



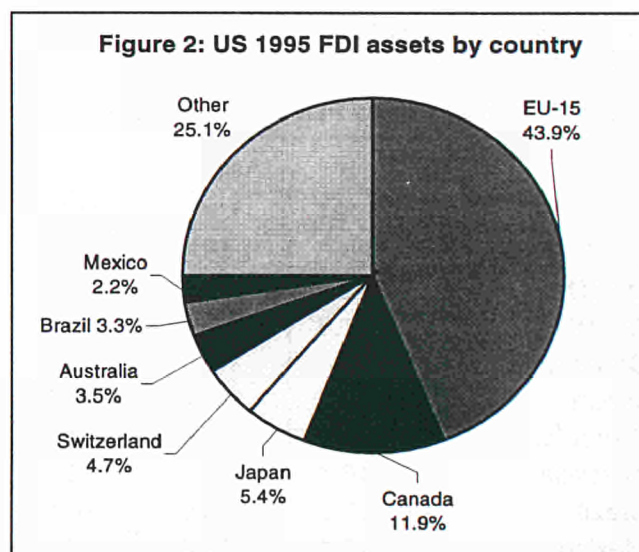
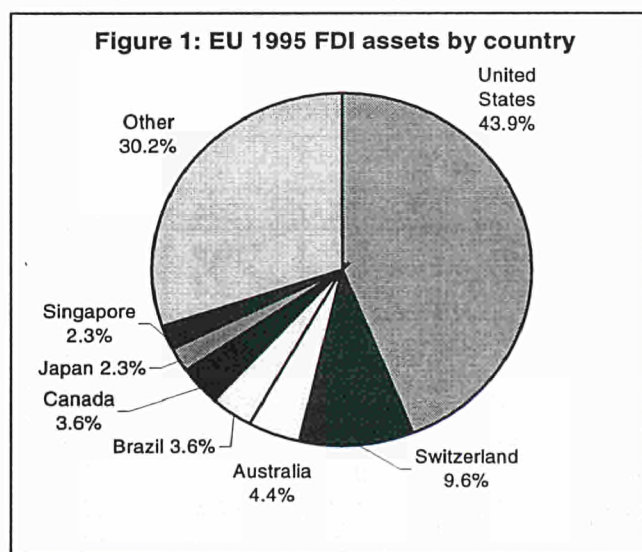
EUROPEAN UNION FOREIGN DIRECT INVESTMENT POSITION: Comparison with the United States

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. A comparison of the EU and US FDI stocks is presented hereafter by means of a geographic breakdown.

The US is the major FDI partner of the EU

The level of EU FDI assets and liabilities (Figure 1, Table 1) vis-à-vis the US observed at the end of 1995 confirms that this country remains by far the most important EU FDI partner. The US attracted 44 % of the total external EU FDI assets, far ahead of Switzerland.

The US recorded a similar share for the EU in its total FDI assets (Figure 2, Table 2), with Canada being the second important US partner. For both the Union and the United States the other major FDI destinations are to be found also among the OECD countries. 68 % of the EU assets were located in the OECD against 73 % for the US.



N.B.: EU = EU-15

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The EU has more FDI capital in the US market than the US companies in the EU

In absolute terms the EU assets held in the US was evaluated to ECU 207 bn, facing liabilities of 188 billion (Table 1). Thus, the Union engagement within the US was slightly above the US one in the EU market, resulting in a positive net external EU FDI position close to ECU 19 bn at end of 1995. However, this net position has been sensibly reduced, coming down from 25.8 bn in 1994 (-26.8%). This development towards balance was due to the fact that, in 1995, the EU liabilities towards the US increased two times faster than the EU assets held in the US (+10.3% against +5.4% respectively).

The European Union generated a positive net FDI position vis-à-vis the rest of the world of ECU 105 billion. This amount is more than five times the EU net position with the United States. The EU FDI relationship with other Extra EU partner countries are therefore less balanced. Comparatively strong negative net EU positions against Switzerland and Japan (-27 bn and -17 bn respectively) were over compensated by positive net positions with nearly all other partner countries. The highest net positions being located in Brazil (16 bn) Australia (11 bn), Singapore (9 bn) and Canada (6 bn). However, the bulk of the EU net assets was due to the fact that with nearly all other partners positive FDI positions were held.

Table 1: EU-15 FDI positions with selected major partner countries (first seven receivers)

(ECU bn)

	Assets			Liabilities			Net positions		
	1994	1995	95/94 %	1994	1995	95/94 %	1994	1995	95/94 %
Extra EU-15	444.3	471.9	6.2	344.0	366.9	6.7	100.3	105.0	4.7
OECD*	304.4	322.6	6.0	300.0	320.7	6.9	4.4	1.8	-58.2
United States	196.6	207.2	5.4	170.8	188.3	10.3	25.8	18.9	-26.8
Switzerland	42.3	45.4	7.3	68.4	72.4	5.8	-26.1	-26.9	3.2
Australia	19.9	21.0	5.2	11.4	9.9	-13.4	8.5	11.1	30.0
Brazil	16.7	17.1	2.2	0.8	0.9	4.2	15.9	16.2	2.0
Canada	15.6	17.0	8.8	12.0	11.1	-7.1	3.7	5.9	61.0
Japan	10.9	11.0	1.8	28.0	28.2	0.6	-17.1	-17.1	-0.2
Singapore	9.7	10.7	10.6	1.6	1.5	-3.0	8.1	9.2	13.2

* Excluding the Intra EU FDI positions.

The above mentioned conclusions are confirmed also by the US source (Table 2). According to the Survey of Current Business (S.C.B, September 1997), US FDI assets in the EU represented 43.9% of the total US external FDI assets, the US liabilities vis-à-vis the EU being close to 57%, always at end of 1995. The US source also recorded FDI relationships with the EU close to balance, the US liabilities with the EU

exceeding the US assets in the EU by only ECU 3 billion, representing only a comparatively small fraction of the total US net assets (119 bn). This negative net US FDI position with the EU observed in 1995 has to be brought in line with the positive net position recorded at end of 1994, confirming, to a lesser extent, the tendency towards a reduction of the EU FDI surplus vis-à-vis the US.

Table 2: United States FDI positions with selected major partner countries (first seven receivers)

(ECU bn)

	Assets			Liabilities			Net positions		
	1994	1995	95/94 %	1994	1995	95/94 %	1994	1995	95/94 %
World Total	520.6	546.0	4.9	403.7	426.7	5.7	116.9	119.2	2.0
OECD	382.4	399.3	4.4	373.0	397.9	6.7	9.4	1.5	-84.3
EU-15	227.3	239.8	5.5	223.4	242.7	8.6	3.8	-3.0	-176.9
Canada	63.4	65.0	2.5	34.1	36.7	7.6	29.3	28.3	-3.5
Japan	29.7	29.2	-1.6	83.7	82.1	-1.9	-54.0	-52.9	-2.1
Switzerland	24.5	25.5	4.3	21.7	27.1	24.9	2.8	-1.6	-156.2
Australia	16.4	19.0	15.8	6.6	6.0	-9.3	9.9	13.1	32.4
Brazil	15.0	18.0	20.6	0.5	0.6	11.7	14.4	17.5	20.9
Mexico	13.1	12.2	-7.5	2.0	1.5	-23.2	11.2	10.7	-4.8

Source: United States Department of Commerce, Survey of Current Business (S.C.B), September 1997

N.B.: Growth rates are calculated on the values expressed in ECU. Thus, they include the change in the exchange rate between the ECU and the US \$, at end of 1994 and end of 1995.

As observed for the EU also the United States recorded strong net liabilities only against Japan (ECU -53 bn) and Switzerland (- 1.6 bn). Strongest net assets were recorded for Canada (28 bn), Brazil (17 bn), Australia (13 bn), Mexico (11 bn), Hong Kong (10 bn) and Singapore (10 bn). Besides the relative higher importance of neighbor countries (Canada for the US and Switzerland for the EU) the patterns are quite similar also in terms of net positions. Japan was the only country with whom both the EU and the US had a strong net liability position, amounting to 70 bn taken together.

The main EU direct investors on the US market

The analysis of the Member states assets revealed the United Kingdom being the EU country most involved in investing directly in the US market. The total UK FDI assets held in the US at end of 1995 was established to ECU 72.7 billion, nearly double the amount invested by Germany, the second biggest EU investor in the US (with ECU 37.5 billion). The United Kingdom share in the total EU FDI assets in the US was estimated to 35.1%. Together with Germany, they were responsible of more than half of the total EU external FDI assets in the US.

The Netherlands ranked third with ECU 33.1 billion, and France was the fourth major EU contributor with ECU 27.4 billion invested directly in the US up to the end of 1995. It should be noticed that these four Member states invested all together 82.4% of the total EU FDI assets hosted by the US.

Table 3: Member states FDI positions in the US at end of 1995

	value (ECU bn)	cumul %	variations 1995/1994
EU-15	207.2		5.4
United Kingdom	72.7	35.1	4.5
Germany	37.5	53.2	2.8
Netherlands	33.1	69.2	5.1
France	27.4	82.4	5.1
Sweden	6.7	85.6	7.7
Italy	6.6	88.9	12.7
Rest of EU-15	23.1	100.0	

The same remark applies also to the liabilities side, the UK's liabilities towards US firms representing 35% of the total EU external FDI liabilities vis-à-vis the US. Together with Germany, they attracted 54.7% of the total US investment in the EU up to end of 1995. The only difference with what has been observed on the assets side is the third place obtained by France with 23.4 billion of liabilities vis-à-vis the US. However, the total liabilities contracted by the UK, Germany, France and the Netherlands towards the US was estimated to 77.3% of the total EU liabilities with the US, 5 points below the same ratio observed for the assets.

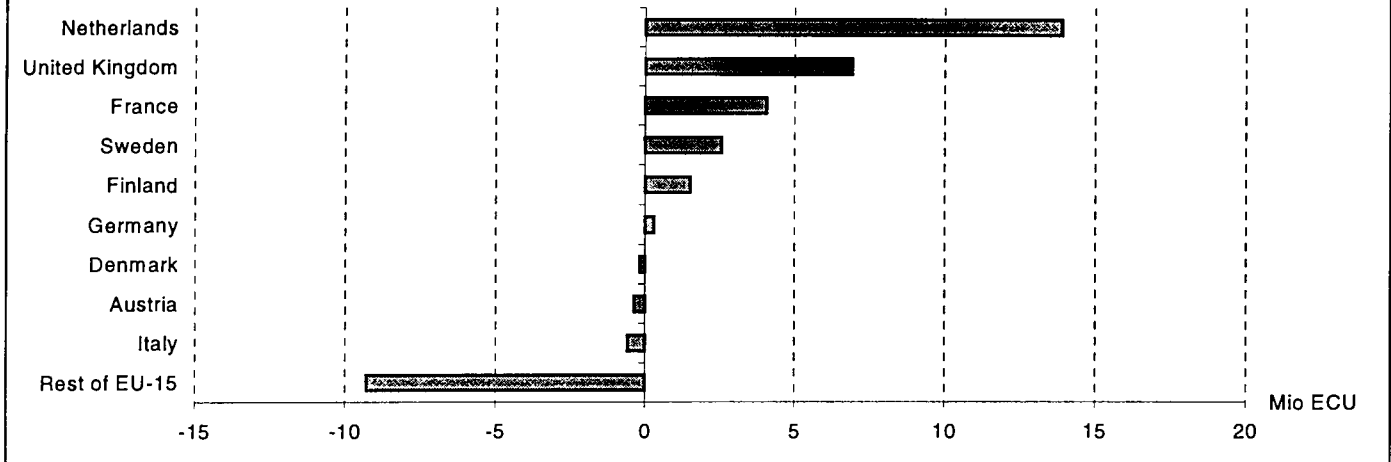
A look on the net FDI positions draws another picture of FDI activities between the EU and the US. Indeed, the Netherlands ranked first with a net FDI position vis-à-vis the US estimated to ECU 13.9 billion. In other words, the Netherlands generated alone roughly three quarter of the total net EU FDI position with the US. The UK came second, presenting a positive net position with the US of ECU 6.9 billion at end of 1995. France ranked third with ECU 4 billion. While Sweden and Finland recorded significant net FDI assets with the US, the net positions of Germany, Denmark, Austria and Italy were fairly balanced.

The US Survey of Current Business source confirms the United Kingdom as the main EU partner, and the dominant role of the four above-mentioned countries on both the assets and liabilities side. But this source presents the Netherlands as the second biggest EU country having invested directly in the US market, far ahead from Germany and France.

Table 4: Member states total liabilities vis-à-vis the US at end of 1995

	value (ECU bn)	cumul %	variations 1995/1994
EU-15	188.3		10.3
United Kingdom	65.8	35.0	4.0
Germany	37.1	54.7	10.2
France	23.4	67.1	25.8
Netherlands	19.2	77.3	9.9
Italy	7.2	81.1	-3.3
Sweden	4.2	83.3	137.8
Rest of EU-15	31.4	100.0	

Figure 3: Net Member states FDI position vis-à-vis the USA at end of 1995



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

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