

EUROPEAN COMMUNITY DIRECT INVESTMENT - 1984 to 1988 -

Eurostat is publishing a detailed study of the European Community's direct investment flows as recorded in the Balance of Payments. The first results included in this note can be used to compare these investments more easily with those of the United States or Japan and to observe changes in this type of capital movement over time. The geographical distribution of the Community's investment flows with the rest of the world has been studied, together with the way in which they break down within the Community. It is now possible also to obtain some idea of the economic sectors to which those Community enterprises belong which provide or attract the largest amounts of direct investment capital. The analysis is as detailed as possible, making allowances for methodological constraints. Since the necessary data are not available, the direct investments noted here exclude reinvested profits, unlike US investments, which generally include them (although they have been deleted here for purposes of comparison).

The main results of this study include:

The European Community is a net exporter of direct investment capital:

The European Community's direct investments in other countries are regularly higher than investments it receives from the rest of the world. Outgoing capital is more than twice as high as incoming capital: ECU 30 700 million as against 14 200 million in 1988 (and almost three times as high in 1984).

Marked increase in direct investment flows in both directions:

Investments made, like those received, virtually doubled between 1984 and 1988. The latter increased at a slightly higher rate than the former: the European Community is a pole of attraction for this type of capital.

Table 1: Direct investment flows of the Community, the United States and Japan

million ecus

		1984	1985	1986	1987	1988
EUR 12:	Investments made	17395	15349	22164	30780	30711
	Investments received	6177	5637	6840	12578	14278
USA:	Investments made	-7128	-1233	8796	8605	1997
	Investments received	28460	26733	36969	39357	43870
JAPAN:	Investments made	7558	8455	14713	16916	28931
	Investments received	-13	841	230	1010	-411

N.B.: A negative figure indicates a disinvestment.

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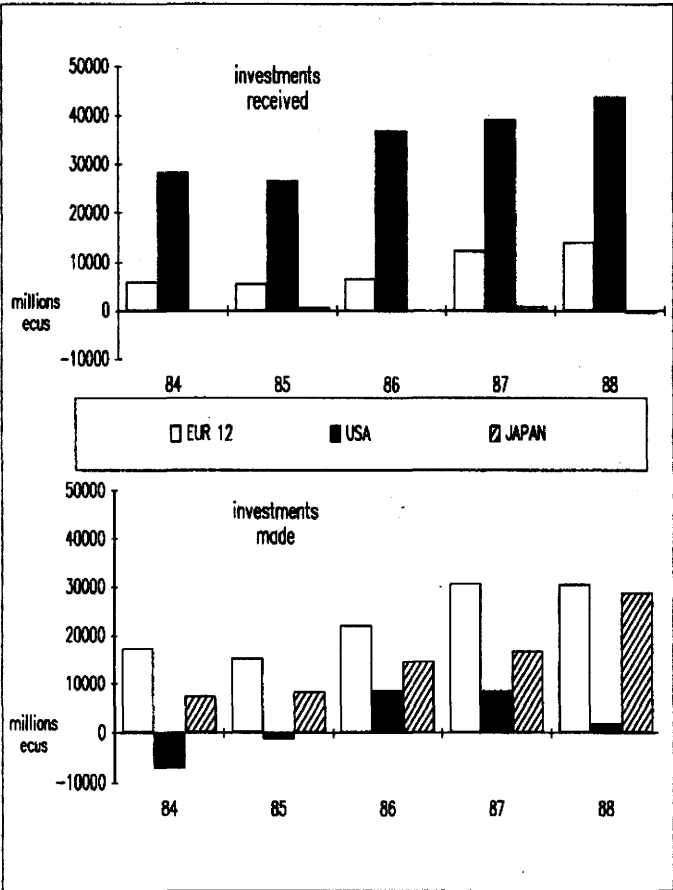
A study of the equivalent statistics for Japan and the United States provides criteria against which the Community's international rôle may be assessed.

Every year, the United States receives at least three times as much capital as the Community:
Investments in the United States continue to be extremely high (44 000 million ecus in 1988), particularly when the dollar is low. Investments in the opposite direction (i.e. by Americans in other countries) fluctuate considerably: at times, even, the United States disinvests more than it invests abroad. But reinvested profits are not, of course, included in these statistics, although American businesses have considerable investments outstanding abroad, dating from a long time back, and reinvested profits may be substantial: 30 000 million ecus in 1987, 13 000 million in 1988.

Japan exports as much capital as the Community:
As a result of its trade surpluses and the need to find alternatives to direct exports, Japan has now virtually caught up with the European Community as far as investments abroad are concerned, even though it climbed on to the bandwagon rather late. Most Japanese investments go to the United States: 16 000 million ecus in 1988 (as against 5 000 million in Europe). On the other hand, Japan is on the receiving end of very little foreign direct investment.

Intra-Community flows: a fivefold increase in the space of four years:
At the same time (1984-1988), intra-Community investments have shot up even more rapidly than flows to and from non-Community countries - from 4 200 million ecus in 1984 to almost 20 000 million in 1988. The figures leapt up in 1986, when the signing of the Single Act strengthened expectations of a large European market and Spain and Portugal joined the Community, as they did in 1988, doubling yet again.

Graph 1: Direct investment flows - a comparison of the Community, the United States and Japan



In 1988, for every three ecus invested in non-member countries, Community businesses invested two in another Member State. With the Single Market looming on the horizon, European businesses are being forced to restructure, and they are doing so mainly via direct investments: buy-outs, mergers, reciprocal acquisitions of holdings and the setting up of new business units (unfortunately, Balance of Payments statistics cannot be broken down by these types of investment).

Table 2: Intra-Community direct investments

		million ecus				
Notified by		1984	1985	1986	1987	1988
Investing countries		4265	6987	12646	12646	19076
Recipient countries		4358	5666	10354	11722	22976

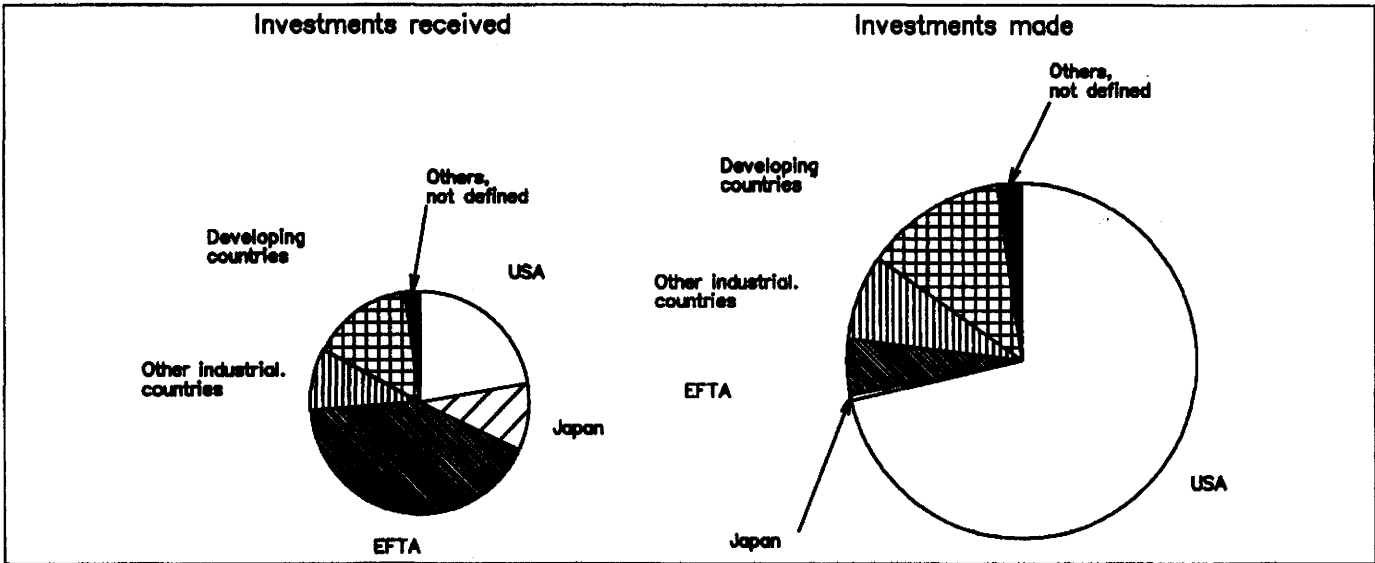
N.B.: The problems of recording direct investment flows are apparent from this table: investments declared as having been made by the investing countries do not tally with those declared as having been received by the countries in which they are made.

The United States is the primary destination for European Community direct investment and EFTA countries are the main investor in the Community:

Graph 2 shows that the vast majority (more than three-quarters) of the Community's direct investment capital movements are with the industrialized Western countries. Most of the Community's direct investments are made in the United States (between 65 and 80% of the total, depending on year), whereas the EFTA countries are the main supplier of capital (between 27 and 63%).

Considering the position it normally occupies on the international trade markets, Japan is not a major Community partner where direct investment is concerned. On average, its share - even the share of capital coming into the Community - is lower than that of the developing countries. The proportion of total direct investment made in the developing countries has, however, fallen to around 10% since 1986. Of the developing countries, it is the non-ACP ones which receive the lion's share of European investments.

Graph 2: Geographical breakdown of the Community's direct investment flows to the rest of the world (Average 1984-1988, areas in proportion to amounts involved)



The United Kingdom accounts for the major share of the Community's direct investment capital movements: Within the European Community, the United Kingdom accounts for the greatest share of direct investment capital movements both with non-Community countries and within the Community, in terms of both investments made and investments received (the United Kingdom alone invests outside the Community almost half of the Community total); next come Germany and France, as regards investments outside the Community, and France and Spain as regards investments received from non-Community countries. In some cases, it seems to be a one-way flow: although Germany makes many investments, it is seldom on the receiving end, whereas Spain is in exactly the opposite position. The countries would have virtually the same ranking for intra-Community investments except that the Netherlands and the BLEU are also very active when it comes to capital movements within the Community. The scale of their flows becomes more apparent if the effect of the size of the country is eliminated - if, for example, investments for the period 1984-88 are divided by the population of each Member State (Graph 3).

Graph 3: Per capita average annual direct investment: comparison over Member States (average 1984-88)

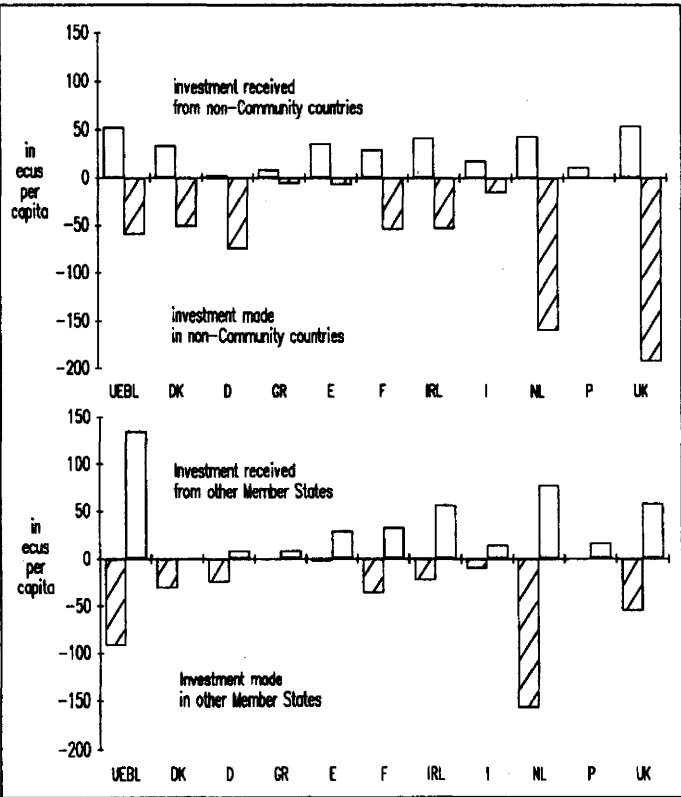


Table 3: Sectoral distribution of the Community's direct investments (average 1984-1988)

%

Sector to which Community businesses belong	Investments undertaken outside the EC	Investments received from outside	Intra EC investments undertaken	Intra EC investments received
Energy	19	0	9	14
Agriculture and food industries	6	13	3	5
Steel and metal industries	2	0	1	1
Engineering industries	4	2	0	2
Transport equipment	3	1	6	1
Electrical and electronics industries	6	7	9	4
Chemical industries	14	6	8	6
Other industries	7	7	7	5
Construction and public works	2	0	1	3
Credit and financial institutions	10	30	21	24
Insurance	5	2	7	5
Distributive trades, hotels and restaurants	8	9	17	11
Transport and communications	1	1	1	1
Real estate	1	13	5	15
Other services	10	5	5	3
Not defined	1	3	0	0
TOTAL	100	100	100	100

N.B.: The sectoral breakdown of direct investment is less reliable than the geographical breakdown: the Member States use different branch classifications, which are frequently on a restricted scale, and data aggregation is not straightforward. The problem is further complicated by the fact that some Member States classify investments according to the branch of the resident enterprise which undertakes or receives the investment and others go by the branch of the (resident or non-resident) enterprise which receives the investment. It is assumed that the parent company invests in a subsidiary whose activity is very close to its own.

Community sectors undertaking investments: energy, chemicals and finance:

The European sectors investing most in other countries are, in descending order of importance, energy (made up mainly of the major multinational petroleum companies), the chemical industries and finance and credit institutions, which comprise, as well as banks and financial institutions, holding companies which manage the participating interests (in the form of direct or portfolio investments) of their parent company (or group) in other companies. The "distributive trades, hotels and restaurants" would also appear to be a major sector for intra-Community investments.

Community sectors which are recipients of investments: finance, real estate and the food industries:

Non-Community businesses invest mainly in the Community credit and finance sectors, in real estate and the food industries, to which must be added energy where intra-Community investments are concerned. The same comment applies to "credit and financial institutions": some of the investments received by this category are merely in transit via holding companies and are subsequently redistributed among other branches. The "real estate" branch shows investments in property companies and in the form of private purchases of second homes abroad.

Methodological note: Despite corrections and estimates, these statistics on the Community's direct investments are by no means fully harmonized. International trade in capital is recorded differently from one Member State to another (the term "direct investment" is not always defined in the same way, there are various methods of collecting the information, classifications are incompatible, etc.), and it has not always been possible to adjust national data as desired, i.e. by aligning the national concepts currently used with the OECD international benchmark definition.

**To be published :
European Community direct investment - 1984-1988**