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Economy and finance



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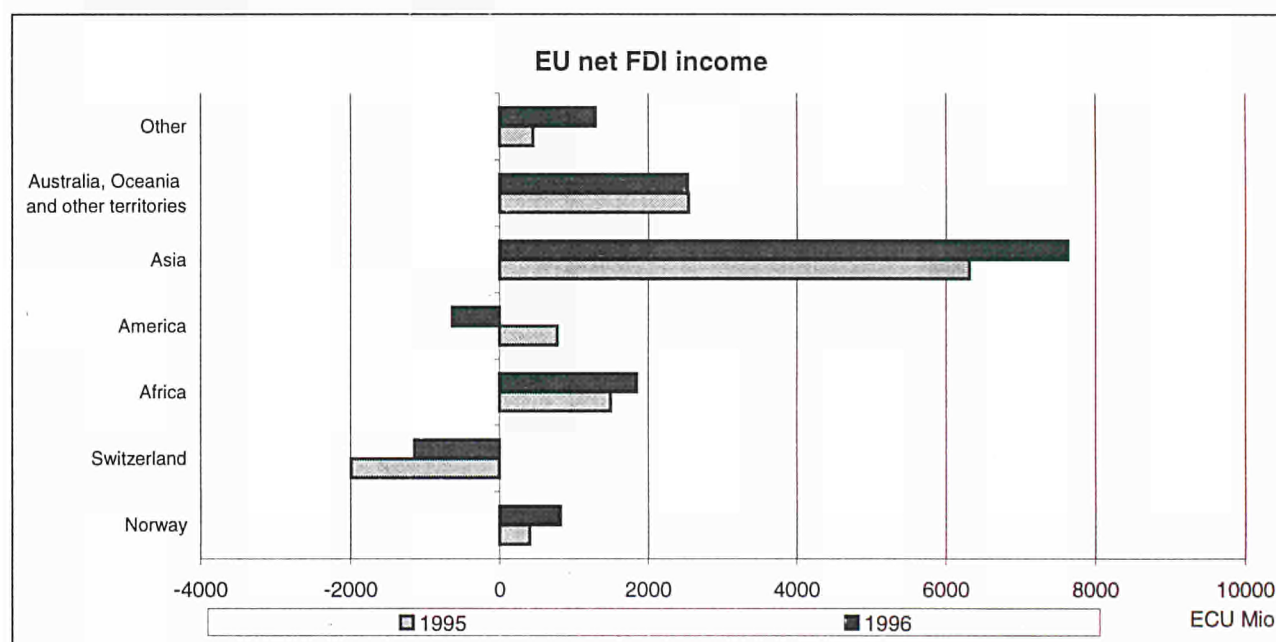
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EUROPEAN UNION FOREIGN DIRECT INVESTMENT INCOME First results

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. Within the Balance of Payments statistics Eurostat maintains a FDI database that comprises harmonised and thus comparable data on inward and outward FDI flows and positions for the European Union and its major FDI partners. Data on direct investment income provides additional information on the receipts and payments on an economy's FDI assets and liabilities (definitions see page 4). Linked to FDI positions, they can give information on the profitability of direct investment. Eurostat hereafter presents first and preliminary estimates on the geographical breakdown of FDI income for the European Union.

In 1996, the EU received net FDI income worth ECU 12.4 bn from non-EU countries, up by 23.4% since 1995. Behind net income flows stood 44.4 bn of income receipts on foreign direct investment assets and income payments of 32.1 bn to non-EU countries on FDI liabilities.

Net income flows were positive with most FDI partner countries and regions. The United States and Switzerland marked the most prominent exceptions, with EU FDI income payments exceeding receipts in 1996 by roughly one third for both countries. However, while net flows with Switzerland went down by ECU 851 million between 1995 and 1996, those with the US increased by nearly 1.5 bn, with America switching from a net FDI income payer to the EU to a net receiver.



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Net EU FDI earnings in 1996: Asia contributed 62%

In 1996, EU direct investors saw over ECU 7.6 bn in net FDI receipts coming from Asia. This region thus contributed the largest share of net FDI earnings, up by over one fifth since 1995. This increase was broad based across most Asian countries, Japan making the exception. Here, EU net FDI earnings saw a fallback of 25% in 1996 compared to 1995.

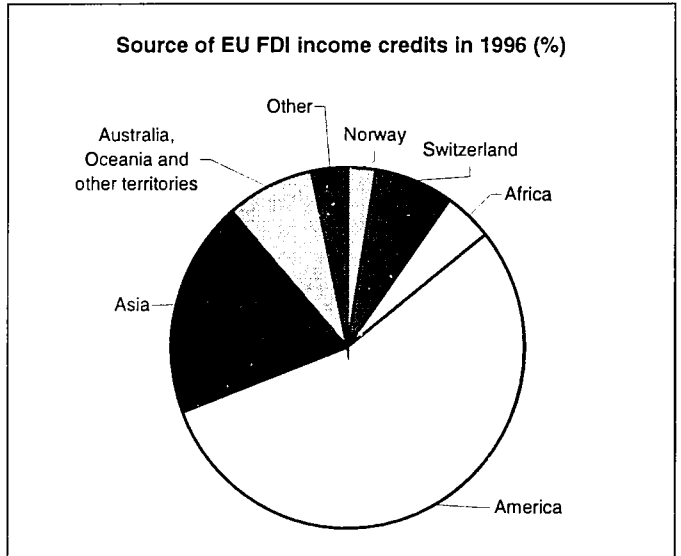
Hongkong ranked top in contributing to net EU FDI receipts – not only amongst Asian countries. It was also the most important single market, with EU investors receiving net DI income to the tune of ECU 2.6 bn (21% of total net earnings). Amid Asian countries particularly high net FDI earnings also were observed with Singapore (1.8 bn), where net earnings rose by over 4 times since 1995. Net earnings from Brazil also exceeded the 1 bn benchmark both in 1995 and 1996.

Another ECU 2.5 bn of net earnings were generated by EU FDI in Australia/Oceania, with assets in Australia alone returning 1.8 bn. Every seventh ECU of net EU FDI earnings in 1996, on the other hand, came from African countries.

Three European economies figured in 1996 amongst the group of major contributors to net EU FDI income, with flows facing a particular dynamic evolution. Net earnings from Norway doubled in 1996, reaching over ECU 800 Mio, while net receipts from Hungary were 10 times higher in 1996 than in 1995, crossing the 0.5 bn mark. Net earnings from the Czech Republic also saw rapid growth, exceeding 250 million in 1996.

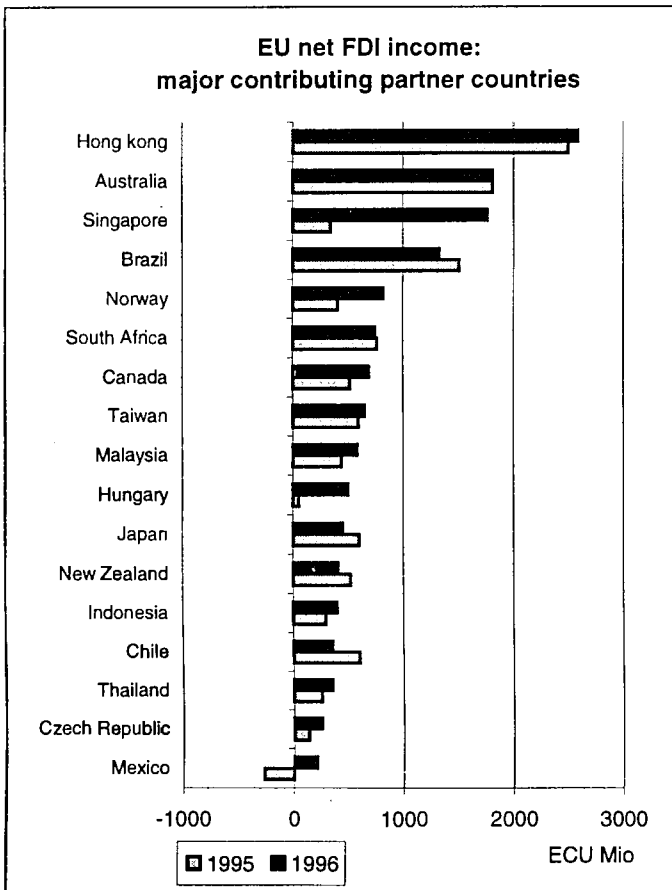
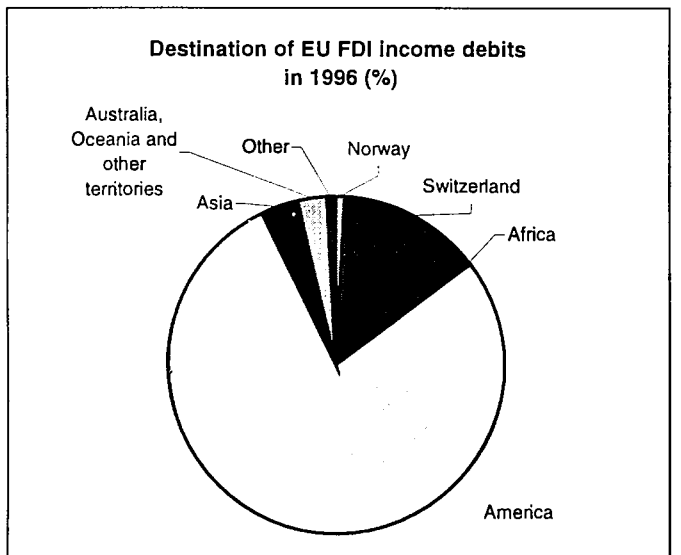
FDI income generated by EU FDI assets abroad

Between 1995 and 1996, EU returns on DI assets in non-EU markets grew by 14%, from ECU 38.8 bn to 44.4 bn. Over half of gross FDI income (24.4 bn) was due to FDI relations with America, with the US – as the major EU FDI partner – accounting for the largest share (17.6 bn). Foreign affiliates of EU investors in Switzerland and in Australia/Oceania accounted each for very similar amounts of FDI income credits in 1996 (3.2 bn and 3.5 bn respectively). For both economic areas, gross earnings remained virtually stable since 1995. In contrast, EU FDI assets in Africa generated a gross return of nearly ECU 2 bn in 1996, meaning an increase of one fifth on the preceding year.



FDI earnings of non-EU direct investors in the EU

With an 11% rise since 1995, FDI income of non-EU direct investors in the Union grew three percentage points slower in 1996 than the EU's FDI earnings abroad. The US received about ECU 3 bn more from their EU foreign affiliates in 1996 than in 1995. With payments to Canada also strongly rising by 56%, America's share in EU FDI income debits rose from three quarters to virtually 80%. In contrast, payments to Switzerland shrank by 14% to one ECU in seven of EU income debits (1995: 18%).



	1996			1995		
	Credit	Debit	Net	Credit	Debit	Net
Extra-EU	44425	32070	12355	38834	28822	10012
Norway	1068	245	823	571	164	407
Switzerland	3249	4388	-1138	3128	5117	-1990
Africa	1953	103	1849	1611	111	1499
America	24405	25037	-632	22271	21487	784
Asia	8744	1112	7632	7112	796	6314
Australia, Oceania and other territories	3486	954	2531	3475	932	2544
NICs1 - Asia	5242	119	5124	3605	13	3592
NICS2 - Asia	1124	15	1109	873	13	859
NICs2 - Latin America	2039	96	1944	2383	404	1980
Countries of Central and Eastern Europe	902	73	828	388	172	217

Return on direct investment positions: EU earned 8.2% on DI assets abroad in 1996

Apart from absolute income figures, the profitability of direct investment – i.e. the rate of return on EU assets abroad and the rate of return on liabilities of the European Union to their foreign investors – is in the center of economic interest. In 1996, the European Union recorded a rate of return on direct investment assets held abroad (ECU 543 bn) of 8.2%. In contrast, direct investors from abroad received income worth 7.6% of EU FDI liabilities (422 bn). Compared to 1995, the rate of return on the Union's assets remained fairly unchanged, while the return rate on liabilities decreased slightly.

Rates of return on EU FDI assets abroad: Asia ranks first

Across continents, rates of return on EU FDI assets were highest in Asia with 13.5% in 1996. Return rates were particularly high – 17.4% – for the core of the newly industrialized countries (NICs1), namely Hongkong, South Korea, Singapore and Taiwan. Also EU DI assets in countries of the second wave of industrialization (NICs2-Asia: Malaysia, the Philippines and Thailand), generated above-average rates of return. For both country groups return rates saw a small increase since 1995, while the average rate for Asia showed a slight decline.

Rates of return on European Union direct investment positions with selected partner countries and zones

	1996		1995	
	Assets	Liabilities	Assets	Liabilities
Extra-EU	8.2%	7.6%	8.2%	7.9%
Norway	12.5%	2.2%	8.4%	2.0%
Switzerland	7.0%	5.2%	6.9%	7.1%
Africa	10.7%	2.4%	9.6%	3.2%
America	7.4%	10.3%	7.6%	9.8%
Asia	13.5%	2.5%	13.7%	2.0%
Australia, Oceania and other territories	11.1%	6.1%	13.3%	8.0%
NICs1 - Asia	17.4%	2.0%	16.5%	0.3%
NICS2 - Asia	11.4%	2.4%	10.9%	4.2%
NICs2 - Latin America	5.8%	4.4%	8.2%	20.7%
Countries of Central and Eastern Europe	4.8%	6.1%	2.6%	12.1%

EU FDI assets hosted by Australia/Oceania also were above-average profitable, with income flows worth 11.1% of assets in 1996. This was followed by Africa with a rate of return of 10.7%, thus being the only continent showing an increase on the preceding year. On the other hand, EU FDI assets in America and in Switzerland yielded below-average rates of return (7.4% and 7.0% respectively).

Oppositely to the emerging economies in Asia, EU assets in Latin American NICs as well as in Central and Eastern European countries (CEECs) turned out to be less profitable, yielding rates of return of 5.8% and 4.8% respectively. The latter, however, roughly doubled between 1995 and 1996.

Rates of return on EU liabilities: highest return on liabilities to America

American direct investors saw highest returns on assets hosted by the European Union in 1996, up to 10.3% from 9.8% in 1995. Next came Australia/Oceania with a rate of 6.1%, which was below the Extra-EU average and down by nearly two points since the year earlier. The same rate was experienced by CEECs' investors. Direct investments owned by Asian and African investors in the Union yielded much lower rates of return, about 2.5%. Rates for Swiss assets were higher (5.2% in 1996) but nevertheless below the Extra-EU average.

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 income consists of income on FDI equity and on inter-company debt (interest). Income on equity covers dividends and reinvested earnings for incorporated enterprises and distributed and undistributed profits for branches. The OECD recommends calculating FDI income on the basis of the current operating performance concept. Thus, unlike for the all-inclusive concept, capital gains and losses and other valuation changes are excluded. FDI income is presented on a net basis. Thus, income from outward FDI consists of income of the direct investor from the direct investment enterprise less income vice-versa (e.g. in case of reverse loans or a cross-participation below 10%). Correspondingly, income on inward FDI comprises income from direct investment enterprise to direct investor less income vice-versa.

EU-aggregates for FDI income published here are provisional and partly estimated. The EU aggregate contains estimates for Belgium/Luxembourg, Denmark, Greece, Ireland, Portugal and Sweden.

For a more comprehensive and detailed view on EU FDI flows, positions and income see:
European Union Direct Investment Yearbook 1998 – Analytical aspects

EUROSTAT

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