

### European Union Direct Investment Inflows

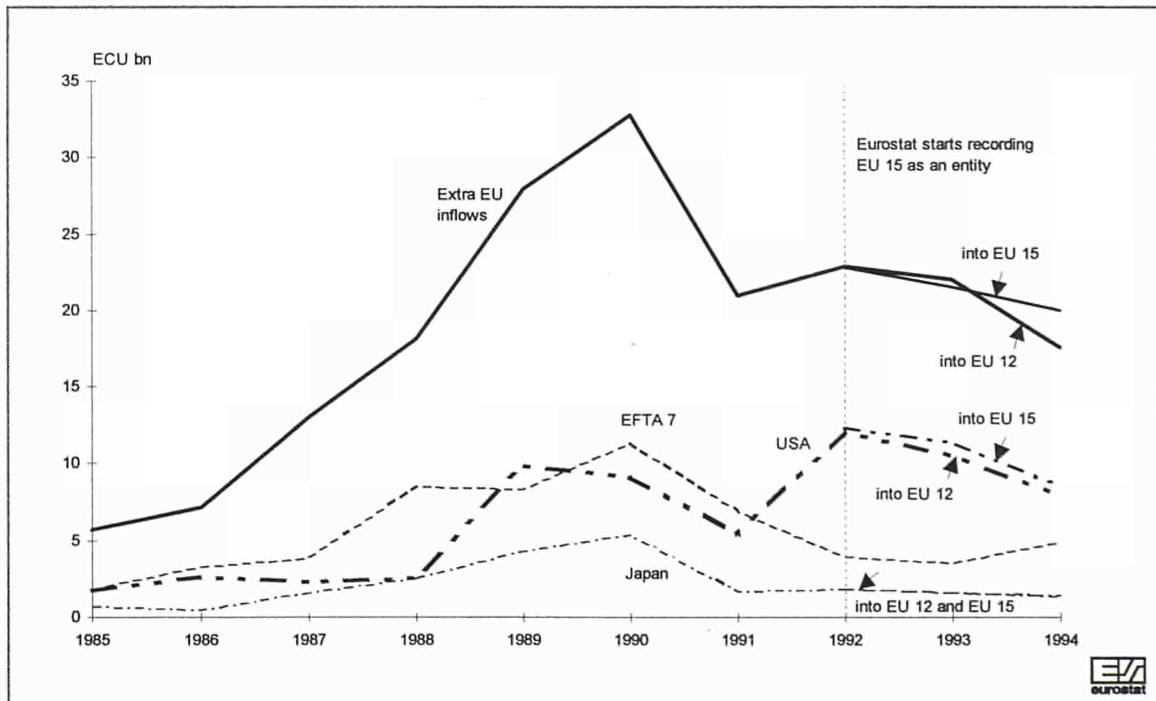
#### EU attracts ECU 20 bn of FDI in 1994

Foreign direct investment (FDI) statistics give information on one of the major aspects of globalisation. FDI (for definition see box on page 2) is a supplement or an alternative to international trade in goods and services. Within the Balance of Payments statistics Eurostat has a FDI data base that comprises harmonised and thus comparable data on inward and outward FDI flows for the European Union, its Member States, the United States and Japan. It gives the geographical breakdown of the three FDI components: equity capital, other capital and reinvested earnings. For the sum of equity and other capital it provides users also with detailed data by sector of activity. Some basic aspects of the currently released European Union Direct Investment Yearbook 1996 are presented hereafter, referring to FDI in equity and other capital.

Figure 1 depicts the scale of foreign direct investment flows originating from outside the European Union into the European Union between 1985 and 1994. In comparison to Extra-EU inflows, the EFTA 7 countries (at the time seven - Austria, Switzerland, Finland, Iceland, Liechtenstein, Norway and Sweden), Japan and the United States are singled out as the major investors.

FDI flows into the European Union sharply increased throughout the latter part of the 1980s.

**Figure 1: Direct investment flows from the rest of the world into the European Union**



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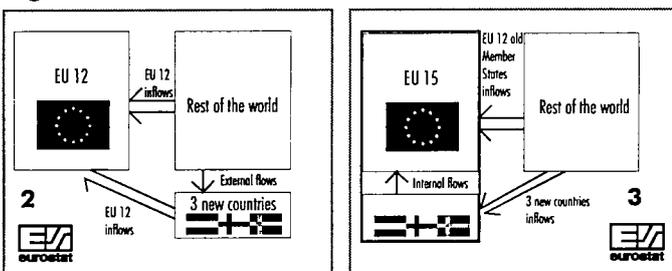
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Extra-EU 12 inflows rose more than sixfold from 1985 to a peak in 1990 with ECU 33 bn. This trend was largely determined by investment flows from the EFTA 7 countries and from the United States. The growth of Japanese direct investment in the European Union was less volatile over the same period, but nevertheless growing more than sevenfold.

In 1991, the trend reversed as Extra-EU 12 inflows as well as EFTA 7, Japan and United States inflows to EU 12 all decreased. This descend continued for EFTA 7 up to 1993. However, in 1992 a strong increase in FDI from the United States stopped the descend of overall Extra-EU 12 inflows. In 1995 three new countries became members of the European Union. EU 15 statistics have been drawn up from 1992 onwards (in addition to EU 12 statistics).

Extra-EU 12 inflows from the three new Member States turned into Intra-EU 15 flows, and flows from the rest of the world into Austria, Finland and Sweden became part of the Extra-EU 15 inflows, as figure 2 and 3 illustrates. Thus the EU 12 attracted more Extra FDI inflows than the EU 15 in 1993: inflows from Austria, Finland and Sweden into the EU 12 were greater than inflows from the rest of the world into the EU 15.

**Figure 2 & 3: Extra-EU 12 and Extra-EU 15 inflows**



Extra-EU direct investment flows into EU 12 and EU 15 slightly decreased between 1993 and 1994, though less pronounced for the enlarged European Union and they seemed to stabilise somewhat over this period.

FDI flows stemming from the United States slightly decreased in 1993 and 1994. Figures 4-6 give a detailed breakdown of suppliers' share of Extra-15 inflows between 1992 and 1994.

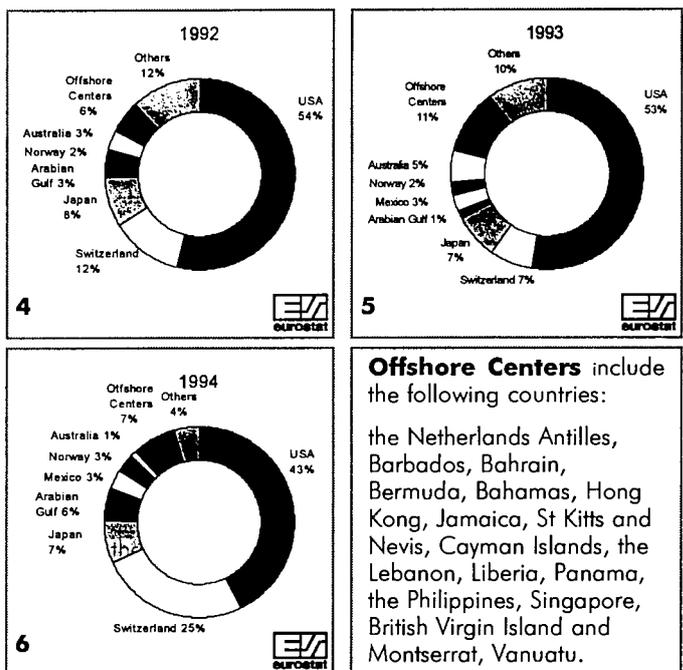
In 1994, the United States, Switzerland and Japan accounted for three quarters of the Extra-EU 15 FDI inflows, compared to 68% in 1993 and 74% in 1992. Behind the United States (with ECU 8,5 bn or 43%), Switzerland was the second biggest foreign direct investor (with ECU 5 bn) in 1994, thereby expanding its share to 25%. By contrast the FDI from Japan remained virtually unchanged in absolute and relative figures.

**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).

Offshore Centers still played a significant role in 1994, accounting for 7% of the Extra-EU 15 inflows, the equivalent of the Japanese direct investment into the EU. These Offshore Centers, mainly financial holding companies, demonstrated a rather strong capacity to export FDI capital.

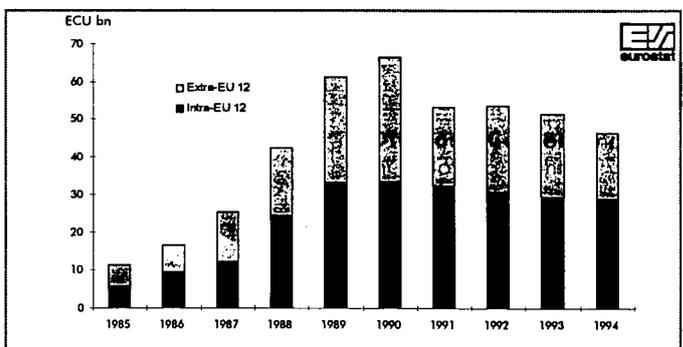
In 1994, the total direct investment made by the Gulf Arabian countries into the EU 15 for the first time exceeded the threshold of ECU 1 bn or 6%, while Mexico invested ECU 613 mio in 1993 and ECU 643 mio in 1994.

**Figure 4-6: Suppliers' share of Extra EU-15 inflows**



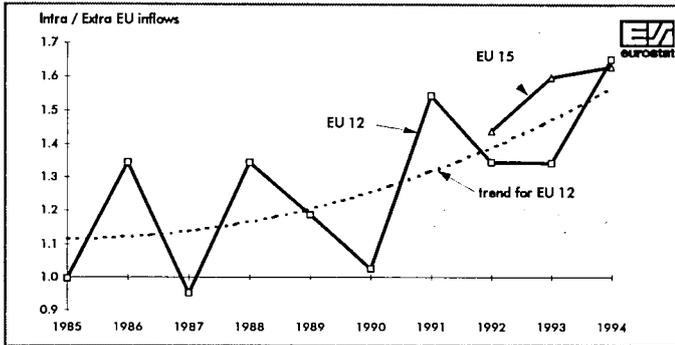
The breakdown of the EU 12 inflows by Extra- and Intra-EU 12 flows (figure 7) exhibits that the upturn in the second half of the eighties was driven by both components to a comparable size. By contrast, the 1991 downturn and the further reductions of total inward FDI in 1993 and 1994 was predominantly due to the Extra-EU 12 component, since Intra-EU 12 inflows decreased shallowly.

**Figure 7: Extra- and Intra-EU 12 inflows**



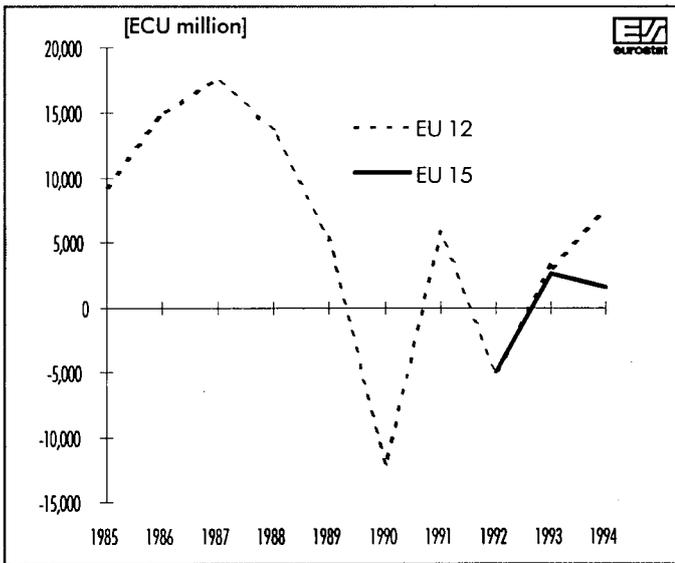
The ratio between Intra-EU and Extra-EU inflows (figure 8) gives a condensed information on this trend, that consists in an increased relative importance of Intra-EU in the total FDI inflows. The ratio for EU 12 depicts a reduced volatility between 1992 and 1994 that is even less marked if the ratio for EU 15 is taken into account. In 1994 the EU 12 and the EU 15 ratio are fairly close, with 1.65 ECU stemming from Intra-EU inflows for each ECU inflow from outside the Union.

**Figure 8: Intra inflows divided by Extra inflows**



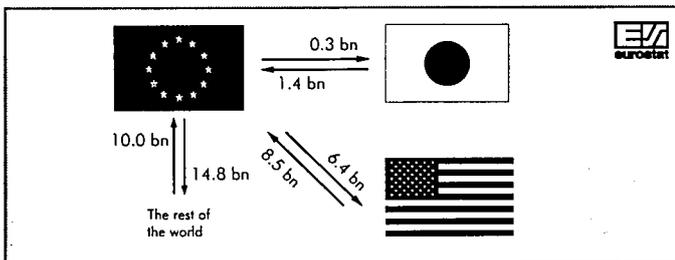
EU 12 has been a net exporter with the rest of the world the last ten recorded years, as figure 9 shows, with EU 12 outflows exceeding EU 12 inflows, except for 1990 and 1992 when the EU 12 was a net importer. There is a trend to more balanced flows. In 1994 the net export for EU 12 amounts to 7.5 bn. In 1992 and 1993 the three new Members States gave no significant difference in EU 12 or EU 15 net flows. However in 1994 a difference of +5.9 bn between EU 12 and EU 15 net flows was recorded.

**Figure 9: EU 12 and EU 15 net flows**



In 1994, the EU 15 was a net exporter of 1.6 bn of equity capital plus other capital (21.6 bn outflows minus 20.0 bn inflows). This was the result of a net import from the United States (2.1 bn) and Japan (1.1 bn) and a net export to the rest of the world (4.8 bn) as figure 10 shows.

**Figure 10: EU 15 outward and inward direct investment flows (ECU) by partners in 1994**



In 1994, the top three net direct investment exporters (total outward minus total inward investment) were the Netherlands, Germany and the United Kingdom, figure 11 shows on the left side. By contrast the top three net importers of inward direct investment were Belgium Luxembourg, Spain and Sweden, figure 11 shows on the right side.

**Figure 11: Member States net flows in 1994**

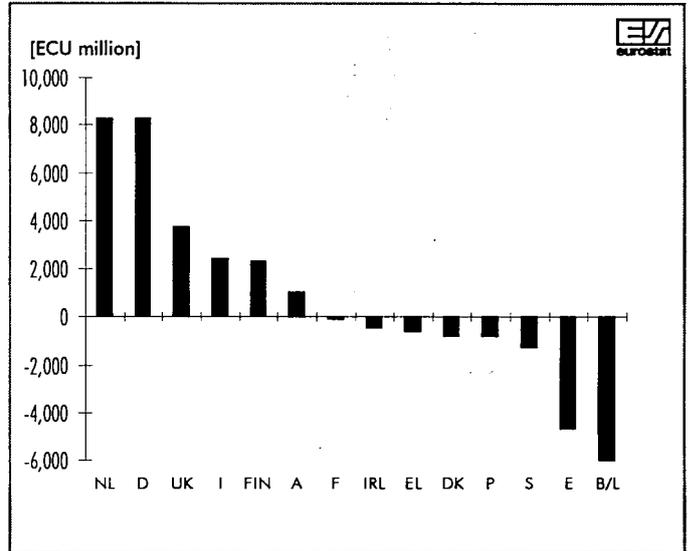
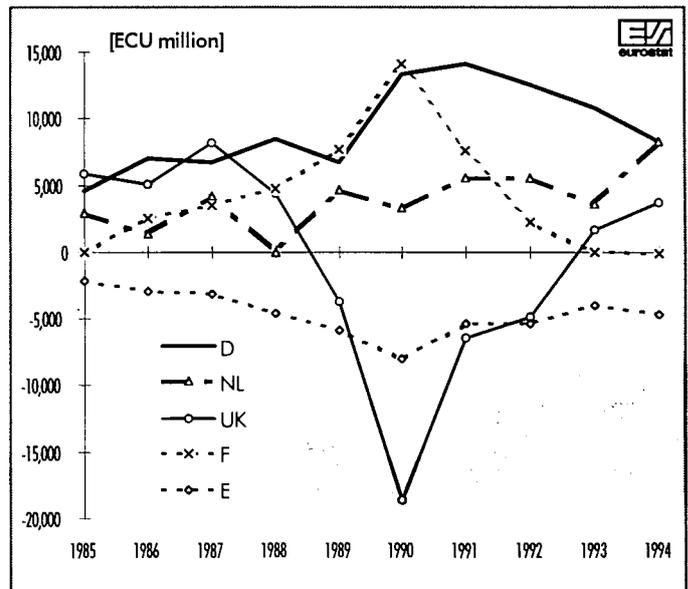


Figure 12 below shows that Germany was a net exporter for the ten last recorded years, as Spain was a net importer.

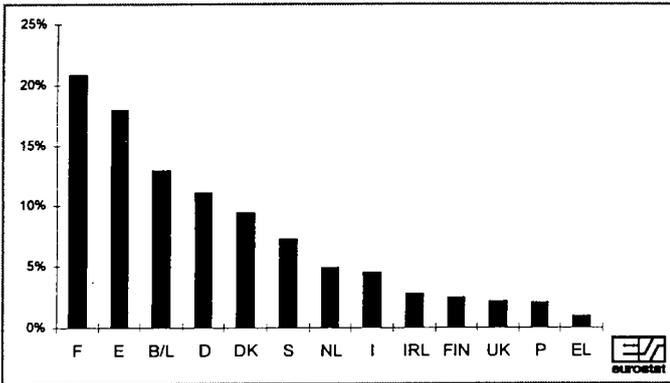
While France topped as a net exporter in 1990, United Kingdom topped as a net importer. Both their flows have become more balanced thereafter.

**Figure 12: Member States net flows 1985 - 94**



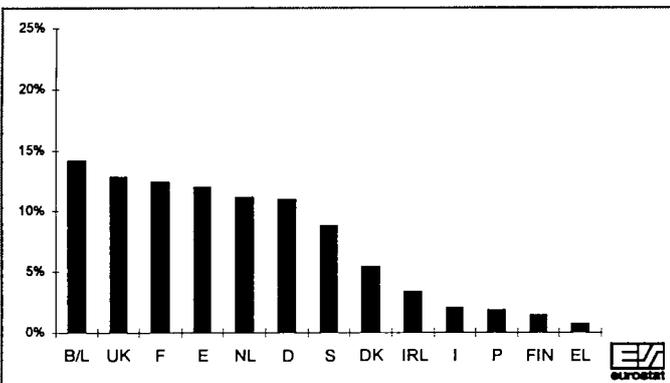
A breakdown of the Intra-EU FDI flows reveals that France and Spain were the two biggest receivers (as figure 13 shows), attracting together one third of the total EU flows. Belgium Luxembourg, Germany and Denmark together hosted another third.

**Figure 13: Intra-EU inward FDI flows**  
Member States' share of the total EU in % in 1994



By contrast (as shown in figure 14), Belgium Luxembourg and the United Kingdom recorded the biggest shares of Extra-EU FDI inflows (together roughly a fourth). They were followed by a group of four countries, namely the France, Spain, the Netherlands and Germany, hosting slightly more than 10 % each.

**Figure 14: Extra-EU inward FDI flows**  
Member States' share of the total EU in % in 1994

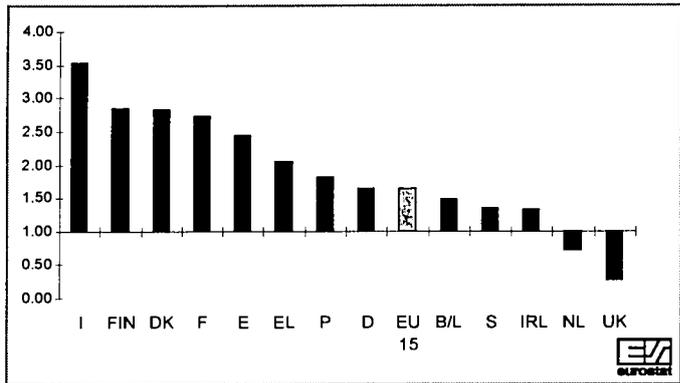


Italy recorded the highest ratio of Intra- versus Extra-EU FDI inflows, as figure 15 reveals, with Intra-EU inflows about three and a half times the Extra flows. On the other hand, the United Kingdom Intra inflows represent merely one fourth of Extra inflows. The United Kingdom and the Netherlands are the only two Member States whose Extra inflows exceeded the Intra inflows in 1994. Taking the EUs ratio as a benchmark there are three other cases (Belgium Luxembourg, Sweden and Ireland) where Extra-EU inflows are of relatively higher importance.

**Table 1: Member States' declarations of inward FDI flows in 1994**

	[ECU mio]	From EU	From the rest	[%]	From EU	From the rest	Ratio of
	Total world	countries (intra flows)	of the world (extra flows)		Total world	countries (intra flows)	
Belgium Luxembourg	7 014	4 185	2 830	13.4%	12.9%	14.2%	1.48
Denmark	4 130	3 053	1 076	7.9%	9.4%	5.4%	2.84
Germany	5 780	3 594	2 186	11.0%	11.0%	10.9%	1.64
Greece	453	305	149	0.9%	0.9%	0.7%	2.05
Spain	8 244	5 848	2 397	15.7%	18.0%	12.0%	2.44
France	9 262	6 784	2 478	17.6%	20.8%	12.4%	2.74
Ireland	1 578	902	676	3.0%	2.8%	3.4%	1.33
Italy	1 883	1 467	416	3.6%	4.5%	2.1%	3.53
Netherlands	3 848	1 616	2 232	7.3%	5.0%	11.2%	0.72
Austria	:	:	:	:	:	:	:
Portugal	1 057	681	376	2.0%	2.1%	1.9%	1.81
Finland	1 099	813	286	2.1%	2.5%	1.4%	2.84
Sweden	4 136	2 377	1 760	7.9%	7.3%	8.8%	1.35
United Kingdom	3 258	696	2 562	6.2%	2.1%	12.8%	0.27
Not allocated	766	223	540	1.5%	0.7%	2.7%	:
EU 15	52 508	32 544	19 964	100.0%	100.0%	100.0%	1.63

**Figure 15: Ratio of Intra- vs. Extra-EU FDI inflows in 1994**



**Direct investment inflows** are recorded depending on the status of the transactor. All the flows between an affiliate or a subsidiary based in the declaring Member State and its parent company located in another country have to be recorded under the IMF Balance of Payments item "direct investment in the reporting economy" or "inward direct investment". It is very common to use the expression inflow (when money enters the declaring country). But this expression does not strictly correspond to the BOP definition of inward direct investment. For example, a reverse loan made by a foreign affiliate towards its parent company based in the declaring Member State is commonly considered as an inflow, but should be recorded under the "outward direct investment" item according to the IMF definition (i.e. this "reverse loan" implies a decrease of the external direct investment assets held abroad by the Member State).

Please note that in this report the use of the current expression inflows will refer only to the "inward direct investment flows" item defined in the IMF 5th manual.

This edition of Statistics in Focus is based on the European Union Direct Investment Yearbook 1996, which was compiled by the direct investment team at the Balance of Payments Unit at the Statistical Office of the European Communities (Eurostat).

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