



# Statistics in focus

## ECONOMY AND FINANCE

THEME 2 – 12/2003

### BALANCE OF PAYMENTS

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# Fall in FDI in 2001: EU-15 as main actor

*FDI detailed results 1995-2001*

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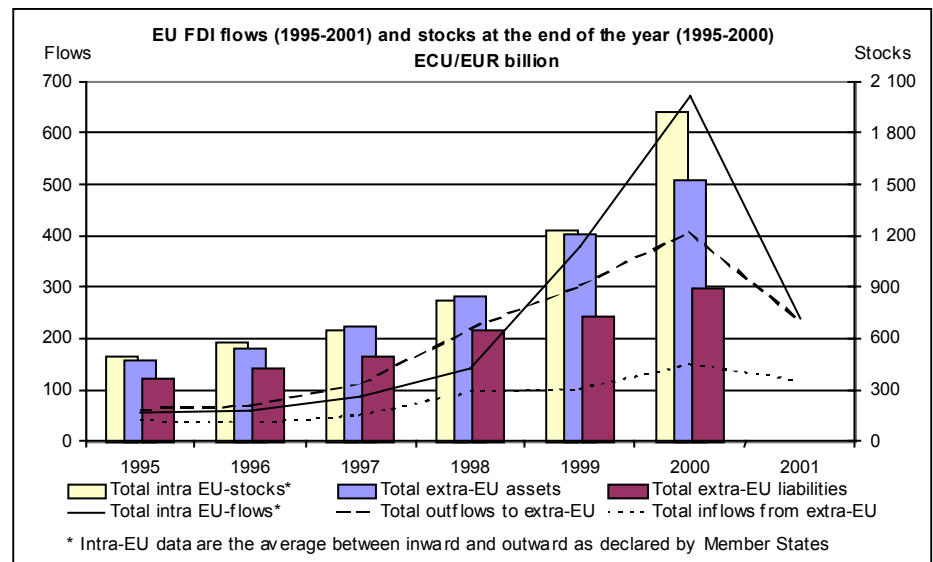
Foreign Direct investment (FDI) statistics give information on one of the major aspects of globalisation. FDI reflects the objective of obtaining a lasting interest by a resident entity in one economy in an entity resident in an economy other than that of the investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise, and a significant degree of influence on the management of the enterprise. Eurostat maintains an FDI database, which contains harmonised and thus comparable data on inward and outward FDI positions, flows and income for the European Union (EU), its Member States (MS) and major FDI partners.

After the first results (preliminary data available in July and presented in a recent publication<sup>1</sup>), the aim of this article is to present more detailed and revised data of EU FDI (available since the end of October 2002 in New Cronos). In this way, we are able to establish, for instance, the evolution of FDI flows, stocks<sup>2</sup> and income; geographical and sectoral breakdowns, components and return rate of FDI.

### FDI flows in 2001: radical inversion of trend

In the context of a world economic slowdown, and according to the latest figures of UNCTAD<sup>3</sup>, world FDI fell by more than 50% in 2001. It was the first drop since the beginning of the 90's, and the largest in three decades.

This global situation was strongly influenced by EU-15 behaviour. Indeed, intra-EU FDI flows, which followed a continuous growth since 1993 to reach EUR 673.5 bn in 2000 (7.9% of EU GDP), decreased by around 64% in 2001 (2.7% of GDP).



With EUR 235 bn (2.7% of GDP and 33.9% of world FDI outflows), EU outflows to extra-EU countries were 42.6% lower than in 2000. Finally, EU inflows from extra-EU-15 countries decreased by 21.2% to reach EUR 118.5 bn (1.3% of GDP and 14.4% of world FDI). Despite this situation, the EU preserved its role as a net investor in the rest of the world (approximately EUR 116 bn in 2001, or 1.3% of GDP).

<sup>1</sup> "EU FDI with extra-EU down by nearly 40% in 2001 – First results FDI 2001", Eurostat, *Statistics in focus, Economy and Finance, Theme 2 – 30/2002*.

<sup>2</sup> Note that FDI flows data are available for year  $t$  with a lag of six months whereas FDI stocks data are available for the same year  $t$  with a lag of 18 months.

<sup>3</sup> "World Investment Report 2002: Transnational Corporations and Export Competitiveness", UNCTAD, New York and Geneva, 2002.

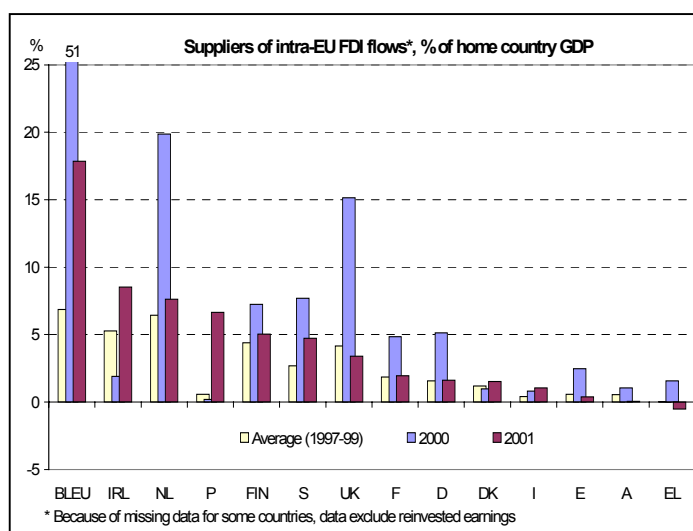
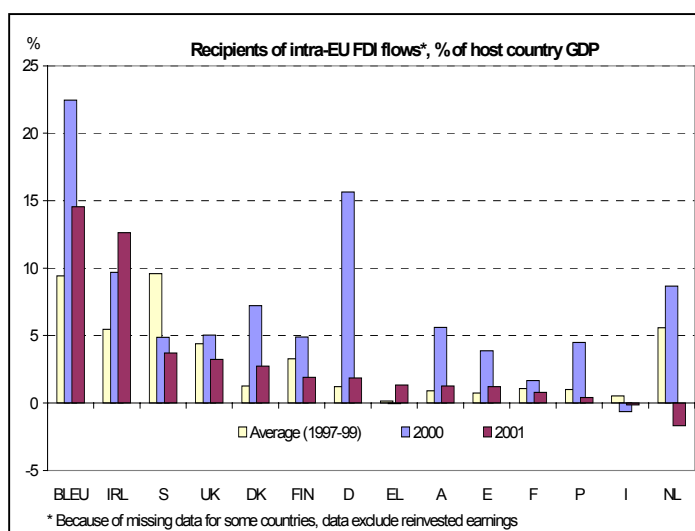
Concerning stocks, intra-EU FDI almost quadrupled in six years (from ECU/EUR 500 bn in 1995 to EUR 1 924 bn in 2000), and showed a strong growth (56%) between 1999 and 2000 (22.5% of GDP in 2000). The same evolution can be noted for EU FDI assets and liabilities vis-à-vis extra-EU: respectively growth of 25% and 21% between 1999 and 2000. Finally, the EU was a net creditor with more than EUR 625 bn in 2000.

### EU FDI outflows and inflows in 2001 declined more in intra- than in extra-EU-15 countries

The strongest fall in EU FDI outflows concerned intra-EU FDI (-68% between 2000 and 2001), with Germany principally affected (-88% in 2001). A principal cause of this was Vodafone's acquisition of Mannesmann (EUR 187 bn) which strongly boosted intra-EU FDI flows in 2000. BLEU<sup>4</sup>, the United Kingdom and France fell less sharply at -27%, -35% and -42% respectively. The share of extra-EU in total EU outflows progressed from 40% in 2000 to 54% in 2001, whereas that of intra-EU FDI went down from respectively 60% to 46%. North America fell by almost EUR 100 bn, but still accounted for more than half of total extra-EU FDI. Only flows to Africa increased from EUR 5.8 bn to EUR 11.3 bn.

#### Geographical distribution of EU-15 outward investment flows (ECU/EUR billion, % of world or extra-EU-15)

	1995		1998		1999		2000		2001	
	ECU	%	ECU	%	EUR	%	EUR	%	EUR	%
<b>World</b>	<b>124.1</b>		<b>368.2</b>		<b>681.8</b>		<b>1 028.2</b>		<b>432.2</b>	
<b>Intra-EU-15</b>	<b>61.8</b>	<b>49.8</b>	<b>149.4</b>	<b>40.6</b>	<b>379.4</b>	<b>55.7</b>	<b>619.2</b>	<b>60.2</b>	<b>197.4</b>	<b>45.7</b>
<b>Extra-EU-15 of which:</b>	<b>62.4</b>	<b>50.3</b>	<b>218.8</b>	<b>59.4</b>	<b>302.4</b>	<b>44.3</b>	<b>408.9</b>	<b>39.8</b>	<b>234.8</b>	<b>54.3</b>
OECD (non-EU-15)	48.1	77.1	172.9	79.0	233.6	77.3	339.3	83.0	178.8	76.1
<i>EFTA</i>	<b>3.4</b>	<b>5.4</b>	<b>24.0</b>	<b>11.0</b>	<b>14.3</b>	<b>4.7</b>	<b>69.8</b>	<b>17.1</b>	<b>20.8</b>	<b>8.9</b>
<i>Other Europe of which:</i>	<b>6.8</b>	<b>10.9</b>	<b>17.2</b>	<b>7.9</b>	<b>23.2</b>	<b>7.7</b>	<b>31.3</b>	<b>7.7</b>	<b>22.3</b>	<b>9.5</b>
Candidate Countries	6.1	9.8	11.4	5.2	13.5	4.5	20.6	5.0	16.9	7.2
<i>Africa</i>	<b>1.5</b>	<b>2.5</b>	<b>3.5</b>	<b>1.6</b>	<b>4.2</b>	<b>1.4</b>	<b>5.8</b>	<b>1.4</b>	<b>11.3</b>	<b>4.8</b>
<i>North America of which:</i>	<b>34.7</b>	<b>55.5</b>	<b>133.3</b>	<b>60.9</b>	<b>191.2</b>	<b>63.2</b>	<b>225.5</b>	<b>55.1</b>	<b>127.6</b>	<b>54.4</b>
USA	33.1	53.1	128.7	58.8	187.7	62.1	186.4	45.6	107.9	46.0
Canada	1.5	2.4	4.6	2.1	3.6	1.2	39.2	9.6	19.7	8.4
<i>Central America</i>	<b>2.6</b>	<b>4.2</b>	<b>5.9</b>	<b>2.7</b>	<b>7.3</b>	<b>2.4</b>	<b>18.1</b>	<b>4.4</b>	<b>14.4</b>	<b>6.1</b>
<i>South America</i>	<b>2.5</b>	<b>4.0</b>	<b>23.5</b>	<b>10.8</b>	<b>34.7</b>	<b>11.5</b>	<b>28.9</b>	<b>7.1</b>	<b>18.8</b>	<b>8.0</b>
<i>Asia of which:</i>	<b>6.9</b>	<b>11.0</b>	<b>9.9</b>	<b>4.5</b>	<b>25.4</b>	<b>8.4</b>	<b>20.9</b>	<b>5.1</b>	<b>19.8</b>	<b>8.4</b>
Near & Middle East	0.2	0.3	3.3	1.5	-0.9	-0.3	1.1	0.3	1.0	0.4
Other Asia of which:	<b>6.7</b>	<b>10.8</b>	<b>6.6</b>	<b>3.0</b>	<b>26.2</b>	<b>8.7</b>	<b>19.8</b>	<b>4.8</b>	<b>18.8</b>	<b>8.0</b>
Japan	1.4	2.2	0.7	0.3	8.7	2.9	8.0	2.0	10.2	4.4
<i>Oceania</i>	<b>3.8</b>	<b>6.1</b>	<b>1.0</b>	<b>0.5</b>	<b>2.3</b>	<b>0.7</b>	<b>9.7</b>	<b>2.4</b>	<b>-0.2</b>	<b>-0.1</b>



The largest recipients (as % of GDP) from intra-EU FDI were BLEU and Ireland with respectively 14.6% and 12.6%, with all other Member States garnering under 5%. The main change compared with 2000 was the decrease in the ratio, notably for BLEU, Germany and the Netherlands. The same evolution can be noted for the main suppliers: BLEU ranked highest with 17.8% of GDP, followed by Ireland, the Netherlands, Portugal and Finland (all greater than 5%). The main falls between 2000 and 2001 were recorded by BLEU (51% to 18%), the Netherlands and the United Kingdom. In value terms, FDI from BLEU, Germany and the United Kingdom to EU-15 countries fell by 71.5%.

<sup>4</sup> Belgium-Luxembourg Economic Union.

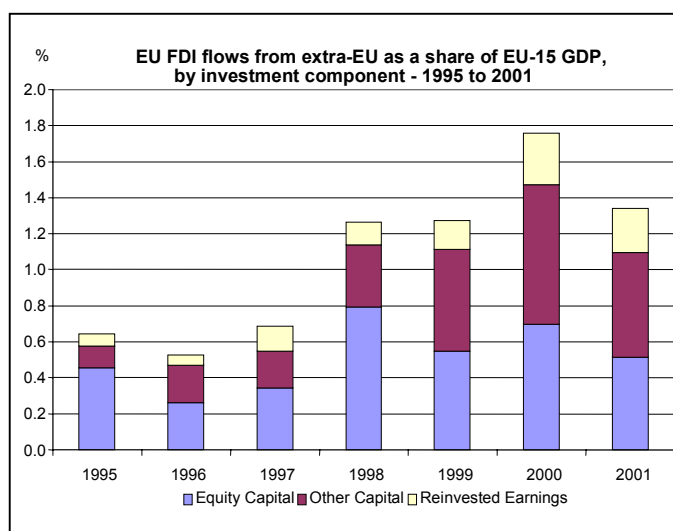
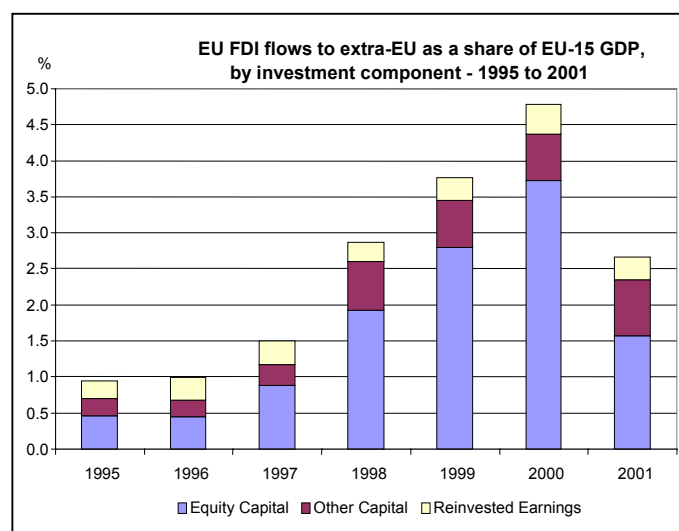
**Geographical distribution of EU-15 inward investment flows  
(ECU/EUR billion, % of world or extra-EU-15)**

	1995		1998		1999		2000		2001	
	ECU	%	ECU	%	EUR	%	EUR	%	EUR	%
<b>World</b>	<b>88.4</b>		<b>232.3</b>		<b>478.1</b>		<b>878.2</b>		<b>403.8</b>	
<b>Intra-EU-15</b>	<b>46.4</b>	<b>52.5</b>	<b>135.8</b>	<b>58.5</b>	<b>376.0</b>	<b>78.6</b>	<b>727.8</b>	<b>82.9</b>	<b>285.4</b>	<b>70.7</b>
<b>Extra-EU-15 of which:</b>	<b>42.5</b>	<b>48.0</b>	<b>96.4</b>	<b>41.5</b>	<b>102.1</b>	<b>21.4</b>	<b>150.4</b>	<b>17.1</b>	<b>118.5</b>	<b>29.3</b>
OECD (non-EU-15)	37.7	88.8	87.2	90.4	83.5	81.7	125.6	83.5	99.3	83.8
<b>EFTA</b>	<b>7.8</b>	<b>18.5</b>	<b>18.8</b>	<b>19.5</b>	<b>7.9</b>	<b>7.8</b>	<b>20.1</b>	<b>13.3</b>	<b>-1.0</b>	<b>-0.8</b>
<b>Other Europe of which:</b>	<b>0.4</b>	<b>0.8</b>	<b>1.0</b>	<b>1.0</b>	<b>10.5</b>	<b>10.3</b>	<b>3.7</b>	<b>2.4</b>	<b>8.5</b>	<b>7.2</b>
Candidate Countries	0.2	0.5	0.5	0.5	0.6	0.6	1.7	1.1	2.1	1.8
<b>Africa</b>	<b>0.4</b>	<b>0.9</b>	<b>0.8</b>	<b>0.9</b>	<b>0.0</b>	<b>0.0</b>	<b>1.3</b>	<b>0.8</b>	<b>1.7</b>	<b>1.4</b>
<b>North America of which:</b>	<b>29.5</b>	<b>69.5</b>	<b>63.9</b>	<b>66.2</b>	<b>77.2</b>	<b>75.6</b>	<b>91.9</b>	<b>61.1</b>	<b>91.2</b>	<b>77.0</b>
USA	28.8	67.7	54.9	57.0	75.1	73.5	76.0	50.5	82.1	69.3
Canada	0.7	1.7	9.0	9.3	2.1	2.1	15.9	10.6	9.0	7.6
<b>Central America</b>	<b>3.2</b>	<b>7.6</b>	<b>5.9</b>	<b>6.1</b>	<b>8.1</b>	<b>8.0</b>	<b>8.9</b>	<b>5.9</b>	<b>6.1</b>	<b>5.2</b>
<b>South America</b>	<b>-0.1</b>	<b>-0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.5</b>	<b>0.3</b>	<b>0.7</b>	<b>0.6</b>
<b>Asia of which:</b>	<b>1.9</b>	<b>4.4</b>	<b>3.2</b>	<b>3.3</b>	<b>1.7</b>	<b>1.7</b>	<b>17.9</b>	<b>11.9</b>	<b>13.5</b>	<b>11.4</b>
Near & Middle East	0.3	0.7	0.6	0.6	1.5	1.4	1.8	1.2	2.0	1.7
<b>Other Asia of which:</b>	<b>1.6</b>	<b>3.8</b>	<b>2.6</b>	<b>2.7</b>	<b>0.3</b>	<b>0.2</b>	<b>16.0</b>	<b>10.7</b>	<b>11.5</b>	<b>9.7</b>
Japan	1.0	2.4	2.1	2.2	-2.6	-2.6	10.4	6.9	3.9	3.3
<b>Oceania</b>	<b>-0.8</b>	<b>-1.8</b>	<b>1.3</b>	<b>1.3</b>	<b>0.4</b>	<b>0.4</b>	<b>2.6</b>	<b>1.7</b>	<b>4.6</b>	<b>3.9</b>

Inflows from extra-EU decreased (-21.2%), but definitely less than intra-EU inflows. This is principally explained by the disinvestment of EFTA in 2001 compared to EUR 20 bn inflows in 2000. Inflows from North America remained stable between 2000 and 2001 with around EUR 91 bn, but its share in extra-EU-15 inward flows went steeply upwards (from 61% to 77%). The share of Other Europe, Africa, Oceania and South America strongly increased between 2000 and 2001 to reach 13.1% of extra-EU-15 flows into the EU-15.

### Contraction of investments in equity capital

The fall in EU-15 FDI towards third countries in 2001 was mainly due to the strong decrease in investment in 'equity capital', causing it to contract from 3.7% in 2000 to 1.6% of GDP in 2001. One explanation can be found in the decrease in the number and the amount of mega-mergers, compared to 2000.

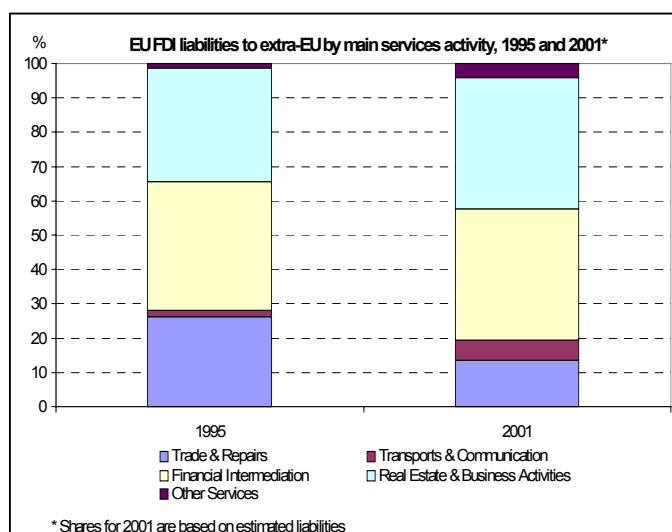
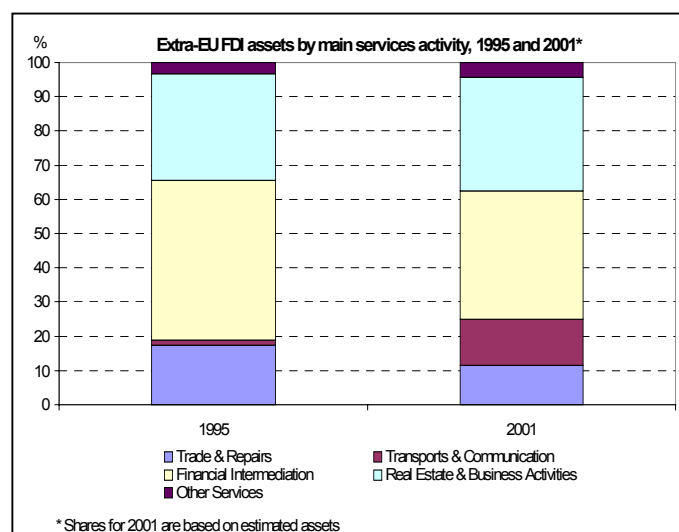
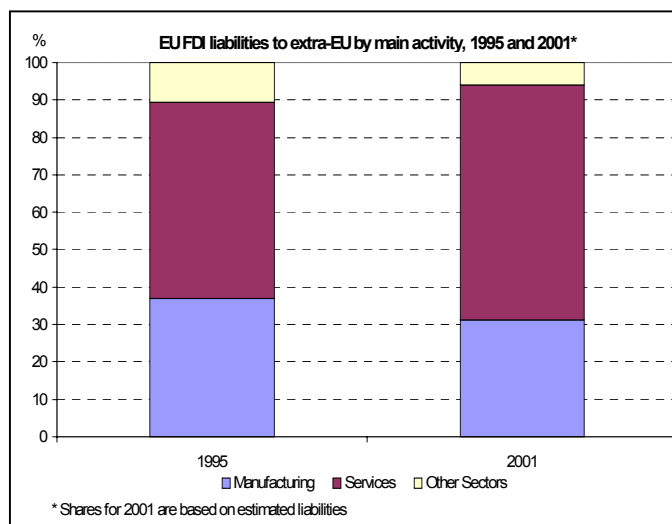
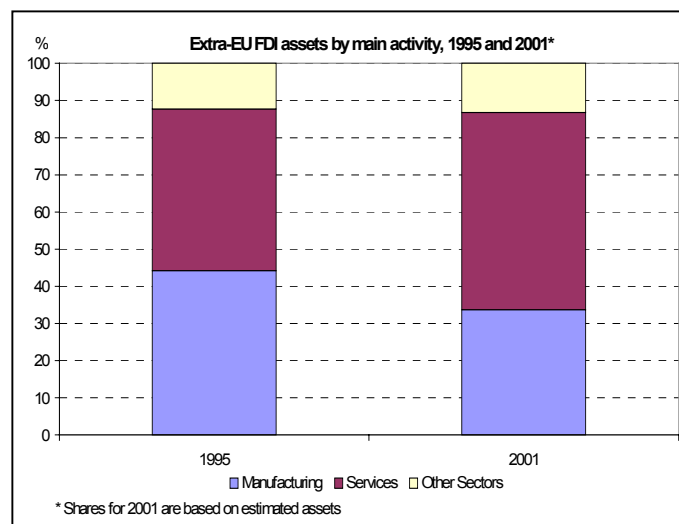


The share of 'other capital', which decreased from 26% to 13% between 1995 and 2000, rebounded in 2001 to 29% (0.8% of GDP). Finally, the ratio of 'reinvested earnings' remained stable (between 0.3% and 0.4% of GDP).

The composition of inward investments in the EU-15 was relatively different from that of its outward investments. 'Equity capital' accounted for a minor share (both in value and as a % of GDP) since 1999, amounting to 40%, with a regular downward trend reaching 38% in 2001 (0.5% of GDP). On the other hand, the share of 'other capital' remained, since 1998, stable at 44% and represented 0.5% of GDP in 2001. The share of 'reinvested earnings' represented 18% of total extra-EU FDI in 2001 with an upward trend.

## Activity breakdown: predominance of services

Since 1995, there was a regular erosion of the manufacturing share of outward EU FDI flows (from 42.5% in 1995 to 20.1% in 2000), despite an increase of ECU/EUR 19.6 bn to EUR 75.2 bn over the same period. Since 1999, many large-scale mergers significantly altered this trend: transport and telecommunication activity accounted for 31.3% in 1999, against 2.6% in 1998, following an operation between Airtouch and Vodafone. In 2000, a third of total extra-EU FDI was devoted to financial intermediation. In 2001, jointly with the decline in FDI, the share of the manufacturing sector (30%) rose for the first time since 1995. Concerning inward EU-15 FDI, and until 1999, the share of the manufacturing sector represented between 20% and 30% of inward EU-FDI. In 2001, this share fell to 5%, whereas that of financial intermediation reached 48%.



In terms of stocks, the variation in shares of each activity was relatively marked. From 1995 to 2001, the manufacturing sector regularly declined while services activity rose, both for inward and outward EU FDI. Indeed, the share of extra-EU FDI assets in manufacturing fell from 44% to 34% between 1995 and 2001, whereas that in services rose from 44% to 53%. The scheme is identical on the asset side for manufacturing, but less marked on the liability side.

'Financial intermediation', 'real estate and business activities', and 'trade and repairs' represented together between 81% and 97% of total assets and liabilities of service activities. Interest for the telecommunication sector in 1999 boosted its share (13.7% for EU assets, 1.7% for 1995).

## EU FDI stocks: strong growth in 2000

The huge increase in FDI stocks reflected the growth in FDI flows in 2000. Indeed, outward FDI stocks of the EU-15 represented EUR 3 520 bn in 2000, against EUR 2 454 bn in 1999 (+43%). A large part of the stocks was located in OECD countries. The largest growth can be attributed to intra-EU stocks, which increased by more than 60% between 1999 and 2000, whereas extra-EU-15 outward stocks progressed by 25%. This altered the balance between intra and extra-EU countries. Both intra- and extra-EU-15 countries each accounted for 50% of stocks in 1999 whereas in 2000, extra-EU-15 countries represented only 43%. The four-fold growth in EU-15 FDI in Germany contributed to this result.

### Geographical distribution of EU-15 outward investment stocks (ECU/EUR billion, % of world or extra-EU-15)

	1996		1997		1998		1999		2000	
	ECU	%	ECU	%	EUR	%	EUR	%	EUR	%
<b>World</b>	<b>1 137.3</b>		<b>1 347.8</b>		<b>1 668.4</b>		<b>2 454.2</b>		<b>3 520.3</b>	
<b>Intra-EU-15</b>	<b>594.2</b>	<b>52.2</b>	<b>678.8</b>	<b>50.4</b>	<b>823.2</b>	<b>49.3</b>	<b>1 245.2</b>	<b>50.7</b>	<b>2 003.1</b>	<b>56.9</b>
<b>Extra-EU-15 of which:</b>	<b>543.2</b>	<b>47.8</b>	<b>666.6</b>	<b>49.5</b>	<b>844.2</b>	<b>50.6</b>	<b>1 209.0</b>	<b>49.3</b>	<b>1 517.2</b>	<b>43.1</b>
OECD (non-EU-15)	377.0	69.4	461.1	69.2	607.9	72.0	885.8	73.3	1111.4	73.3
EFTA	56.0	10.3	63.5	9.5	88.3	10.5	100.8	8.3	134.7	8.9
Other Europe of which:	27.0	5.0	43.0	6.4	62.5	7.4	85.1	7.0	121.6	8.0
Candidate Countries	19.8	3.7	28.7	4.3	43.3	5.1	58.6	4.8	75.3	5.0
Africa	18.2	3.3	23.9	3.6	24.5	2.9	39.5	3.3	43.3	2.9
North America of which:	252.1	46.4	317.4	47.6	435.6	51.6	668.0	55.3	827.4	54.5
USA	233.0	42.9	293.2	44.0	411.1	48.7	636.5	52.6	762.8	50.3
Canada	19.2	3.5	24.2	3.6	24.5	2.9	31.5	2.6	64.6	4.3
Central America	34.0	6.3	44.2	6.6	38.6	4.6	45.1	3.7	61.9	4.1
South America	42.3	7.8	55.8	8.4	81.2	9.6	119.6	9.9	148.3	9.8
Asia of which:	65.0	12.0	73.4	11.0	80.5	9.5	110.2	9.1	129.3	8.5
Near & Middle East	3.8	0.7	5.0	0.7	8.2	1.0	6.7	0.6	10.0	0.7
Other Asia of which:	61.2	11.3	68.4	10.3	72.3	8.6	103.5	8.6	119.4	7.9
Japan	12.1	2.2	11.7	1.8	13.4	1.6	23.7	2.0	29.3	1.9
Oceania	31.5	5.8	33.9	5.1	25.9	3.1	28.5	2.4	34.8	2.3

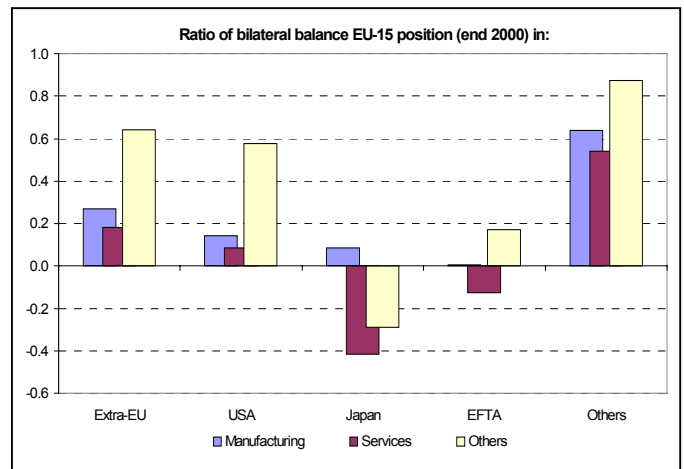
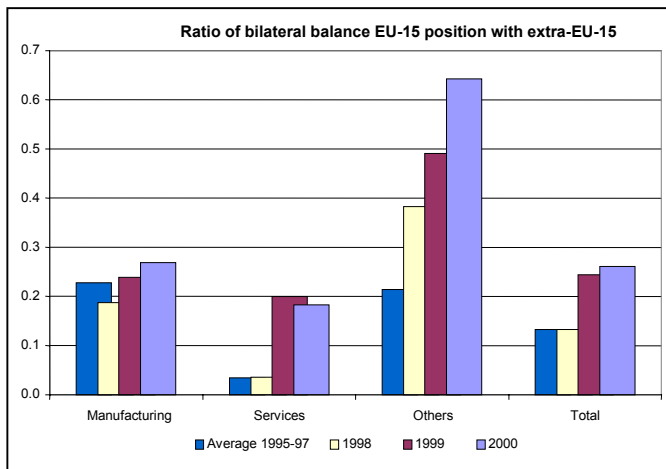
### Geographical distribution of EU-15 inward investment stocks (ECU/EUR billion, % of world or extra-EU-15)

	1996		1997		1998		1999		2000	
	ECU	%	ECU	%	EUR	%	EUR	%	EUR	%
<b>World</b>	<b>973.9</b>		<b>1 123.8</b>		<b>1 467.4</b>		<b>1 945.9</b>		<b>2 737.3</b>	
<b>Intra-EU-15</b>	<b>551.9</b>	<b>56.7</b>	<b>626.7</b>	<b>55.8</b>	<b>820.5</b>	<b>55.9</b>	<b>1 210.8</b>	<b>62.2</b>	<b>1 846.6</b>	<b>67.5</b>
<b>Extra-EU-15 of which:</b>	<b>421.9</b>	<b>43.3</b>	<b>495.9</b>	<b>44.1</b>	<b>646.8</b>	<b>44.1</b>	<b>735.1</b>	<b>37.8</b>	<b>890.7</b>	<b>32.5</b>
OECD (non-EU-15)	368.8	87.4	432.0	87.1	553.0	85.5	650.3	88.5	804.0	90.3
EFTA	98.5	23.4	109.3	22.0	117.3	18.1	135.2	18.4	153.1	17.2
Other Europe of which:	4.9	1.2	7.3	1.5	12.2	1.9	21.8	3.0	26.6	3.0
Candidate Countries	1.2	0.3	1.5	0.3	2.6	0.4	3.1	0.4	5.2	0.6
Africa	4.3	1.0	4.2	0.9	5.3	0.8	5.0	0.7	6.4	0.7
North America of which:	222.0	52.6	274.9	55.4	386.5	59.8	467.7	63.6	582.7	65.4
USA	210.6	49.9	263.1	53.1	365.0	56.4	448.8	61.1	546.0	61.3
Canada	11.4	2.7	11.8	2.4	21.6	3.3	18.9	2.6	36.7	4.1
Central America	18.4	4.4	24.9	5.0	26.5	4.1	35.8	4.9	52.6	5.9
South America	2.2	0.5	2.5	0.5	2.3	0.4	3.9	0.5	4.9	0.6
Asia of which:	45.2	10.7	50.3	10.1	54.2	8.4	56.0	7.6	76.9	8.6
Near & Middle East	5.4	1.3	6.5	1.3	7.6	1.2	7.6	1.0	9.5	1.1
Other Asia of which:	39.7	9.4	43.8	8.8	46.6	7.2	48.4	6.6	67.4	7.6
Japan	31.9	7.6	35.3	7.1	36.6	5.7	34.8	4.7	47.3	5.3
Oceania	15.7	3.7	12.9	2.6	12.3	1.9	13.4	1.8	21.3	2.4

North America accounted for more than half of extra-EU-15 outward stocks. EFTA, Other Europe, South America and Asia each attracted between 8% and 10% of extra-EU-15 FDI stocks, approximately the same share as in 1999. Finally, even if EU-15 stocks in Japan increased in 2000 (+22%), Japan's share in extra-EU-15 outward stocks was still relatively low (between 1.5% and 2.2% since 1996).

EU-15 inward stocks showed the same type of evolution as outward stocks: a huge increase between 1999 and 2000 (+41%). With nearly 97%, the OECD's share almost amounted to the totality of stocks. Two-thirds of inward stocks were generated by EU-15 countries, an increase of five points compared to 1999. EU-15 stocks of the United Kingdom (+82% between 1999 and 2000), the Netherlands (+27%), France (+52%) and BLEU (+137%) largely explain the growth in intra-EU-15 stocks. Nearly one-fifth of EU-15 stocks (EUR 500 bn) originated from the UK, the second largest holder of capital in the world behind the United States (EUR 546 bn).

The ratio<sup>5</sup> of the FDI bilateral balance is calculated using EU-15 stocks by main activity and main economic partner. Globally (extra-EU-15 stocks), the ratio for 'manufacturing' is relatively stable from 1995 to 2000 (between 0.19 and 0.27). On the other hand, there is a strong increase in the ratio for 'services' in 1999 and 2000 (0.04 on average for 1995-1998, and 0.19 for 1999-2000). The ratio for 'other activities' rises regularly to reach 0.64 in 2000. As a result, these sectoral evolutions finally led to doubling the ratio for total extra-EU FDI stocks (0.25 for 1999-2000, 0.13 for 1995-1998).



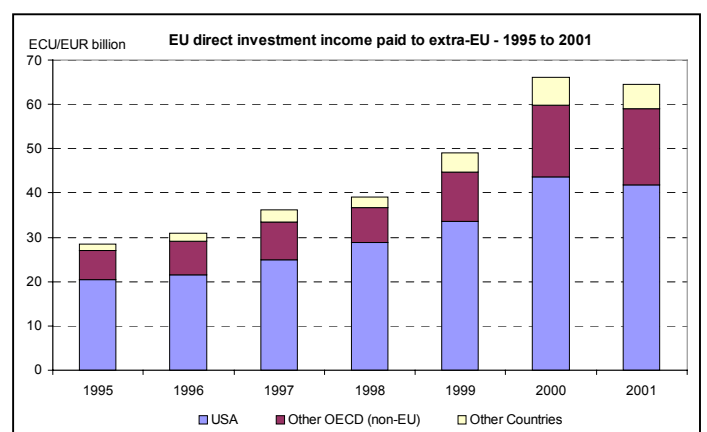
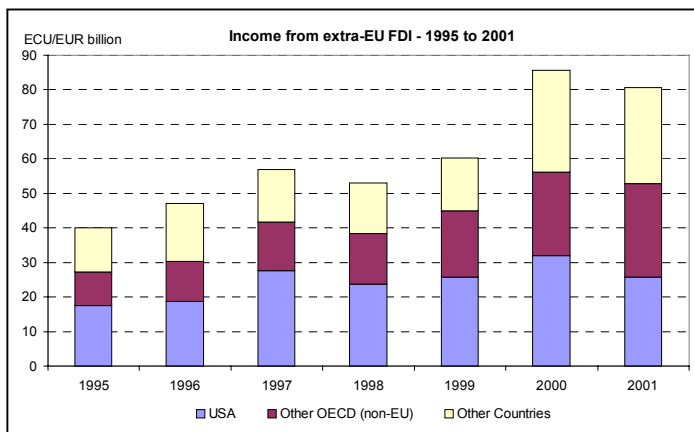
This general situation hides individual trends of partners. The EU-15 is globally a net investor in the USA, but the ratio is under 0.2 (average of 0.1 for 1998-2000 in manufacturing and 0.07 in services). On the other hand, Japan is a net investor in the EU-15 even if the ratio is positive for manufacturing in 1999 and 2000. It is more than offset by services (ratio of -0.5 for 1998-2000), and leads to a global ratio of -0.3 over the same period. The situation is the same vis-à-vis EFTA with a ratio of between -0.14 and -0.06 over 1998-2000.

### Income from direct investment in 2001: slight decline in value, drop in the rate of return

FDI income, which saw a strong growth in 2000, slightly contracted in 2001. Income paid by foreign affiliates companies to EU mother companies fell from 5.7% (EUR -4.9 bn). However, interest paid by EU direct investment companies to their foreign parents diminished by 2.3%.

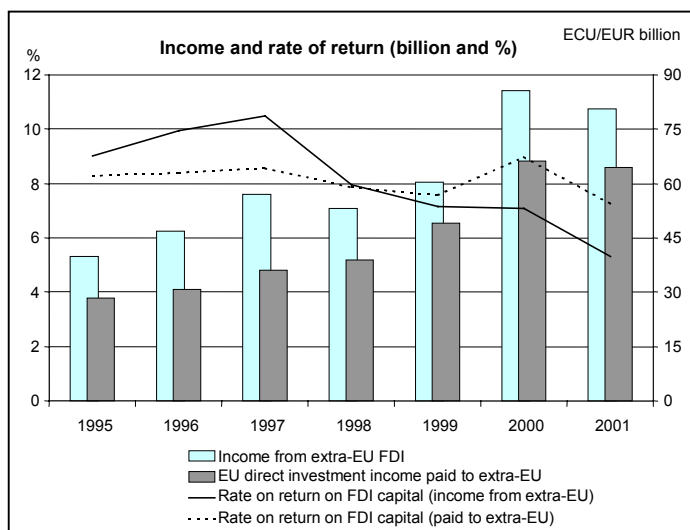
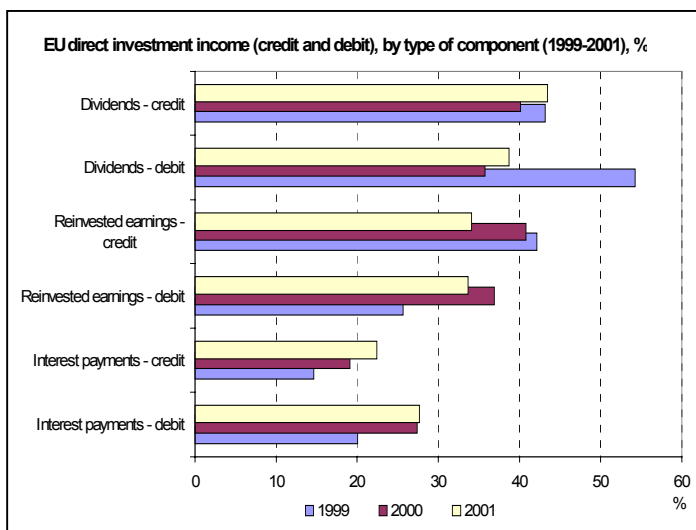
The main explanation for the slight fall in received income from third countries is the decline of incomes paid by the USA (EUR 25.7 bn in 2001 against EUR 32 bn in 2000). Even if the USA's income fluctuated between ECU/EUR 23 bn and ECU/EUR 32 bn since 1997, their share decreased regularly (48.7% in 1995, 31.2% in 2001). The increase in income paid by other OECD countries (except the EU-15) in 2001, was compensated by the reduced income paid by non-OECD countries.

Income paid by the EU-15 to third countries, after edging down (EUR 66 bn in 2000 and EUR 64.6 bn in 2001), remained at a much higher level than that of the previous decade. The reduction in interest payments to non-OECD countries was offset by a rise in payments to OECD countries (except the USA and the EU-15). The diminution of payments to the USA was limited to EUR 1.7 bn. But whereas the erosion of their share was manifest since 1998 (from 73.5% to 64.9%), the share of other OECD countries (except the EU-15) increased from 20% to 26%. Payments to non-OECD countries remained marginal (EUR 5.5 bn, or a share of 8.6%).



<sup>5</sup> The ratio is given by  $b = (assets - liabilities) / (assets + liabilities)$ , where  $b$  lies between 1 and -1. If  $b > 0$ , then EU-15 is regarded as an investor; If  $b < 0$ , then EU-15 is regarded as a host zone. The larger the ratio (in absolute value), the more the allotted role is reinforced.

'Dividends', 'reinvested earnings' and 'interest payments' are the three components of income. The first post represented around 40% of total income (credits or debits) and progressed slightly (in value and in share) in comparison with 2000. On the other hand, 'reinvested earnings' (around 35% in 2001) contracted by EUR -7 bn on the credit side, and by nearly EUR -3 bn on the debit side. Finally, 'interest payments' represented about EUR 18 bn (credits and debits) for 2001, with a stable share of payments paid by the EU, and an increase for received payments.



The decrease in income in 2001, combined with a strong increase in stocks in 2000, led to a strong diminution in the return rate<sup>6</sup> of FDI income. Since 1997, the return rate of EU FDI in third countries shrank progressively to reach 5.3% in 2001 (-25% in comparison with 2000) against 10.5% in 1997. On the other hand, and following a net progression in 2000, the return rate of extra-EU FDI in EU-15 fell in 2001 (7.2% against 9% in 2000). In 2001, both return rates reached their lowest level since 1996.

The diminution of income combined with a rise in GDP led first to a small decrease in the ratio (as a % of GDP) of received income: 0.9% in 2001 and 1% in 2000. On the other hand, the ratio of income paid to extra-EU was stable at 0.75%. Finally, the relative weight of FDI income in total investment income (about EUR 293.5 bn on credit and debit side) slightly decreased in 2001, reaching 27.5% on the credit side (29% in 2000) and 22% on the debit side.

## ➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

**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 flows and positions:** Through direct investment flows, an investor builds up a foreign direct investment position that features on his balance sheet. This FDI position (sometimes called FDI stock) differs from the accumulated flows because of revaluation (changes in prices or exchange rates, and other adjustments like rescheduling or cancellation of loans, debt forgiveness or debt-equity swaps).

<sup>6</sup> FDI return rate measured as FDI income of year *t* / stock of FDI at the end of year *t-1*.

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