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### EUROPEAN COMMUNITY DIRECT INVESTMENT - 1989 -

*In this publication, Eurostat presents some initial results on trends in the flows of the European Community's direct investment between 1988 and 1989. The most striking feature of the 1989 statistics is the considerable increase (+71%) in investments received from the rest of the world. The Community's position as a net exporter of direct investment capital has thus been considerably eroded. Intra-Community investments have also seen considerable growth (+51%). Community enterprises are now investing as much inside (33.2 thousand million ecus in 1989) as outside the Community (32.9 thousand million). The United Kingdom still heads direct investment with the rest of the world, while France plays the most active role in intra-Community investment. Some countries are clearly investing countries (Germany, Denmark, France, Netherlands) while others are clearly host countries for direct investment (Spain, Portugal). Finally, the banking and financial activities sector still attracts most investment: 21% of the inward investment in the Community from the rest of the world, and 30% of the intra-Community investment.*

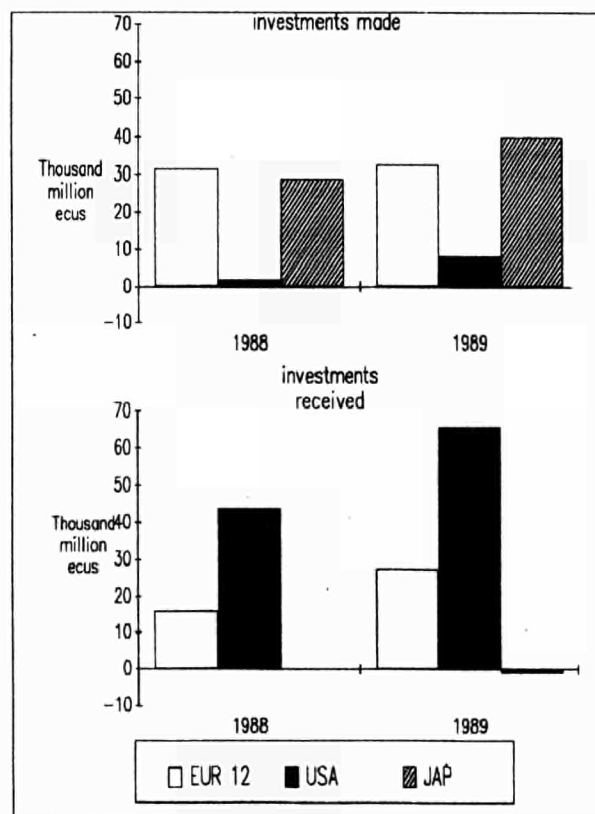
#### Virtual stagnation in Community investment in the rest of the world, but very marked increase in outside investment in the Community:

Between 1988 and 1989, Community investment in the rest of the world increased very little, rising from 31.6 thousand million ecus in 1988 (revised figures) to 32.9 thousand million ecus in 1989, which in real terms represents stagnation. By contrast, investments received from the rest of the world by Community countries over the same period rose from 16.1 thousand million ecus to 27.6 thousand million ecus, representing an annual increase of 71%. The prospect of the Single Market has probably had a strong galvanizing effect on this type of investment.

#### United States still in lead position for capital received, but Japan becomes world's premier investor:

In terms of outward investment, Japan now clearly leads the Community (by more than 7 thousand million ecus). There has also been a major resurgence of outward investment by the United States (8.5 thousand million ecus in 1989 compared with 2 thousand million ecus in 1988), although it is still not comparable with European or Japanese investment. By contrast, the United States is still the country that receives most direct investment from the rest of the world: it received 65.7 thousand million ecus in 1989 (an increase of more than 50% in the space of a year), while foreign investors in Japan tended to disinvest in 1989.

**Graph 1: A comparison of direct investment flows for the Community, the United States and Japan.**



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**Table 1: Direct investment flows for the Community, United States and Japan .**

thousand million ecus

	1985	1986	1987	1988	1989
EUR 12: investments made	15.1	21.9	30.6	31.6	32.9
investments received	5.7	7.1	12.2	16.1	27.6
USA: investments made	-1.2	8.8	8.6	2.0	8.5
investments received	26.7	37.0	39.4	43.9	65.7
JAP: investments made	8.5	14.7	16.9	28.9	40.1
investments received	0.8	0.2	1.0	-0.4	-1.0

**Note:** Negative figures indicates disinvestments.

**Most of the Community's outward investment with the rest of the world still go to the United States:**

Examination of the destination of foreign direct investment by the Community shows little change between 1988 and 1989, the vast majority (71%) of European investment still going to the United States. There was a slight decrease in investment in other industrialized countries, which was offset by improved investment in developing countries (its share of the total increasing from 9.5% to 11.6%). However, uncertainty remains about the end use of such investment, as this class of countries includes tax havens that may redistribute capital received.

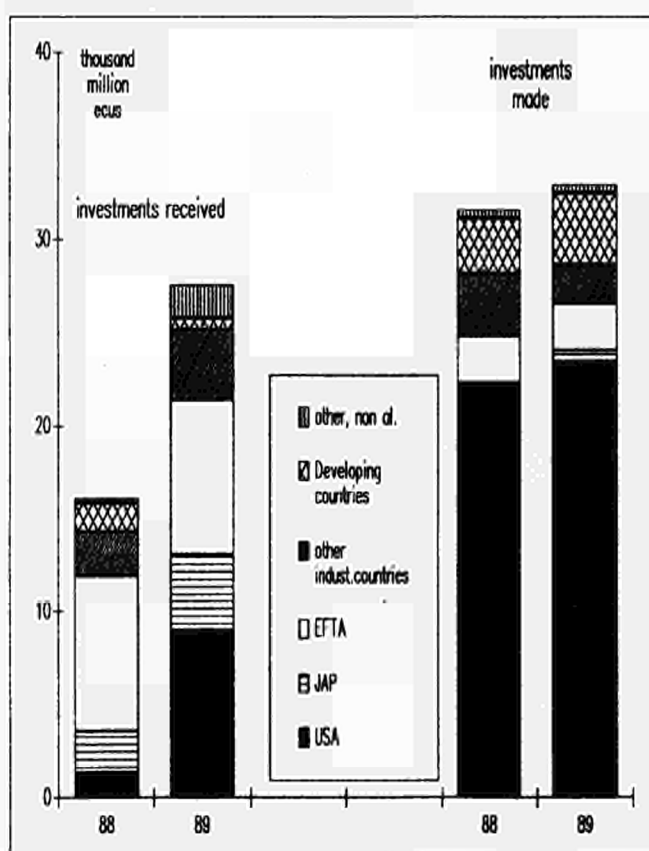
**Marked improvement in American investment in Europe:**

By contrast, the structure of the origin of capital coming into the Community shows a distinct change over the previous year, most of the increase in capital received coming from the United States. In 1989 the USA invested 8.9 thousand million ecus in the Community (according to European sources; American sources put the figure at a mere 4.9 thousand million ecus), as opposed to 1.3 thousand million ecus in 1988. The United States thus invests more than EFTA countries, although the level of EFTA investment is the same as the previous year (8.3 thousand million ecus). The American statistics show that in 1989 the Community attracted 58% of American foreign investment. Japanese investment in the Community also increased, but to a lesser extent, and, according to the Japanese source, it accounted for a mere 21% of total Japanese investments abroad.

**Intra-Community flows 51% up in the space of a year:**

Intra-Community investments continued to make remarkable progress, rising from 12 thousand million ecus in 1987 to 22 thousand million ecus in 1988 and then to 33 thousand million ecus in 1989. They are now on a par with Community investments in the rest of the world, having long been at a lower level. Most of the additional foreign investment made by Community countries in 1989 compared with 1988 was in other Community countries. The impact of the Single Market can thus be discerned both outside and inside the EC, with both Community and non-Community businesses investing very heavily in the EC in 1989.

**Graph 2: Direct investment flows for the Community, the United States and Japan.**



New forms of investment have come into view since the early eighties - mergers and acquisitions of existing enterprises are becoming increasingly important, as are reciprocal acquisitions of holdings. The impact on the economies of both the host and investor countries is not necessarily the same as in the more classic instances of subsidiaries being set up from scratch. The new development of financial holding companies also makes the interpretation of direct investment statistics more problematic, as capital enters and leaves such companies, swelling the capital flows of the host country in both directions thus slightly distorting the real geographical directions of such capital.

**Table 2: Intra-Community direct investment.**

thousand million ecus

Reported by	1985	1986	1987	1988	1989
Investing countries	6.2	11.3	12.4	20.3	34.9
Recipient countries	5.7	9.6	12.0	23.8	31.5
Average	6.0	10.5	12.2	22.0	33.2

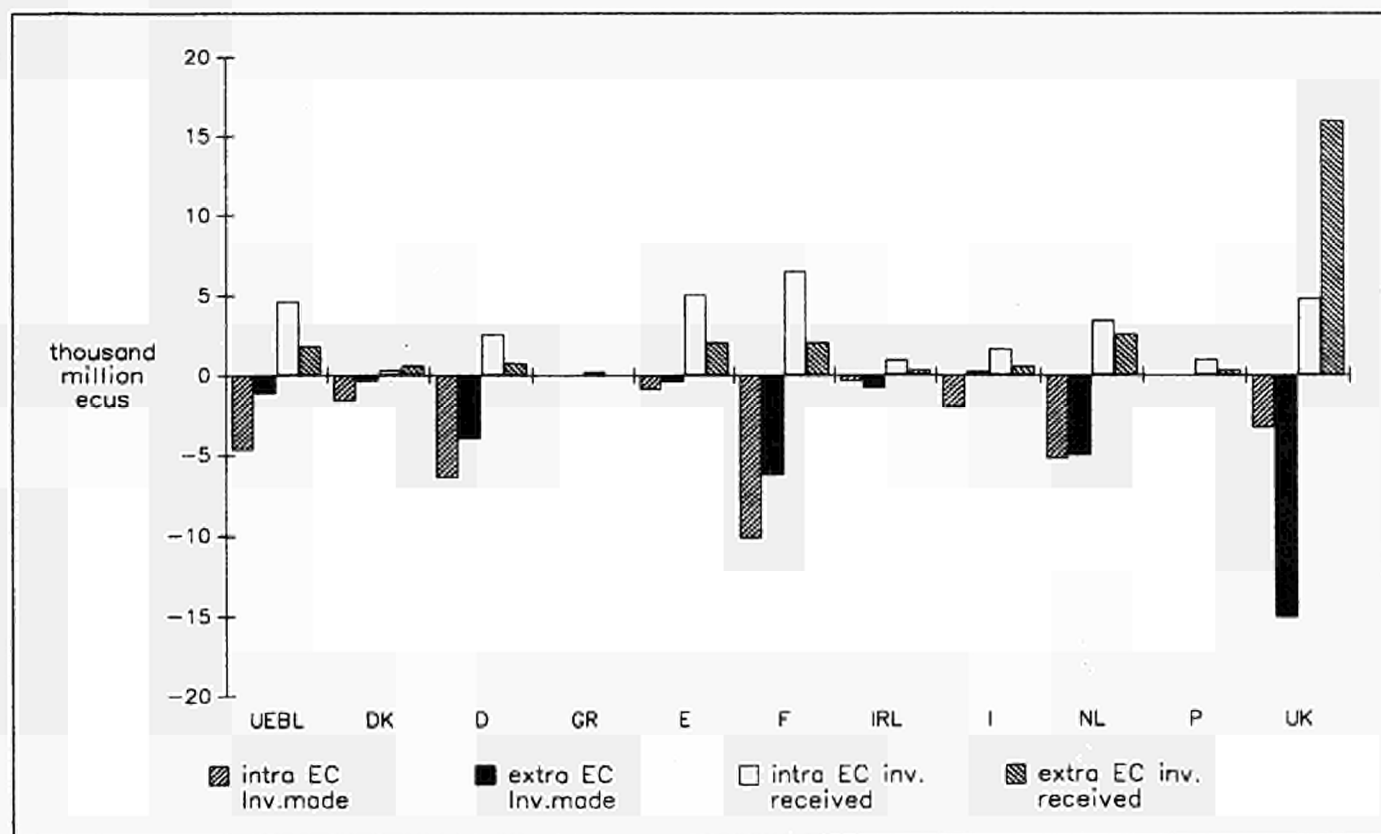
**United Kingdom the main vehicle of Community direct investment flows with the rest of the world:**

Although the relative importance of the United Kingdom (excluding reinvested profits) diminished compared with the previous year in terms of outward foreign investment (falling from 37% to 27% of the EUR 12 total for all intra- and extra-Community investment), its relative importance in terms of inward investment grew (30% in 1988 and 35% in 1989). However, UK investment is unusual in that most of it goes to non-Community countries. Indeed, it is the only Member State whose extra-Community investment is greater than its intra-Community investment. In 1989, 58% of inward direct investment in the Community went to the United Kingdom. We may well wonder what makes this country more attractive than the other Community countries. Historical links may explain the inflow of capital from the United States, Canada or Australia, but they fail to explain why, for example, 44% of capital invested in the Community by the EFTA countries goes to the United Kingdom.

**France in lead position for Intra-Community investment:**

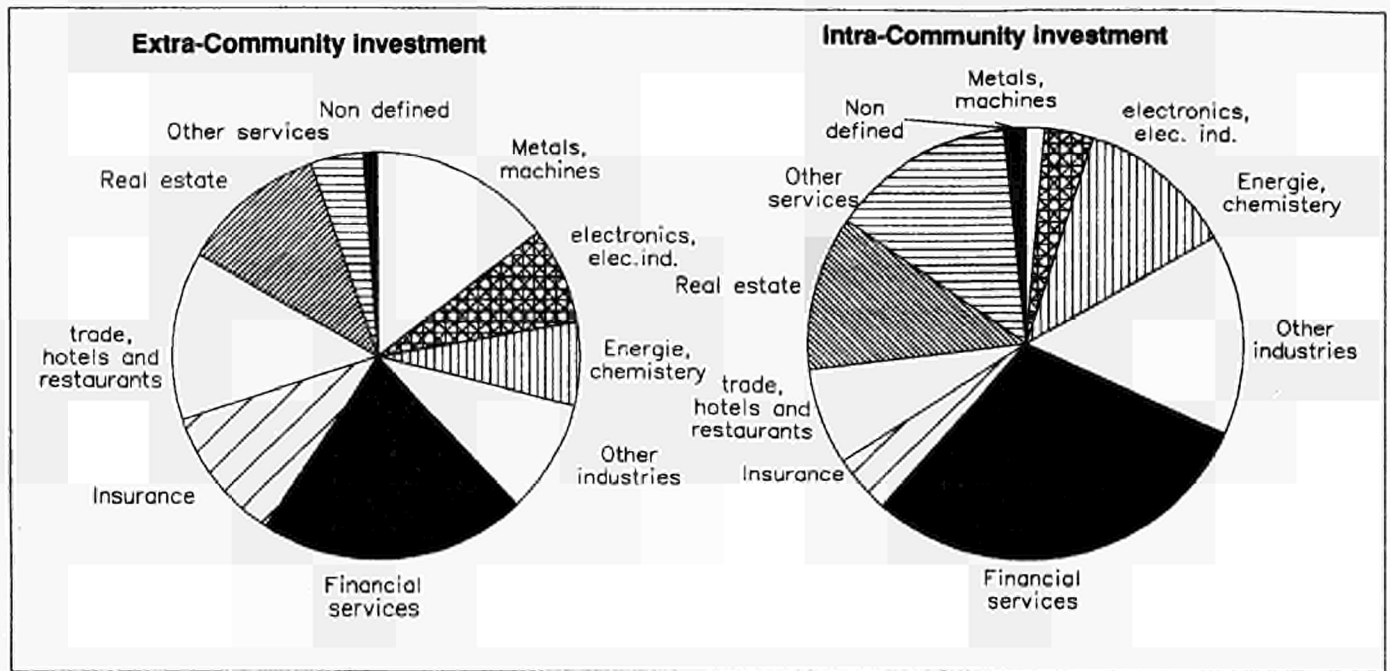
In terms of intra-Community investment, however, the United Kingdom holds a fairly average position, most intra-Community investments going to or coming from France. Among the other Community countries, some are either net investors (Germany, Netherlands), others are net recipients (Spain). The BLEU also records major investment in both directions, despite its less important geographical dimensions. The scale of the graph below obviously does not allow data for the other countries to be read very accurately. Thus, it will be admitted that Denmark is a net exporter of direct investment capital and that the Community countries which have a lower GDP per habitant (Portugal, Greece and Ireland) are net importers. Italian statistics show a sharp fall (of more than 50%) in investment in both directions for 1989. This is the only Community country to show such a trend, the general tendency for all other Member States being an increase of flows in both directions.

**Graph 3: Breakdown of Community investment by Member State.**





**Graph 4: Sectoral breakdown of investments received by the Community.**



**Note:** Sectoral distribution of direct investment is less reliable than geographical distribution because of classification differences between Member States. Nothing will be said about the sectoral breakdown of investment made by the Community, as the criterion for allocating an investment to a sector of activity is not the same for all Member States. This problem does not affect investments received.

**Industrial sectors not very prominent in investments received by the Community:**

39% of total direct investment received by the Community from the rest of the world goes to industry. The figure is as low as 32% for intra-Community investment. The industrial sector's success in attracting capital is thus more or less proportional to its importance in the Community economy. Within the industrial sector, it is primarily the metalworking, mechanical engineering and electronics industries that attract foreign investment. Intra-Community investment seems to be concentrated more on the chemical and food industry sectors (classified with "other industries" in the above pie charts), where the Community is perhaps more competitive. Restructuring needs within the Community in view of the Single Market are also prompting intra-Community mergers and share exchanges in certain sectors.

**Investment in services: financial services predominate**

A considerable portion of the services sector is accounted for by financial services, particularly in intra-Community investments (where they constitute 30% of total investment). Depending on the extent to which such flows are identified by Member States, this sector includes direct investment in financial holding companies, i.e. flows that may subsequently be redistributed in other sectors. For a more detailed analysis, it would be better to refer to the end use of such investments, and thus consult stock statistics. These statistics are not available for the Community as a whole. Apart from the financial services sector, it can be seen that the insurance sector also attracts considerable investment from the rest of the world, and the real estate sector also does very well in both intra-Community and extra-Community terms.

**Methodological note:** It should be noted that these are flows recorded in the balance of payments, and that reinvested profits are excluded for reasons of comparability. Despite corrections and estimates, these statistics on the Community's direct investment are by no means fully harmonized. International trade in capital is recorded differently from one Member State to the next (no uniform definition of direct investment, various ways of collecting information, incompatible classification, etc...) and it has not always been possible to adjust national data as desired, i.e. bring current national concepts into line with the OECD benchmark definition.

**Further information:** European Community direct investment 1985-89 to be published shortly (mid-1992).

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