlying rationales for M&A activity.

There may also be a fine line between attracting ever more FDI inflows through M&As to help with the objective of boosting growth, and the possible downsides of foreign firms gaining intellectual property that may ultimately leave the country. Of course, the National Security and Investment Act 2021 requires government scrutiny of acquisitions in certain sectors, across for example communications and computing, but this excludes specific mention of the creative industries and aims to protect national security rather than general UK intellectual property. Future research could delve specifically into the role of intellectual property in attracting FDI and M&As.

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Data reference list

Orbis Crossborder Investment

Data sets and Orbis Tools extracts are accessed through subscription with Moody's (https://www.moodys.com/web/en/us/capabilities/company-reference-data/orbis.html).

UK maps

All UK maps are created using spmap package in Stata.

UK International Territorial Level (ITL) geography hierarchy boundaries, January 2021, UK. Available at: https://www.arcgis.com/home/item.html?id=7be58cbffa4e41078b6d9ffcacd12ba8. Source: Office for National Statistics licensed under the Open Government Licence v.3.0. Contains OS data © Crown copyright and database right [2021].

LAD (2020) to LAU1 to ITL3 to ITL2 to ITL1 (January 2021) Lookup in the UK (V2). Available at: https://geoportal.statistics.gov.uk/documents/ons::lad-2020-to-lau1-to-itl3-to-itl2-to-itl1-january-2021-lookup-in-the-uk-v2/about. Source: Office for National Statistics licensed under the Open Government Licence v.3.0.

World maps

All world maps are created using ggplot2 package in R.

Country polygons using worldmap library in ggplot2 package in R.

World country centroids by Google. Available at: https://developers.google.com/public-data/docs/canonical/countries_csv

Word clouds

Word cloud figures are created using wordcloud package in R.

Data statement

Aside from Orbis Crossborder Investment data sets, data used in this report is freely available via the links above.

Endnotes

1. Department for Business and Trade (DBT) (2024) Invest 2035: The UK's Modern Industrial Strategy, October 2024. Available at: https://assets.publishing.service.gov.uk/media/6711176c386bf0964853d747/industrial-strategy-green-paper.pdf

2. This is similar to inward FDI projects over the 2013–2023 period for the finance services and insurance sub-sector (11% of all inward FDI projects) but slightly less than the manufacturing sub-sector (14% of all inward FDI projects).

3. FDI is one aspect of the internationalisation of the creative industries, alongside international trade and international talent attraction. In a previous State of the Nations report, we examined the global outlook of the UK creative industries (Fazio, et al, 2024). The report highlighted the extent to which firms in the creative sector contribute to the UK's export performance, notably in services, and the significant factors that impact firms' exporting behaviour – including the foreign-owned nature of the firm. While future reports will also look at international talent attraction, this report delves specifically into the characteristics of FDI in the creative industries. For a discussion of the relationship between trade and FDI, see Whiteaker (2020).

4. FDI is different to indirect, or portfolio, investment in that the latter tends to involve stocks and bonds and is more likely to involve short-term gain. Direct investment involves control, ownership and longer-term investment in productive assets (House of Commons International Trade Committee, 2019). FDI does not necessarily reflect currency or liquidity, because the purchase of productive assets (or capital) can be paid using other assets (e.g. fixed assets, shares, debt). An equity stake of 10% is normally classed as the threshold for having influence over the foreign enterprise (UNCTAD, 2024a).

5. UNCTAD provides data at the most aggregated level in that no sectoral breakdown is undertaken (available at: https://unctadstat.unctad.org/datacentre/dataviewer/US.FdiFlowsStock). OECD does provide a sectoral breakdown across different aggregations of International Standard Industrial Classification categories, although these sectors do not correspond with the official definition of the creative industries from the Department for Digital, Culture, Media and Sport (DCMS). For the UK data coverage ends in 2018 (available at: https://data-explorer.oecd.org/). Eurostat also disaggregates FDI flows at the same sectoral level as OECD but, again, similar problems arise to those mentioned above, and data is only provided for outward rather than inward FDI flows (available at: https://ec.europa.eu/eurostat/web/main/data/database).

6. ONS data is sourced from the Annual Inward Foreign Direct Investment Survey (see: https://www.ons.gov.uk/surveys/informationforbusinesses/businesssurveys/annualinwardforeigndirectinvestmentsurvey) and provides flows and stocks in broad industry groupings that also cover the creative industries (see: https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/adhocs/2177foreigndirectinvestmentforselectedindustriesrelatedtodcmssectors2014to2021). A breakdown is also provided by source country of investment, although this is not the case in the creative industries, and this data can suffer from disclosure issues when broken down by both industry and source country. Information on the subnational location of FDI is also available but, again, not at the sectoral level for the creative industries.

7. Information on accessing the Orbis Crossborder Investment database can be found at: https://www.bvdinfo.com.

8. FDI project data for Orbis, EY and fDi Markets are recorded on an annual basis but: DBT data is recorded by financial year; EY data excludes M&As and joint ventures, as well as retail, leisure, hotels, real estate, utilities, extraction and non-profit industries; and fDi Markets data excludes M&As. DBT data may also suffer from disclosure issues when broken down by sectors and locations (see: https://www.gov.uk/government/statistics/dbt-inward-investment-results-2023-to-2024/dbt-inward-investment-results-technical-annex-2023-to-2024).

9. See the DCMS Sectors Economic Estimates Methodology for the definition of the creative industries and the respective sub-sectors: https://www.gov.uk/government/publications/dcms-sectors-economic-estimates-methodology#:~:text=These%20Economic%20Estimates%20are%20used,and%20the%20number%20of%20businesses.

10. Reinvestments include expansions and co-locations, where the former are an expansion of operations at the same site in the same business function by the foreign investor and the latter relate to a further investment in a different business function. Joint ventures that involve the creation of a new, jointly owned entity by two or more companies are also included, as are relocations, although these are small in number.

11. The FDI projects are tracked on a daily basis by Bureau van Dijk using mainly news aggregation products and are corroborated using official sources such as press releases. In the event of official sources being unavailable, confirmation of the project announcement is based on at least two news sources. The sources include online news providers (Nexis Newsdesk by LexisNexis and Factiva by Dow Jones), government data exchanges, company websites, company reports, global stock exchanges and other Bureau van Dijk products.

12. The *Harrington Review of Foreign Direct Investment* (HM Treasury, 2023a) highlights the UK's favourable macroeconomic and cultural conditions including language, time zone, market size, institutional strength and financial stability as important for the UK's long-standing success in attracting inward FDI. It also refers to policy instability, regulatory uncertainty and reduced access to the European single market as factors that may dent the UK's future potential for FDI attraction.

13. In terms of total inward FDI covering all industrial sectors, UNCTAD (2022) shows that the UK was the thirteenth top recipient of inward FDI globally by volume (or value) in 2021, but dropped from the top twenty recipients of inward FDI globally by volume in 2022 and 2023 (UNCTAD 2023, 2024a). The UK was, however, still in the top three world recipients for number of greenfield FDI projects in both 2022 and 2023. Ranking FDI recipients by volume is subject to more variability because the values of FDI inflows can vary considerably year by year due to large one-off deals, especially M&As (UNCTAD, 2023).

14. The Crafts sub-sector is, however, relatively small in terms of number of FDI projects.

15. For recent evidence of declining UK inward investment see Romei (2023) and Irwin-Hunt (2024).

16. This rises to above 10% of all UK projects if the definition of a creative industry project is extended to also include their secondary industrial activity (i.e. it captures a broader measure of FDI activity in the creative industries).

17. For a comparison with the size of each sub-sector in terms of the economic output of the creative industries, see: https://www.gov.uk/government/collections/dcms-sector-economic-estimates-gross-value-added, where again the IT, software and computer services sub-sector dominates, although not to the same extent as to that of FDI. To control for the economic size of sub-sectors (and regions), location quotients are used in Section 2.3.

18. A further breakdown within the creative sub-sectors is provided in Appendix Figure A2 in the online supplementary materials that shows how the IT, software and computer services is split between the two main components of Computer programming activities and Other software publishing, rather than Computer consultancy activities. Regarding the remaining sub-sectors, further disaggregation leads to a considerable number of classifications with progressively smaller shares of FDI.

19. Relocations and joint ventures account for less than 2% of inward creative FDI projects in the creative industries.

20. See Romei (2024) for a discussion on the decline in overall new UK FDI projects.

21. A small number of projects are associated with multiple source countries and excluded from the figures as a single source origin cannot be identified in these cases (however, these account for only 1% of creative projects).

22. In comparison with all inward UK FDI, there is a similar, although slightly less concentrated pattern, with the top ten countries accounting for over 70% of all FDI. Appendix Figure A3 in the online supplementary material highlights the main sources for all UK FDI: the USA is still the largest investor but is marginally less dominant, with one-third of all UK inward FDI. Europe (43%) rather than North America (37%) is, however, the largest contributor to UK FDI, and four of the largest five investors are from Europe – notably Germany, with 12% of all inward UK FDI. This suggests that there are different drivers of creative FDI compared with FDI into other sectors in the UK.

23. Appendix Figure A5 in the online supplementary material provides a similar breakdown by each of the creative industry sub-sectors, with North American investment prominent in Advertising and marketing; Film, TV, radio and photography; and IT, software and computer services, as well as – in more recent years – Music, performing and visual arts and Publishing. Europe is also strong in IT, software and computer services and more recently in Advertising, with a mixed pattern emerging over time across the other sub-sectors, reflecting the smaller number of projects in these sub-sectors.

24. Recent findings by the Royal Institute for British Architects highlight the growing presence of the UK as an international hub in the global architecture market and the growing internationalisation of the market (Green, 2024) that reflects here the dynamic nature of FDI in the sub-sector.

25. Appendix Figure A6 in the online supplementary material also provides the main sources for reinvestment projects. Notably, India and China are also in the top ten countries for reinvestments.

26. These are for projects where there is a known urban location (i.e. town/city). For creative FDI, a location is known for 97% of projects. Relocation projects are excluded. Information is available on the business function of the project, but only for new and reinvestment projects (so under half of all creative industry projects). Where this is known, the functions relate primarily to sales offices, business services, software development centres, research and development centres, and technical support that captures a broad range of functions.

27. London is defined at the International Territorial Level (ITL) 1: https://www.ons.gov.uk/methodology/geography/ukgeographies/eurostat

28. These locations, ranked according to all creative FDI projects, are: London, Belfast, Manchester, Edinburgh, Bristol, Reading, Birmingham, Glasgow, Cambridge, Leeds and Newcastle.

29. A breakdown by sub-sector is provided in Appendix Figure A8 in the online supplementary material with large concentrations of FDI in London for the Advertising (78%), Film, TV, video, radio and photography (68%), and Publishing (57%) sub-sectors. The main eleven destinations for all creative FDI also feature across the sub-sectors, although Cardiff (for Film, TV, video, radio and photography) and Sheffield (for Publishing) are notable exceptions for attracting FDI in these sub-sectors.

30. This is equivalent to the NUTS 2 classification used prior to 2021. Details of the ITLs can be found at: https://www.ons.gov.uk/methodology/geography/ukgeographies/eurostat. London is included as a single region (i.e. ITL1), as information on the location of projects within London is not disclosed in the majority of cases. The project shares are calculated for the period 2013–2022 to allow comparison with the later analysis of location quotients (LQs). Appendix Figure A9 in the online supplementary material provides a comparison of project shares over (a) 2013–2022 and (b) 2013–2023, showing no discernible differences between the periods.

31. The LQ is defined as

$$\frac{FDI_{i,r} \;/ \sum_{r=1}^{R} FDI_{i,r}}{Q_{i,r} \;/ \sum_{r=1}^{R} Q_{i,r}}$$

where $FDI_{i,r}$ gives the number of FDI projects in region r for creative industry i and $Q_{i,r}$ gives gross value added (GVA) for creative industry i and region r. GVA are chained volume measures in 2019 money value, obtained from: https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalandrealregionalgrossvalueaddedbalancedbyindustry for related two-digit Standard Industrial Classification (SIC) codes. GVAs are available for the period 2013–2022 (ONS, 2024).

32. Appendix Figure A10 in the online supplementary material also provides LQs by new and M&A projects at ITL2 that, in the case of M&As, reinforce the patterns explored in Figure 7 – these are clustered in the South East regions even after accounting for the underlying size of these regions. However, a more varied spread is found for new FDI.

33. Spain (4%), France (4%), Poland (3%) and China (3%) hold seventh, eighth, ninth and tenth place respectively.

34. Advertising and marketing produces comparatively much fewer M&A projects than new projects. The opposite is true for the third- and fourth-largest sub-sectors for creative OFDI: Film, TV, video, radio and photography produces 8% of all creative OFDI, 10% of M&As but only 6% of new projects, while Publishing produces 4% of all creative OFDI, 7% of M&As but only 3% of new projects. Relatively more new projects are found also in Architecture.

35. This picture however changes by sub-sector, as already highlighted for Architecture where the majority of projects are new, as well as for Advertising and marketing and Design and designer fashion with projects undertaken abroad being mainly new projects. In contrast, Publishing and Film, TV, video, radio and photography prefer M&As as a mode of entry for OFDI. Museum, galleries and libraries and Crafts have relatively higher reinvestment projects over the whole period, but these sub-sectors are also much smaller and account for far fewer projects than other sub-sectors.

36. Appendix Table A3(a) in the online supplementary material delves into the details of which destination countries each sub-sector is directing its total OFDI. The USA is the only country receiving UK creative investment in each sub-sector, whereas Germany, as the second-most-common destination country for UK OFDI, receives investment in all sub-sectors except in Museums, galleries and libraries. IT, software and computer services is the only sub-sector that invests in each of the top twenty-eight countries shown on the table. Film, TV, video, radio and photography; Advertising and marketing; and Publishing also hold a global outlook, investing in twenty-five, twenty-four and twenty countries respectively. We refer readers interested in a breakdown of total OFDI into new and M&As by sub-sector and destination country to Appendix Table A3 parts (b) and (c) in the online supplementary material.

37. Some of the recent acquisitions in 2021 include Playmaker Capital's acquisition of leading digital product agency Two-Up, John Wiley and Sons' acquisition of London-based open access publisher Hindawi and Investcorp's acquisition of leading global digital corporate communications and marketing company Investis Digital.

38. Except for a few projects, most acquisitions involve foreign investors from only a single source country.

39. The proportion of full-ownership acquisitions in creative industries (85%) is slightly higher than the 78% in non-creative sectors (see Appendix Figure A15 in the online supplementary material).

40. Similar results emerge when we use the text from the 'comment' section instead of the 'rationale' section of the projects, as recorded in the Orbis Crossborder Investment data.

41. Topic modelling analyses textual information to identify the core underlying topics, or themes, that relate to the body of text (Daud, et al, 2010). The most popular type of topic modelling, also used here, is Latent Dirichlet Allocation (see Blei, et al, 2003 for a detailed overview of the process). The analysis is carried out using the Stata command ldagibbs, which provides output in two parts: a matrix containing the probability of an M&A rationale belonging to a particular topic; and a matrix containing the word probabilities associated with a given topic (Schwarz, 2018).

42. The topics identified can be associated with all M&A rationales in the sample, although certain topics will be more likely to arise in certain M&A projects.

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