

EUROPEAN UNION DIRECT INVESTMENT FLOWS IN 1990 AND 1991

Eurostat sets out below the main figures for direct investment flows by and in the European Union in 1990 and 1991 based on balance of payments transactions and excluding reinvested profits. The most remarkable feature in 1990 was the sharp drop in direct investment by the European Union in the rest of the world, with the result that the EU lost its position as a net exporter of direct investment capital. This drop in 1990 resulted from the large-scale disinvestment by British firms in the rest of the world - particularly the USA. A side effect of this was that France took the United Kingdom's place as the EU's main foreign investor in 1990 and 1991. Most foreign EU direct investment still goes to the United States but the EU is forging increasingly close links with its neighbours. Direct investment in the EFTA countries is steadily increasing and investment in the former COMECON countries reached a significant level in 1991. Japan remains very much closed to foreign capital. Since 1990, the EFTA countries have been the main foreign investors in the Union and the larger proportion of foreign direct investment in EU still goes to the United Kingdom. Since 1990, intra-EU investment has been substantially higher than investment by the EU in the rest of the world. Germany, France and the Netherlands are the main investors in the EU, with most of the intra-Union investment going to the United Kingdom, the BLEU and Spain. The services sector still accounts for most of the direct investment transactions - both extra- and intra-EU. Within the services sector, the principal areas for investment from outside or within the EU are credit institutions, distributive trade, hotels and catering, and real estate.

In 1990, the EU became for the first time a net importer of direct investment capital, but re-established its traditional role as exporter in 1991. Direct investment by the EU in the rest of the world dropped from ECU 33 billion in 1989 to ECU 19 billion in 1990 (almost -42%) but rose again to almost ECU 27 billion in 1991 (+39%). Over the same period, investment from abroad first increased from ECU 28 billion in 1989 to ECU 33 billion in 1990 and then fell to around ECU 21 billion in 1991.

Since 1990, direct investment between the Member States of the Union has been higher than investment by the EU in the rest of the world. The average intra-Union direct investment was ECU 39.5 billion in 1990, or ECU 20 billion more than direct investment by the EU in the rest of the world. In 1991 the intra-Union flows, at an average of ECU 33.5 billion, were

still ECU 7 billion higher than the extra-EU flows. The approach of the Single Market continued to mobilise the EU's capital on a massive scale. However, it should be borne in mind that the existence of financial holding companies - which is now public knowledge - tends to artificially inflate the volume of direct investment transactions while changing the actual direction of capital flow.

Germany, France and, to a lesser extent, the Netherlands are major investors in EU. Together, these three countries accounted for an average of 70% of the total intra-EU investment in both 1990 and 1991 (a little over 50% if we disregard the Netherlands). By far the largest part of this total went to the United Kingdom, the BLEU and Spain: together, they received an average of almost 53% of total intra-EU investment in 1990 and 51% in 1991. Spain continues to demonstrate the attractiveness of its market: taking the average of the investment declared by the recipient country and the investment declared by the investing countries, the Member States of the European

Table 1: direct investment flows between the EU and the principal economic areas.



in ECU billion

Direct investment from:			1986	1987	1988	1989	1990	1991
EU	to	USA	17.8	23.9	22.0	23.7	6.3	9.1
USA	to	EU	2.7	1.8	1.3	8.9	9.1	5.4
EU	to	JPN	0.1	0.0	0.2	0.7	0.9	0.4
JPN	to	EU	0.5	1.5	2.2	4.2	4.8	1.7
EU	to	EFTA	-0.2	1.8	2.6	2.4	3.3	2.8
EFTA	to	EU	3.3	3.7	8.4	8.5	11.0	6.8
EU	to	ex-COMECON	0	0	0.1	0.1	0.3	1.3
ex-COMECON	to	EU	0	0	0	0.1	0.3	0.1
EU	to	ACP(*)	0.1	0.2	0.3	0.3	0.2	1.4
ACP(*)	to	EU	0	0.1	0	0	0	0.4
EU	to	World	21.9	30.7	31.6	33.1	19.3	26.8
World	to	EU	7.1	12.2	16.1	27.9	33.2	21.2
USA	to	World	8.8	9.8	3.0	8.4	10.4	7.5
World	to	USA	37.0	39.4	43.9	65.7	48.2	25.5
Japan	to	World	14.7	16.9	28.9	40.1	37.7	24.8
World	to	Japan	0.2	1.0	-0.4	-1.0	1.4	1.1

(*) : ACP excluded OPEC.

NB: a negative figure denotes a net disinvestment

Union invested ECU 5.7 billion in Spain in 1991, compared with ECU 6 billion and ECU 4.2 billion in 1990 and 1989 respectively.

The spectacular drop in direct investment by the EU in the rest of the world in 1990 was due to the United Kingdom's equally drastic reduction of direct investment in the United States. After always being the EU's leading foreign investor, the UK recorded for the first time in 1990 a net disinvestment by British companies in the rest of the world of around ECU 700 million, with a disinvestment in the United States of almost ECU 4 billion. In 1991, the United Kingdom's investment outside the EU increased to a little over ECU 3 billion, 1.2 billion of which went to the United States.

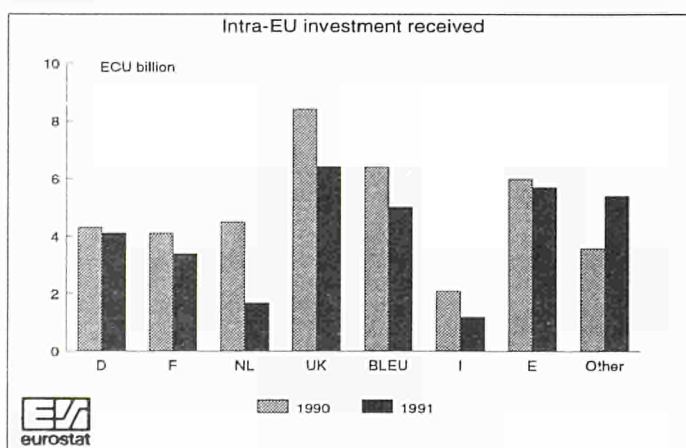
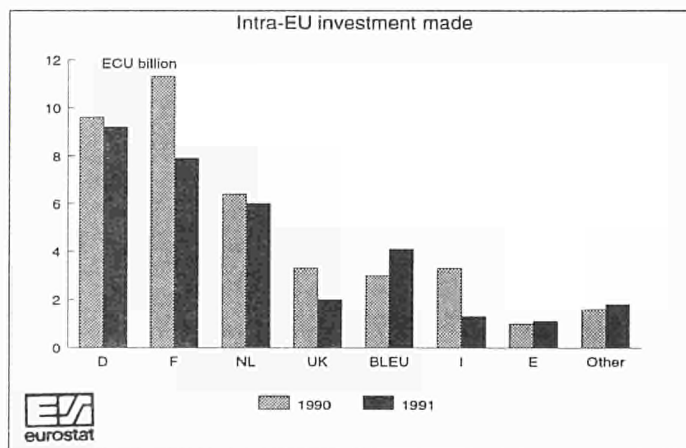
France took advantage of this to become the EU's major direct foreign investor, in both 1990 and 1991. It accounted for over one third (36% to be precise) of external investment by the EU in 1990, and almost 30% in 1991. Over the same period, France and Germany together accounted for two thirds of total investment outside the EU in 1990 and one half in 1991. Together with Italy and the Netherlands, they had a virtual monopoly on outward foreign direct investment: 91% in 1990 and 77% in 1991.

Intra-EU direct investment flows (*).

Total amount (in ECU billion) in :

1986	1987	1988	1989	1990	1991
10.5	12.2	22	33.6	39.5	33.5

(*) Average value of flows from and to the various countries to and from the UE.



In spite of the sharp reduction in investment by the EU in the United States, the American market continued to absorb a third of the EU's foreign direct investment in 1990 and 1991 and remained the major recipient of European capital. Nevertheless, the American market had lost much of its attraction, as can be seen from the fact that, in 1989, 72% of the EU's foreign investment had gone to the United States. Does this mark the start of a redirecting of European capital? It is still too early to answer this question but, although not abandoning the American market, the EU nevertheless appears to be taking an increasing interest in its neighbours, with investment in the EFTA countries increasing by a substantial 38% from ECU 2.4 billion in 1989 to ECU 3.3 billion in 1990. Moves towards integration in the European Economic Area appear to be consolidating, in spite of a slight drop to a little over ECU 2.8 billion in 1991. Moreover, in 1991, direct investment by the EU in the former COMECON countries, which had always been very modest, rose for the first time to over ECU 1 billion (1.4 billion). Direct investment in the ACP countries (excluding OPEC), which had been just as modest, leapt dramatically in 1991 to an unprecedented ECU 1.4 billion. Hitherto the figure had never been higher than ECU 350 million. However, we will have to wait and see whether these trends consolidate before any definite pronouncement can be made concerning the existence of new centres of interest.

Direct investment by the EU in Japan, on the other hand, fell back to a very low level in 1991, after starting to reach a significant level in 1990: a 37% increase from ECU 667 million in 1989 to ECU 914 million in 1990 was followed by a substantial drop to ECU 363 million in 1991. Generally speaking, Japan is still very much closed to foreign capital: the United States declared an investment of ECU 655 million in Japan in 1990, followed by a

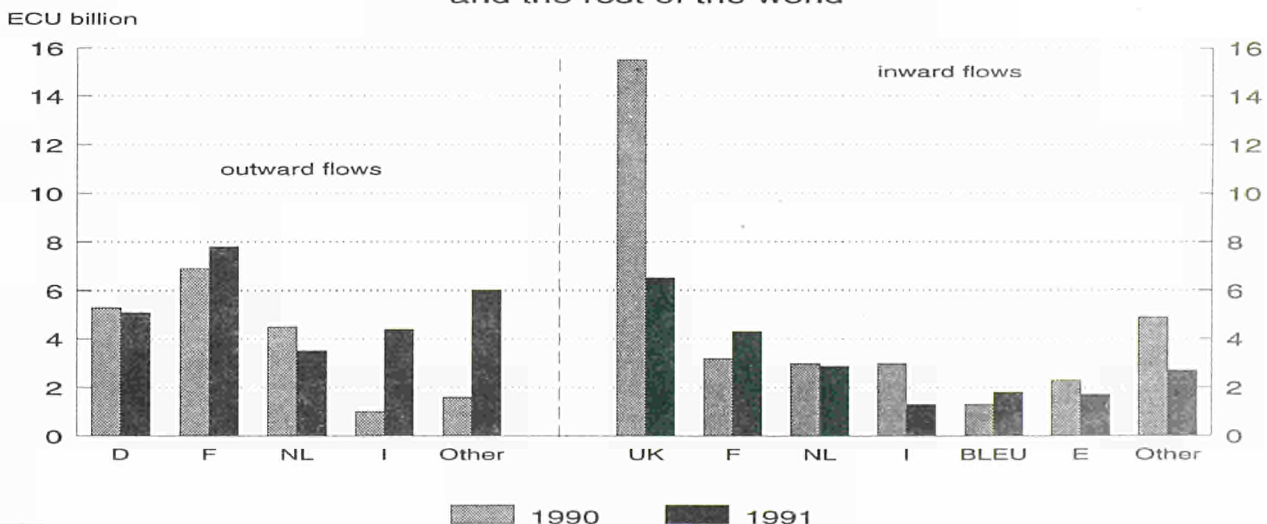
disinvestment of ECU 721 million in 1991. Japanese sources indicate investment from abroad amounting to ECU 1.4 billion in 1990 and ECU 1.1 billion in 1991.

Inward foreign investment continues to be the prerogative of the USA, EFTA and, to a lesser degree, Japan. Together, they accounted for three quarters of total investment by the rest of the world in the EU in 1990, and two thirds in 1991. EFTA is the leading foreign direct investor in the EU with 33% of the total, which confirms the existence of the increasingly close links which have already been observed between it and the EU.

The United Kingdom was still by far the preferred destination for foreign investors in EU in 1990 and 1991: ECU 15 billion was invested in the United Kingdom by the rest of the world in 1990, and around ECU 6.5 billion in 1991. Thus, the United Kingdom alone received almost half of the total foreign investment in 1990 and almost a third in 1991. Only France's share in EU direct investment from the rest of the world raised between 1990 and 1991 - from 10% to 20% (ECU 3.2 billion to ECU 4.3 billion). However, if we disregard the United Kingdom, direct investment in the EU would appear to be slightly less concentrated on a limited number of countries than direct investment by the EU in the rest of the world: over the two years 1990 and 1991 (and even before) France, the Netherlands, Italy and Spain were the main recipients of capital from the rest of the world.

The EU accounted for 45% and 51% respectively of the direct investment received by the United States in 1990 and 1991, according to "Survey of Current Business" sources. Japan's share of foreign investment

Direct investment flows between the EU and the rest of the world



in the USA was 33% in 1990 and 28% in 1991. In all, nearly 80% of direct investment in the USA came from the European Union and Japan. However, Japan appears to have a greater attachment to the American market than the EU: Japanese sources indicate that Japan directly invested almost ECU 38 billion in the rest of the world in 1990 and around ECU 25 billion in 1991. Half of this investment regularly goes to the American market, and around a quarter to the EU (23% and 26% in 1990 and 1991 respectively, to be precise). The advent of the Single Market does not therefore appear to be luring Japan away from the American market.

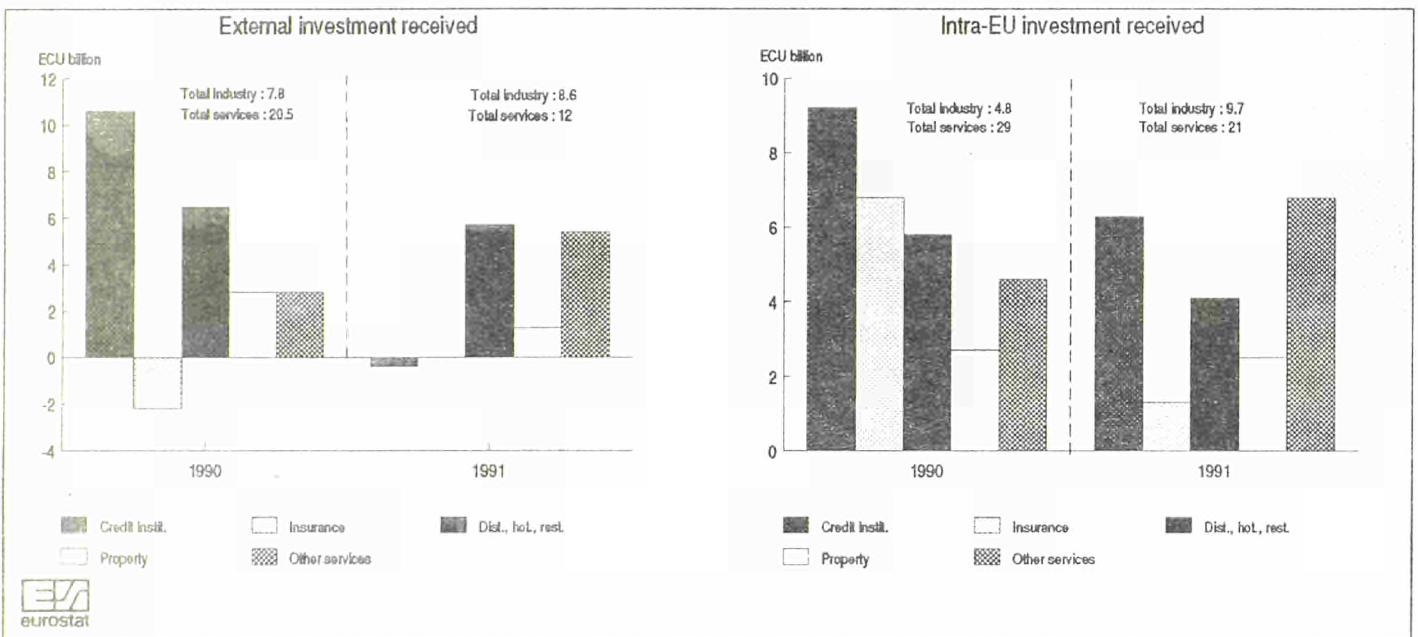
Most international direct investment transactions are in the services sector, which accounted for 60% of total direct investment in the EU from the rest of the world in 1990 and 56% in 1991. In 1990, 32% of investment from abroad went to credit institutions, compared with 20% for distributive trade, hotels and catering. In 1991, however, the distributive trade, hotels and catering sector alone accounted for almost 27% of investment from abroad, or almost half of the total foreign investment in the services sector. It should also be pointed out that, as in the past,

the real estate sector accounted for a not insignificant 9% of foreign investment in 1990 and 6% in 1991. In industry, foreign investors showed a greater interest in the manufacture of transport equipment: 50% of foreign direct investment in industry in the EU went into the manufacture of transport equipment in both 1990 and 1991.

The predominance of the services sector is even more marked in intra-EU transactions, accounting for 85% in 1990 and 67% in 1991. Here too, credit institutions, distributive trade, hotels and catering and real estate together received over 60% of total intra-EU investment in this sector in 1990 and 1991.

Direct investment by Japan in the real estate sector was around the same level as in finance and insurance. According to the Japanese Ministry of Finance, Japan invested ECU 10 billion in the EU in 1990, 2.6 billion of which went into credit and insurance institutions and 2.3 billion into property. In 1991, out of ECU 7 billion, Japan invested ECU 1.6 billion in finance and insurance and ECU 1.3 billion in property in the EU.

Sectoral breakdown of investment received by the EU in the services sector.



Methodological note:

The statistical tables of direct investment flows to and from the European Union do not take account of reinvested profits. Apart from this, there is also the problem of flows with financial holding companies (which are not always recorded as direct investment) and sometimes the inaccurate geographical allocation of certain flows as a result of the very wide range of recording methods used in the various Member States.

Please note that 1 ECU billion = 1 ECU thousand million

Reference publication: Direct investment of the European Community - years 1984-1991

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