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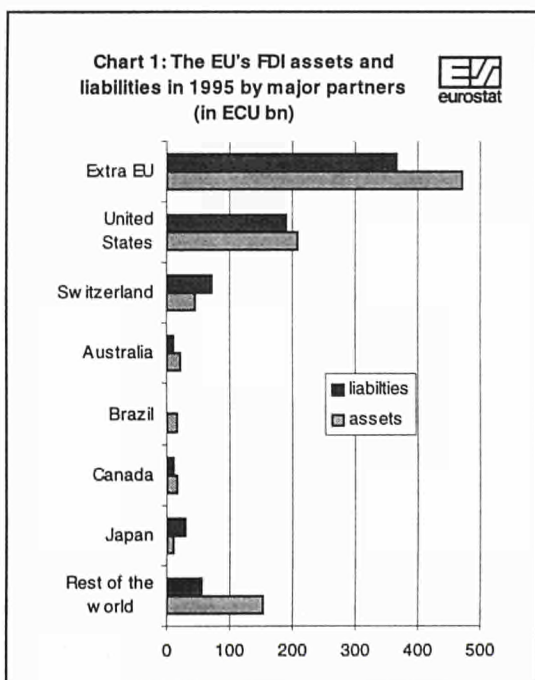
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EUROPEAN UNION FOREIGN DIRECT INVESTMENT POSITION IN 1995

OVERVIEW

Foreign direct investment (FDI) statistics give information on one of the major aspects of globalisation. FDI (for definition see box on page 4) is a supplement or an alternative to cross border trade in goods and services. Eurostat maintains a FDI data base that comprises harmonised and thus comparable data on inward and outward FDI positions for the European Union, its Member States, the United States and Japan. It gives the geographical breakdown for the two FDI components: equity capital and reinvested earnings together with other capital. It provides users also with detailed data by sector of activity. The total EU FDI stocks in 1995 are presented hereafter by means of a geographic breakdown.

At the end of 1995, the European Union held foreign direct investment assets outside the Union worth ECU 472 bn (see chart 1 and table 3).



This was opposed by roughly ECU 367 bn of FDI liabilities to countries from outside the EU resulting in a net foreign direct investment position (i.e. assets minus liabilities) of roughly ECU 105 bn vis-à-vis the rest of the world. In comparison, the US managed ECU 546 bn worth of FDI assets abroad while it recorded ECU 427 bn of liabilities in 1995 (see US Department of Commerce: Survey of Current Business).

The EU's net FDI exporter position (as declared by the EU Member States) was established through strong investment links with the United States, which accounted for almost half of foreign direct investment in the EU. At the same time, the US hosted some 40% of the EU's investment assets, thereby allowing the EU to establish a marginally positive net FDI position vis-à-vis the US.

A strong investment relationship also prevailed with Switzerland, which attracted a quite remarkable 10% of the EU's investment assets and accounted for 20% of total Extra EU FDI liabilities of the Union. However, the EU had its largest -when measured in terms of volume- net liability position (ECU 26.9 bn) with Switzerland.

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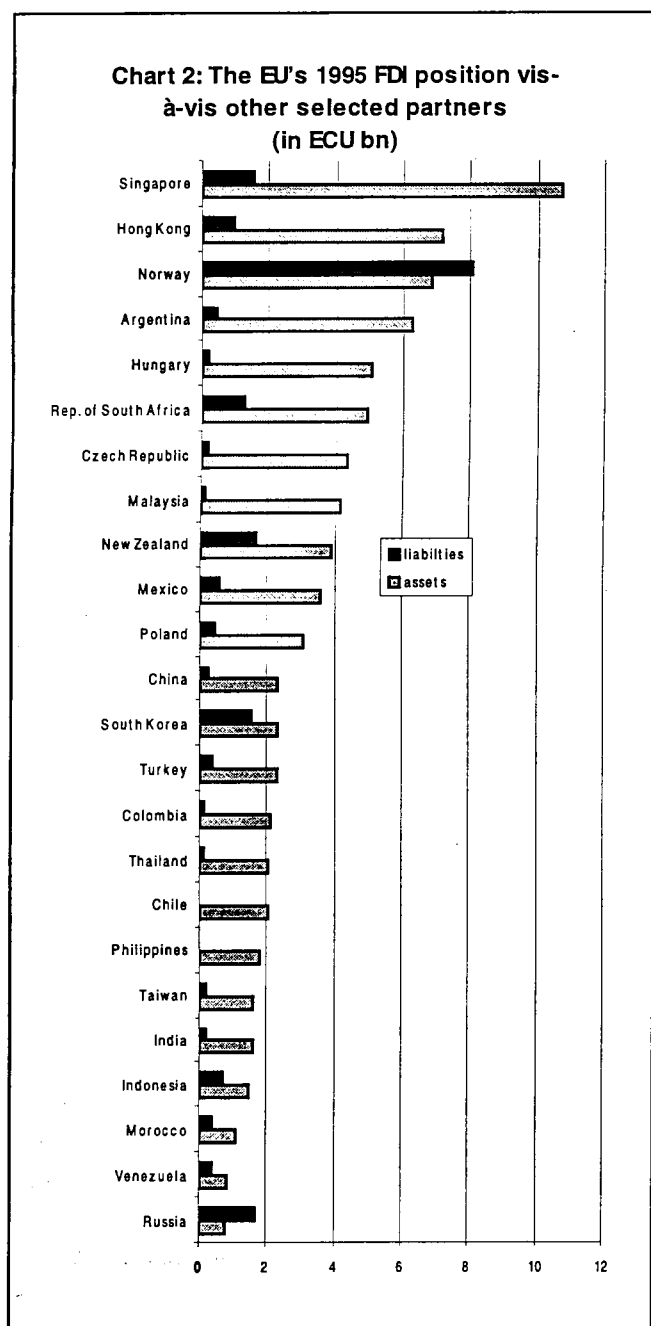
For further information please contact: P.Ungar
Eurostat, L-2920 Luxembourg, tel. 4301-34977 Fax: 4301-33859

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This was also the case for Japan, with whom the EU had its second largest net liability position in absolute terms (ECU 17.1 bn).

Australia, Brazil and Canada all hosted between 3-4% of the EU's foreign direct investment assets in 1995. Conversely, Australia and Canada accounted each for roughly 3% of the FDI liabilities in the EU, while Brazil invested only negligible amounts in the EU up to 1995.



Other selected partners

Around one third of the total FDI assets held by the EU abroad and roughly one seventh of the liabilities were not located or the property of an investor from one of the six countries mentioned above (US, Switzerland, Australia, Brazil, Canada and Japan).

Apart from these major partners, the EU had comparatively large FDI assets in Singapore, Hong Kong and Norway. This was followed by Argentina, Hungary, the Republic of South Africa and the Czech Republic (see chart 2 and table 3). With few exceptions, there was strong dominance on the part of the EU's assets abroad.

A more balanced investment relationship existed with Norway, where assets and liabilities were more or less in equilibrium. To a lesser extent this also held true for South Korea, where the EU's assets outnumbered its liabilities by a comparatively small factor of 1.5. Countries with similar investment pattern vis-à-vis the EU were Venezuela, Indonesia and Morocco.

EU net FDI liabilities

The EU enjoyed a net asset investment position with almost all countries in the world. However, there were some exceptions of greater importance.

One of the greater ratios between EU FDI assets and liabilities existed with Russia, which hosted investment assets of ECU 0.78 bn from the EU, but invested itself around ECU 1.64 bn in the Union.

Table 1: EU net FDI liabilities in 1995

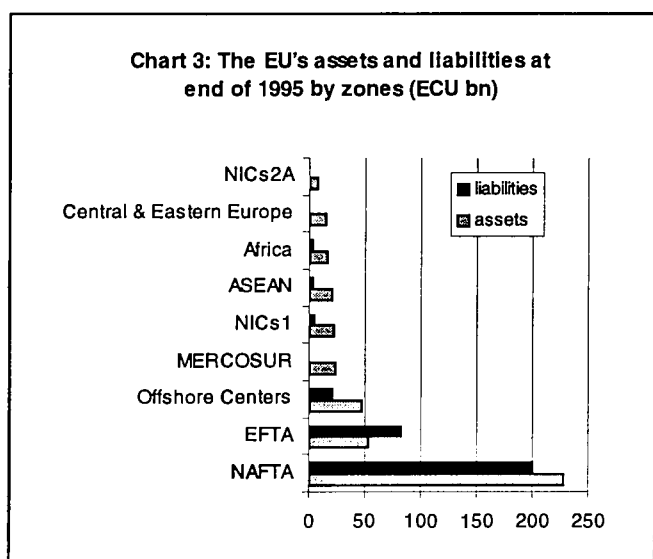
	assets	liabilities	net (ECU bn)
Switzerland	45.41	72.35	-26.94
Japan	11.05	28.16	-17.11
Norway	6.82	8.04	-1.22
Russia	0.78	1.64	-0.87
Iran	0.37	1.02	-0.65
Israel	0.26	0.52	-0.26

Almost the same ratio existed with Japan, since Japanese investment assets in the EU were almost two and half times as high as the EU's investment assets in Japan. It needs to be pointed out, however, that the investment relationship with Japan was in terms of sheer volume (8% of total liabilities versus 2% of total assets) on a different scale than with Russia (less than half a percent for both assets and liabilities). The same holds true for the EU's direct investment links with Switzerland, where roughly one fifth of the EU's total liabilities outside the Union were owed to Swiss companies, while around one tenth of the EU's total FDI assets were located in Switzerland. Norway also managed large amounts of FDI in the EU.

Further exceptions were Iran and Israel, which both had more FDI stocks in the EU than they hosted in their own country in 1995.

FDI positions by geographic and economic zones

When analysing the EU's foreign direct investment relationship with some major geographic and economic zones, the NAFTA (Canada, USA and Mexico) certainly stands out. Both in terms of assets and liabilities (with assets dominating liabilities by ECU 28 bn) the NAFTA by far outstripped the EFTA (Switzerland, Liechtenstein, Iceland and Norway). However, whereas the NAFTA accommodated more FDI assets owned by EU investors than the EU did for NAFTA investors, the situation was different for the EU's investment relationship with the EFTA. Here, liabilities outnumbered assets to the tune of ECU 30 bn (see chart 3).



The so-called Offshore financial centers proved also to be very attractive for FDI originating from the EU: up to 1995, they amassed almost the same amount of EU FDI assets than the EFTA. Roughly half of this found its way back into the EU in the form of FDI.

Comparatively large net assets prevailed with the **MERCOSUR** (Argentina, Brazil, Paraguay and Uruguay), the **NICs1** (Hong Kong, Singapore, South Korea and Taiwan) and the **ASEAN** (Malaysia, Thailand, Philippine, Singapore, Indonesia, Brunei, Vietnam), which hosted EU investment assets worth between ECU 21 and 24 bn. In contrast, FDI liabilities vis-à-vis these countries remained low, the NICs1 coming top with roughly ECU 4 bn. The whole continent of Africa (ECU 17 bn of assets versus 3 bn of liabilities), followed by Central and Eastern Europe (ECU 15 bn vs. 1 bn) and the **NICs2 Asia** (Malaysia, Thailand and the Philippines with ECU 8 bn vs. 0.3 bn) also had a similar share in the EU's FDI position.

Emerging markets - who invested where

In what geographic or economic zone did individual EU Member states seek their fortune?

Investment positions within Central and Eastern Europe were dominated by German investment assets (see table 2), which amounted to roughly a third of what the EU had invested by end of 1995. This was also more than twice the amount Austria, which held the second largest stake, had invested. The Netherlands followed third with ECU 1.25 bn worth of FDI assets, while France recorded ECU 1.18 bn. The remaining EU Member States only had FDI assets worth less than one bn within the CEEC area.

A different investment structure existed in the NICs2 Asia, where the investment positions featured large UK assets, which amounted to ECU 3.59 bn at the end of 1995. The Netherlands came second amongst the EU Member states, while German investors had engaged themselves with ECU 0.97 bn within the NICs2 Asia zone.

Table 2: Assets in selected emerging markets in 1995

	CEEC	NICs2A	MERCOSUR	ASEAN
EU	14.75	8.03	24.10	20.58
DK	0.36	0.48	:	0.57
DE	5.43	0.97	:	2.76
FR	1.18	0.16	4.13	1.27
NL	1.25	2.19	2.69	4.20
AT	2.53	0.01	:	0.05
FI	0.07	0.04	0.09	0.09
UK	0.60	3.59	3.57	10.52

The MERCOSUR attracted a large share of EU FDI from France. The United Kingdom followed together with the Netherlands, who also had noteworthy interests in the region up to 1995. Germany was the largest European investor in the region: figures for Uruguay and Paraguay are not available, but German FDI assets in Argentina and Brazil alone came close to ECU 7 bn.

Within the Asean, it was the UK, which was the top investor. Its FDI assets amounted to roughly half of the EU's total assets there, of which a large part (roughly ECU 6 bn) was located in Singapore.

Table 3: The EU's FDI position in 1995



(In ECU bn)

	assets	liabilities
Non EU	471.91	366.87
United States	207.18	188.31
Switzerland	45.41	72.35
Australia	20.97	9.88
Brazil	17.06	0.88
Canada	17.02	11.13
Japan	11.05	28.16
Singapore	10.71	1.51
Hong Kong	7.17	0.97
Norway	6.82	8.04
Argentina	6.24	0.46
Hungary	5.01	0.21
Rep. of South Africa	4.92	1.26
Czech Republic	4.37	0.20
Malaysia	4.18	0.15
New Zealand	3.87	1.66
Mexico	3.57	0.59
Poland	3.07	0.43
China	2.32	0.22
South Korea	2.32	1.51
Turkey	2.27	0.39
Colombia	2.14	0.15
Thailand	2.06	0.12
Chile	2.04	0.03
Philippines	1.79	0.05
Taiwan	1.63	0.22
India	1.57	0.18
Indonesia	1.47	0.67
Morocco	1.11	0.37
Venezuela	0.83	0.38
Russia	0.78	1.64
Slovakia	0.57	0.02
Egypt	0.55	0.18
Baltic countries	0.50	0.04
Slovenia	0.43	0.09
Iran	0.37	1.02
Croatia	0.28	0.07
ex-Yugoslavia	0.28	0.17
Israel	0.26	0.52
NAFTA	227.77	200.03
EFTA	53.26	82.90
Offshore Centers	46.84	19.92
MERCOSUR	24.10	1.38
NICs1	21.82	4.20
ASEAN	20.58	2.50
Africa	16.72	3.46
CEEC	14.75	1.42
NICs2A	8.03	0.32

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).

FDI flows and positions

Through direct investment flows, an investor builds up a foreign direct investment position, that features on his balance sheet. This FDI position (sometimes called FDI stock) differs from the accumulated flows because of revaluation (changes in prices or exchange rates, and other adjustments like rescheduling or cancellation of loans, debt forgiveness or debt-equity swaps).

For a more comprehensive and detailed view on EU FDI flows and positions see:
European Union Direct Investment Yearbook 1997

EUROSTAT

Directorate B: Economic statistics and economic and monetary convergence

For more information, please contact:

Peter Ungar - Unit B5 - Balance of payments

Tel: +352 4301 34 977

Fax: +352 4301 33 859

E-mail: peter.ungar@eurostat.cec.be

This "Statistics in focus" was produced by
Andreas Petermann*

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