



# STATISTICS IN FOCUS

## Economy and finance



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### European Union Direct Investment Flows First results of 1996 figures

*Foreign direct investment (FDI) statistics give information on one of the major aspects of globalisation. As mechanisms for integrating international markets, trade and FDI are twins (definition see page 3). Both enable firms in one country to reach markets - for inputs or outputs - in another. Within the Balance of Payments statistics Eurostat maintains a FDI data base that comprises harmonised and thus comparable data on inward and outward FDI flows for the European Union, its Member States, the United States and Japan. It gives the geographical breakdown for the three FDI components: equity capital, other capital and reinvested earnings. For the sum of equity and other capital it provides users also with detailed data by sector of activity. The first results for the FDI flows in equity and other capital for 1996 are presented hereafter.*

Total outward FDI flows in the European Union rose only shallowly (+ 1%; see table 2) between 1995 and 1996. In contrast total inward FDI flows decreased over the same period considerably (-15%). With about ECU 67 bn for total inward and about 95 bn for total outward - only two thirds of outward flows 1996 are covered by respective inward flows (coming down from more than four fifth in the previous year).

This shift, however, was not the result of a homogeneous development in the Member States. Instead changes differed considerably among Member States and this for both inward and outward flows.

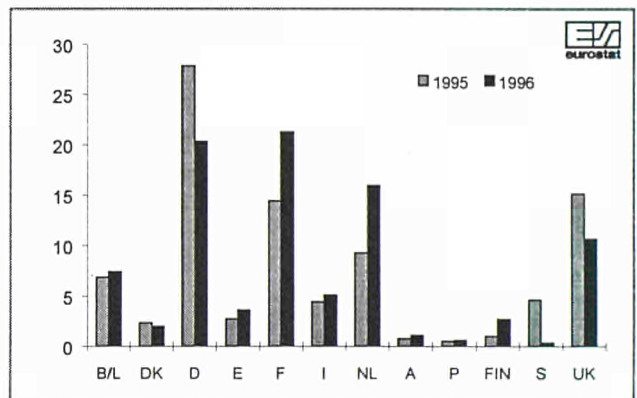
#### Slightly increasing EU outward flows in 1996

For outward flows by Member States (see figure 1 and table 2) relative changes for 1996/95 varied between a 93 % drop for Sweden and a 154 % upturn for Finland. In absolute values Sweden materialised the smallest outward flow with ECU 0.3 bn and France the largest with 21.2 bn. Diversity is such that nine Member States saw their outward FDI increase while four had a downturn. The downturn (in absolute terms) was strongest for Germany and the United Kingdom while the upturn (equally in absolute terms) was strongest for France and the Netherlands. In 1996 France was first, closely followed by Germany (20.3 bn). The increase of the Netherlands brought it up to third place before the United Kingdom.

These countries remained the top 4 direct investors accounting for 71% of the EU total outflows in both 1996 and 1995.

Developments in Sweden and Finland diverted strongly. Whereas the 1996 drop brought Swedish outward investment in equity and other capital close to a halt, the respective Finish investment increased sharply. In absolute terms Finland had the second strongest increase of all Member States. With Belgium/Luxembourg, Denmark, Spain, Italy and Portugal six Member States showed a comparatively stable FDI development in 1996, the variations lying between -15% and +33% in relative and below ECU 1 bn in absolute terms.

Figure 1: Total FDI outward flows by Member States [ECU bn]



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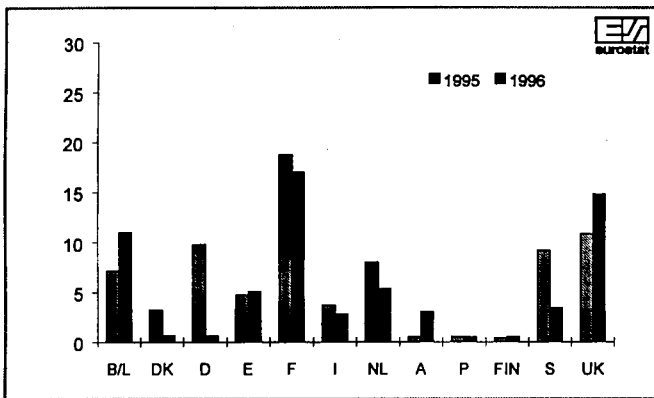
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**Figure 2: Total FDI inward flows by Member States [ECU bn]**



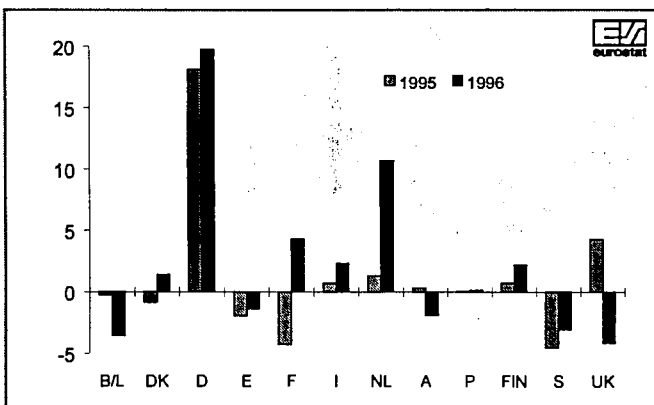
**Inward EU flows slowed down in 1996**

For inward flows by Member States (see figure 2 and table 2) the diversity was even more pronounced than for outward flows. Changes between 1995 and 1996 vary between - 94% for Germany and + 54% for Belgium/Luxembourg. The 516 % increase for Austria cannot be compared with the other Member States data as it applies to equity capital only. Comparatively moderate changes were recorded for Portugal, Spain and France. A considerable drop of inward flows in 1996 was recorded not only in Germany but also in Denmark and Sweden. By contrast, marked increase in relative terms materialised in the United Kingdom.

Strongest increase in absolute terms are depicted for Belgium/Luxembourg and the United Kingdom (+ ECU 3.9 bn each) followed by Austria that saw its foreign investment for equity capital increasing by 2.5 bn between 1995 and 1996. At the same time inward FDI flows into Germany dropped by 9.1 bn, 5.8 bn were lost in Sweden and a 2.6 bn loss was recorded for Denmark and the Netherlands each. Despite a drop France remained the biggest receiver of FDI in 1996 attracting 16.9 bn (a quarter of total EU inward flows).

The United Kingdom and Belgium/Luxembourg expanded their portion in total EU inward FDI strongly in 1996, attracting together nearly two fifth of total flows. By contrast the portion of Germany in total EU inward FDI dropped below one percent in 1996, compared with one fifth on the outward side.

**Figure 3: Total FDI net flows [ECU bn]**



**87% increase of EU net capital export in 1996**

The resulting 1996 net FDI flows (outward minus inward) reveal that Germany continued to be the biggest net exporter of direct investment in equity capital and other capital, with a net value close to ECU 20 bn. Next was the Netherlands with 10.5 bn. Italy and Portugal kept being net exporters of FDI in 1996 like they were in 1995. Finland, however, increased its net exporter position considerably, while France and Denmark switched from a net importer to net exporter. The reverse happened in the United Kingdom, accounting together with Belgium/Luxembourg for the biggest net FDI capital imports recorded in 1996. Sweden lost its position of biggest net importer in 1995 and came third in 1996, still recording ECU 3 bn higher inward than outward FDI flows. Whereas Austria switched to net import in 1996, Spain remained being net importer albeit at a slightly reduced level. In addition, Spain and the United Kingdom were the only Member States where inward and outward FDI flows came closer to balance in 1996.

**Table 1: Intra EU flows divided by Extra EU flows**

| EUROSTAT | Outward flows |      | Inward flows |      |       |
|----------|---------------|------|--------------|------|-------|
|          | 1995          | 1996 | 1995         | 1996 |       |
| B/L      | -2.2          | 0.8  | B/L          | 3.4  | 10.4  |
| DK       | 0.7           | 4.4  | DK           | 4.2  | 0.5   |
| D        | 1.6           | 0.9  | D            | 1.0  | -5.1  |
| EL       | :             | :    | EL           | :    | :     |
| E        | 0.3           | 0.6  | E            | 3.8  | 2.7   |
| F        | 1.7           | 1.0  | F            | 1.7  | 2.1   |
| IRL      | :             | :    | IRL          | :    | :     |
| I        | 4.6           | 4.0  | I            | 2.3  | 4.4   |
| NL       | 1.2           | 0.8  | NL           | 1.2  | 0.7   |
| A        | 0.5           | 0.5  | A            | 1.5  | 32.5  |
| P        | 3.6           | 0.5  | P            | 3.3  | -10.1 |
| FIN      | 1.9           | 2.7  | FIN          | 1.4  | -2.9  |
| S        | 0.4           | -1.5 | S            | 0.1  | 1.6   |
| UK       | 0.5           | 0.5  | UK           | 0.2  | 0.2   |

Negative ratio indicates disinvestment in one component.

**Increased importance of non EU countries for EU outward investment in 1996**

The breakdown of outward investment by destinations (within and outside the European Union; see table 3 and 4) allows to get an idea if Member States are more oriented towards EU partner countries or towards non EU countries in their investment behaviour. In 1995 eight of the observed Member States invested more in EU partner countries than outside the Union thus revealing a bias in favour of the European Union. Italy invested for each ECU outside the European Union 4.6 within. For Portugal this intra/extra ratio was 3.6 and thus equally quite high. The strongest bias in favour of the European Union, however, was revealed by Belgium/Luxembourg, because a strong growth in intra-EU FDI was accompanied by a strong extra-EU disinvestment. Among the five Member States that performed their outward FDI predominately outside the European Union in 1995 Austria, Spain, Sweden and the United Kingdom devoted the smallest portion to EU partner countries, exhibiting intra/extra ratios of 0.5 and below.

In 1996 only Sweden, Italy, Finland and Denmark devoted a higher portion of their outward FDI flows to EU partners. Sweden recorded even a disinvestment for non EU countries. Italy kept its strong focus on EU partners and Finland strengthened it. Denmark switched from being predominantly extra-focused to the opposite. Conversely Germany, the Netherlands, Portugal and France switched in 1996 from being intra-focused to being extra-focused. For Spain the intra-EU flows gained in relative importance in 1996, but still the extra-EU flows are substantially more important. Austria and the United Kingdom saw only a marginal change in ratios for 1996, devoting still two out of three ECU invested abroad to non EU countries.

#### Increased importance of EU countries for EU inward investment in 1996

When it comes to the breakdown by origin of inward FDI flows between EU and non EU countries only three Member States received in 1995 more FDI from non-EU than from EU countries. For Sweden nine out of ten ECU invested by foreigners came from non-EU countries and for the United Kingdom it were eight out of ten. For Germany the ratio was 1.0, with slightly lower non EU inward flows. On the other hand for Belgium/Luxembourg, Denmark, Spain and Portugal the 1995 inward FDI by EU partners were three to four times higher than FDI originating from non EU countries.

In 1996 the importance of EU countries for EU inward FDI increased. Belgium/Luxembourg, France, Italy, Portugal and Finland concentrated a higher portion of inward FDI flows from EU partners than in 1995. For Germany and Sweden it even changed from extra EU focus into intra EU focus. Austria showed a strong intra/extra EU ratio of 32,5 for its equity capital. Spain decreased the ratio in 1996, but the emphasis was still on EU flows. For the Netherlands and Denmark the importance switched from EU inflows to extra EU inflows in 1996. The United Kingdom continued receiving more from non EU countries than EU partners in 1996.

#### Decreased out- and inward FDI with the United States in 1996


Direct investment from EU into the United States accounted for 30% of the flows out of the European Union in 1996. This shows that the US still remained an important receiver of EU flows, although the share came down from 52% in 1995. Main investors among Member States were the United Kingdom, Germany and France, while Sweden, Denmark and Finland disinvested in the US.

Concerning the inward investment the US was the most important contributor with three quarters of non EU inflows in 1996 (up from 63% in 1995). Main receiver of US investment was the United Kingdom accounting for 64% of the 1996 FDI flows into the EU.

The EU invested only 3% of its non EU flows into Japan in 1996. Main investors among Member states were Germany and Belgium/Luxembourg. Japan, in contrast, even disinvested in the EU in 1996. The main disinvestments were recorded for the United Kingdom and Germany.

**Foreign direct investment (FDI)** is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence by the investor on the management of the enterprise. Formally defined, a direct investment enterprise is an unincorporated or incorporated enterprise in which a direct investor owns 10% or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

Table 2: Total direct investment flows [ECU million]

|  | Outward flows |        |        | Inward flows |        |        | Net flows |        |
|--|---------------|--------|--------|--------------|--------|--------|-----------|--------|
|  | 1995          | 1996   | Change | 1995         | 1996   | Change | 1995      | 1996   |
|  EU | 94 211        | 95 432 | 1%     | 78 914       | 66 822 | -15%   | 15 297    | 28 610 |
| B/L  | 6 840         | 7 417  | 8%     | 7 117        | 10 968 | 54%    | -277      | -3 550 |
| DK   | 2 343         | 1 985  | -15%   | 3 196        | 605    | -81%   | -854      | 1 380  |
| D  | 27 837        | 20 332 | -27%   | 9 730        | 594    | -94%   | 18 107    | 19 737 |
| EL   | :             | :      | :      | :            | :      | :      | :         | :      |
| E  | 2 748         | 3 648  | 33%    | 4 691        | 5 048  | 8%     | -1 943    | -1 399 |
| F  | 14 393        | 21 217 | 47%    | 18 659       | 16 918 | -9%    | -4 267    | 4 299  |
| IRL  | :             | :      | :      | :            | :      | :      | :         | :      |
| I  | 4 384         | 5 092  | 16%    | 3 683        | 2 784  | -24%   | 700       | 2 308  |
| NL   | 9 244         | 15 937 | 72%    | 7 944        | 5 296  | -33%   | 1 300     | 10 641 |
| A  | 797           | 1 111  | 39%    | 485          | 2 992  | 516%   | 311       | -1 882 |
| P  | 530           | 607    | 14%    | 506          | 485    | -4%    | 24        | 122    |
| FIN  | 1 059         | 2 695  | 154%   | 358          | 514    | 44%    | 702       | 2 181  |
| S  | 4 608         | 337    | -93%   | 9 147        | 3 389  | -63%   | -4 538    | -3 052 |
| UK   | 15 089        | 10 628 | -30%   | 10 834       | 14 765 | 36%    | 4 256     | -4 137 |

**Table 3: Direct investment flows in 1996 [ECU million]**

|     | Outward flows to |        |        |                 |       | Inward flows from |        |        |                 |        |      |
|-----|------------------|--------|--------|-----------------|-------|-------------------|--------|--------|-----------------|--------|------|
|     | World            | EU     | non EU | non EU of which |       | World             | EU     | non EU | non EU of which |        |      |
|     |                  |        |        | USA             | Japan |                   |        |        | USA             | Japan  |      |
| EU  | 95 432           | 49 275 | 45 641 | 13 715          | 1 487 | EU                | 66 822 | 40 947 | 25 807          | 19 225 | -181 |
| B/L | 7 417            | 3 340  | 4 078  | 915             | 303   | B/L               | 10 968 | 10 005 | 963             | -248   | -35  |
| DK  | 1 985            | 1 614  | 371    | -239            | 29    | DK                | 605    | 208    | 397             | 245    | 10   |
| D   | 20 332           | 9 881  | 10 451 | 4 594           | 816   | D                 | 594    | 739    | -145            | 185    | -377 |
| EL  | :                | :      | :      | :               | :     | EL                | :      | :      | :               | :      | :    |
| E   | 3 648            | 1 345  | 2 303  | 419             | 1     | E                 | 5 048  | 3 689  | 1 359           | 741    | 255  |
| F   | 21 217           | 10 393 | 10 824 | 3 608           | 150   | F                 | 16 918 | 11 440 | 5 478           | 2 962  | 111  |
| IRL | :                | :      | :      | :               | :     | IRL               | :      | :      | :               | :      | :    |
| I   | 5 092            | 3 732  | 932    | 650             | 2     | I                 | 2 784  | 2 274  | 515             | 484    | 29   |
| NL  | 15 937           | 7 188  | 8 750  | 1 987           | 82    | NL                | 5 296  | 2 165  | 3 136           | 1 442  | 193  |
| A   | 1 111            | 357    | 753    | 52              | 0     | A                 | 2 992  | 2 903  | 89              | 22     | 7    |
| P   | 607              | 190    | 417    | 26              | 0     | P                 | 485    | 539    | -54             | -97    | 4    |
| FIN | 2 695            | 1 959  | 737    | -66             | 25    | FIN               | 514    | 779    | -265            | 92     | 2    |
| S   | 337              | 779    | -530   | -1 354          | 30    | S                 | 3 389  | 2 015  | 1 295           | 354    | 12   |
| UK  | 10 628           | 3 621  | 7 007  | 5 010           | 48    | UK                | 14 765 | 2 823  | 11 943          | 12 399 | -393 |

**Table 4: Direct investment flows in 1995 [ECU million]**

|     | Outward flows to |        |        |                 |        | Inward flows from |        |        |                 |        |       |
|-----|------------------|--------|--------|-----------------|--------|-------------------|--------|--------|-----------------|--------|-------|
|     | World            | EU     | non EU | non EU of which |        | World             | EU     | non EU | non EU of which |        |       |
|     |                  |        |        | USA             | Japan  |                   |        |        | USA             | Japan  |       |
| EU  | 94 211           | 57 829 | 35 696 | 18 646          | -533   | EU                | 78 914 | 41 205 | 37 563          | 23 669 | 1 575 |
| B/L | 6 840            | 11 504 | -5 344 | -3 306          | -1 190 | B/L               | 7 117  | 5 389  | 1 588           | 884    | 82    |
| DK  | 2 343            | 998    | 1 345  | 677             | 10     | DK                | 3 196  | 2 587  | 609             | 185    | 4     |
| D   | 27 837           | 17 325 | 10 512 | 4 628           | 152    | D                 | 9 730  | 4 843  | 4 887           | 1 575  | 475   |
| EL  | :                | :      | :      | :               | :      | EL                | :      | :      | :               | :      | :     |
| E   | 2 748            | 657    | 2 091  | 116             | 6      | E                 | 4 691  | 3 713  | 978             | 343    | 57    |
| F   | 14 393           | 9 031  | 5 361  | 3 349           | 44     | F                 | 18 659 | 11 646 | 7 014           | 4 293  | 465   |
| IRL | :                | :      | :      | :               | :      | IRL               | :      | :      | :               | :      | :     |
| I   | 4 384            | 3 601  | 783    | 380             | -4     | I                 | 3 683  | 2 567  | 1 112           | 292    | 72    |
| NL  | 9 244            | 5 087  | 4 156  | 1 159           | 375    | NL                | 7 944  | 4 252  | 3 691           | 1 303  | 630   |
| A   | 916              | 305    | 611    | 44              | 0      | A                 | 558    | 332    | 227             | -17    | 9     |
| P   | 530              | 416    | 115    | 11              | :      | P                 | 506    | 390    | 117             | 13     | 10    |
| FIN | 1 059            | 691    | 369    | 363             | -1     | FIN               | 358    | 206    | 152             | 7      | 55    |
| S   | 4 608            | 1 214  | 3 388  | 2 269           | 8      | S                 | 9 147  | 790    | 8 354           | 6 525  | 7     |
| UK  | 15 089           | 5 141  | 9 948  | 7 112           | 68     | UK                | 10 834 | 2 072  | 8 762           | 9 099  | -290  |

**Footnotes for the tables**

Figures for Greece and Ireland were estimated and included in the EU totals.

Figures for France include short term credits for the first time.

Figures shown for Austria comprise only equity capital. For the EU totals other capital component was estimated.

Data for Belgium/Luxembourg, France, Italy, the Netherlands, Portugal, Finland, Sweden, and the United Kingdom are provisional.

Data for Denmark are semi-final.

A minus sign means disinvestment.

This edition of Statistics in Focus gives a snapshot of the detailed FDI figures with a full geographical breakdown and by economic activity that will be published in the **European Union Direct Investment Yearbook 1997**. For more information, please contact the **Eurostat direct investment team**, which includes Peter Ungar, Sverre Dommersnes, Peter Lindmark, Andreas Petermann, Jean-François Yattien-Amiguet and Barbara Zupancic. Adviser used for this edition: Klaus Reeh.

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Foreign direct investment data for the European Union and the European Union Direct Investment Yearbook 1996 can be obtained from the:

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