

# Strong increase in both inward and outward FDI flows in 2007

## EU Foreign Direct Investment in 2007

**This article presents an overview of EU Foreign Direct Investment (FDI) statistics for annual flows, stocks at year-end and annual income for the period 2002-2007. Both outward and inward flows increased in 2007 (+53% and +79% respectively), and outflows exceeded inflows by EUR 124 bn. FDI towards the EU's main partners increased significantly. At EUR 269.3 bn, income from extra-EU FDI reached a record high, exceeding income paid to foreign investors by EUR 139.0 bn**

### EU FDI outflows reach record level

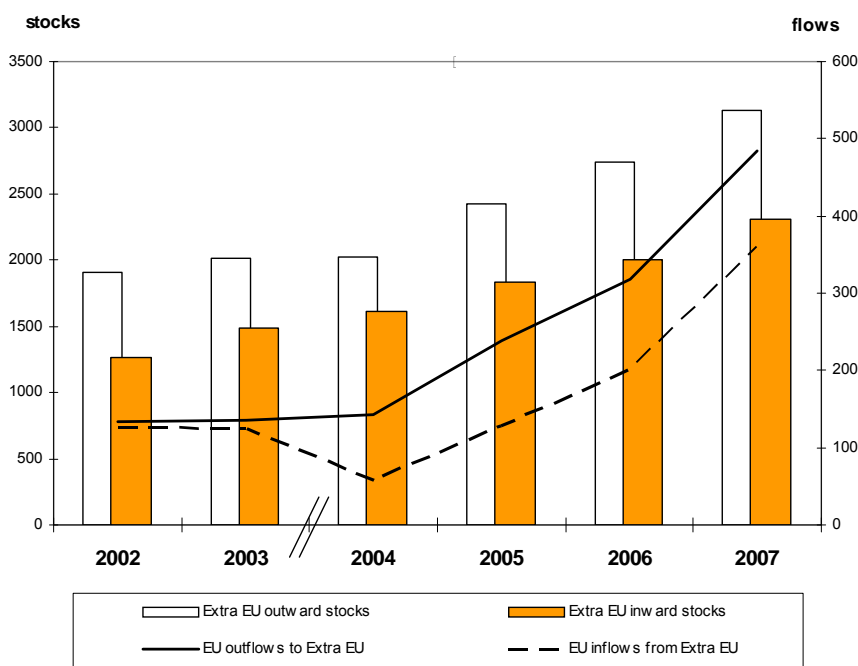
In 2007, EU FDI outflows increased by 53% and reached a record level of EUR 484.2 bn, with an annual growth of EUR 166.7 bn. This peak came after three consecutive years of steadily rising investment flows from 2004, when

EU investment outflows stood at EUR 142.3 bn. EU outward flows in 2007 represented 3.9% of GDP, as compared to 2.7% a year earlier.

After the decline in FDI inflows from outside the EU between 2002 and 2004, incoming investments took an upturn in 2005, a trend which continued in 2006 and 2007. In 2007, this growth was mainly driven by active investment relations with the EU's main partner USA, which alone invested in the EU EUR 103.3 bn more in 2007 than a year before. Total inward flows from outside the EU were up 79% to EUR 360.1 bn.

The EU remains a net investor: in 2007, FDI outflows exceeded inflows by EUR 124.1 bn, a result similar to 2006 (EUR 116.2 bn).

Figure 1: EU FDI flows and stocks 2002-2007\* (EUR billion)



\* EU-27 for 2004-2007, EU-25 for 2001-2003

## Main destinations of EU FDI outflows and main investors in the EU

### EU FDI flows towards the USA quadrupled from 2005 levels...

2007 was a very strong year for FDI, with growth in outward FDI from the EU Member States to all main partners, and with America leading the upward trend.

EU investments in the USA attained EUR 145.6 bn (+35% from 2006) and represented 30.1% of the global amount invested by the EU abroad. Similarly, EU FDI flows to Canada continued to grow and reached EUR 42.9 bn, making Canada the second most important destination (8.9%). FDI flows to Central America (mainly Caribbean island economies) jumped to EUR 97.3 bn in 2007 from the already high EUR 36.6 bn a year before, resulting in a 20.1% share of extra-EU FDI. This may be due to investments routed through special purpose entities.

Investment flows to Brazil went up from EUR 6.5 bn in 2006 to EUR 15.3 bn.

The EU increased its investments in other destinations as well. In Europe (non-EU), investments to Switzerland (EUR 22.3 bn), Russia (EUR 16.7 bn) and Norway (EUR 12.2 bn) increased to some extent; and investment flows to

Turkey remained almost unchanged from the year before (EUR 12.4 bn).

After a drop in 2006, 2007 saw a recovery in investment flows to Asia, driven primarily by the upturn in FDI flows to Japan. In 2007, EU outward flows to Japan were EUR 12.9 bn as compared to disinvestment of EUR 0.1 bn a year before. The growth of investments to China (including Hong Kong) continued, totalling EUR 14.4 bn and representing 3% of total EU outflows. Outflows to India doubled from 2006 to EUR 5.4 bn in 2007.

FDI is highly stimulated by cross-border Mergers & Acquisitions (M&A). Some large transactions that were completed in 2007 were the acquisition of MedImmune Inc (USA) by AstraZeneca PLC (United Kingdom), the purchase of Compass Bancshares Inc (USA) by BBVA (Spain), and the acquisition of Alcan Inc (Canada) by Rio Tinto PLC (United Kingdom).<sup>1</sup>

<sup>1</sup> Source: UNCTAD "World investment report 2008"

Table 1: Main destinations of EU FDI flows 2005-2007\*

	OUTFLOWS						INFLOWS					
	2005		2006		2007		2005		2006		2007	
<b>Extra EU, of which</b>	239.5	100.0%	317.5	100.0%	484.2	100.0%	129.2	100.0%	201.3	100.0%	360.1	100.0%
<b>Europe (non-EU) of which</b>	113.2	47.3%	71.5	22.5%	96.1	19.8%	40.9	31.7%	45.6	22.6%	54.0	15.0%
Switzerland	74.6	31.2%	19.4	6.1%	22.3	4.6%	19.1	14.8%	24.5	12.2%	22.8	6.3%
Norway	0.7	0.3%	5.8	1.8%	12.2	2.5%	1.4	1.0%	2.4	1.2%	7.4	2.1%
Croatia	1.0	0.4%	4.4	1.4%	3.0	0.6%	0.1	0.1%	0.0	0.0%	0.0	0.0%
Russia	9.7	4.1%	10.8	3.4%	16.7	3.4%	2.8	2.2%	1.4	0.7%	9.2	2.5%
Turkey	4.6	1.9%	12.2	3.9%	12.4	2.6%	0.4	0.3%	-0.3	-0.2%	0.3	0.1%
Ukraine	5.8	2.4%	2.1	0.7%	2.6	0.5%	0.2	0.2%	-0.1	0.0%	0.4	0.1%
<b>Africa</b>	16.3	6.8%	12.9	4.1%	17.6	3.6%	1.2	0.9%	2.6	1.3%	5.4	1.5%
<b>North America of which</b>	48.4	20.2%	139.2	43.9%	188.5	38.9%	75.1	58.2%	87.4	43.4%	190.3	52.8%
Canada	11.9	4.9%	31.1	9.8%	42.9	8.9%	8.0	6.2%	10.6	5.3%	10.3	2.8%
USA	36.5	15.3%	108.0	34.0%	145.6	30.1%	67.2	52.0%	76.7	38.1%	180.0	50.0%
<b>Central America of which</b>	6.1	2.5%	36.6	11.5%	97.3	20.1%	2.0	1.6%	24.4	12.1%	63.3	17.6%
Mexico	2.6	1.1%	1.6	0.5%	6.0	1.2%	1.2	0.9%	0.3	0.1%	0.3	0.1%
<b>South America of which</b>	11.0	4.6%	13.4	4.2%	18.3	3.8%	3.7	2.9%	1.8	0.9%	3.4	0.9%
Argentina	1.7	0.7%	2.1	0.7%	1.6	0.3%	0.4	0.3%	0.0	0.0%	0.2	0.0%
Brazil	8.4	3.5%	6.5	2.0%	15.3	3.2%	2.9	2.3%	1.3	0.7%	1.6	0.4%
<b>Asia of which</b>	42.6	17.8%	32.1	10.1%	57.8	11.9%	-0.2	-0.1%	34.3	17.0%	34.8	9.7%
China (incl. Hong Kong)	9.9	4.1%	10.3	3.2%	14.4	3.0%	1.1	0.8%	2.0	1.0%	-1.0	-0.3%
Indonesia	4.1	1.7%	-0.7	-0.2%	0.0	0.0%	0.4	0.3%	-0.5	-0.2%	0.8	0.2%
India	2.5	1.1%	2.5	0.8%	5.4	1.1%	0.5	0.4%	0.5	0.2%	0.9	0.2%
Japan	12.3	5.1%	-0.1	0.0%	12.9	2.7%	-4.2	-3.2%	15.7	7.8%	18.2	5.1%
South-Korea	5.0	2.1%	2.0	0.6%	1.7	0.3%	1.3	1.0%	0.9	0.5%	0.3	0.1%
<b>Oceania of which</b>	-1.0	-0.4%	7.3	2.3%	6.7	1.4%	5.3	4.1%	6.7	3.4%	5.0	1.4%
Australia	-1.7	-0.7%	6.8	2.1%	6.9	1.4%	5.2	4.0%	6.0	3.0%	4.8	1.3%
<b>OECD (non-EU)</b>	146.8	61.3%	187.3	59.0%	263.0	54.3%	101.2	78.3%	138.4	68.8%	245.0	68.0%

\* EU-27 for 2005-2007. The sum of continents does not always equal total extra-EU because of not allocated flows.

Parts may be higher than totals because of disinvestment.

## ... and inflows from the USA reached EUR 180 bn

Extra-EU countries invested EUR 360.1 bn in the EU in 2007, which is EUR 158.8 bn more than the year before. The USA was at the forefront of this increase, with EUR 180 bn, up 135% from 2006. Investment flows from Central America more than doubled to EUR 63.3 bn in 2007. Japanese investments in the EU continued to grow for a second consecutive year, reaching EUR 18.2 bn (EUR 15.7 bn in 2006).

From a European perspective, investment flows from Russia to the EU grew strongly, to EUR 9.2 bn, as compared to EUR 1.4 bn in 2006. Norway also expanded its FDI in the EU, which reached EUR 7.4 bn (EUR 2.4 bn

in 2006). Switzerland recorded a slight decrease of 7% to EUR 22.8 bn in 2007.

The USA further confirmed its position as the main foreign investor in the EU and accounted for 50% of total EU inflows. Switzerland ranked second at 6.3%, followed by Japan (5.1%).

The USA strengthened its position in particular through the acquisition of Alliance Boots PLC (UK) by AB Acquisitions Ltd (USA) and the acquisition of Organon Biosciences (OBS) (Netherlands) by Schering-Plough Corp (USA). Japanese investments in the EU in 2007 were marked by the purchase of a UK-based company Gallaher Group PLC (UK) by JTI(UK)Management Ltd (Japan).<sup>2</sup>

<sup>2</sup> Source: UNCTAD "World investment report 2008"

## Sectoral breakdown of EU FDI stocks in 2006

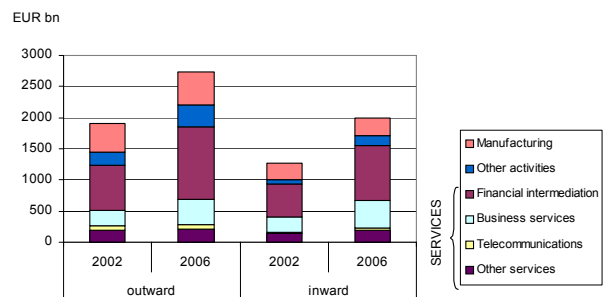
The distribution of EU FDI stocks among the main economic activities<sup>3</sup> remained mainly unchanged at the end of 2006 and broadly similar for both outward and inward stocks. Investment in *services* took the main share, with 67.9% of total FDI assets and 78% of total FDI liabilities, followed by *manufacturing* (19.6% of total assets and 14.8% of total liabilities).

In absolute terms, extra-EU outward stocks in *manufacturing* registered a 19.6% rise and reached EUR 536.2 bn, while *services* gained 10% and reached EUR 1859.6 bn.

Within the services sector, *financial intermediation* remained the predominant activity, with EUR 1164.4 bn and 62.6% of the total EU outward stock in services.

As regards inward stocks from the extra-EU, *services* sector grew by 13.3% and reached EUR 1560.3 bn, while the *manufacturing* sector remained stable at EUR 295.3 bn.

Figure 2: EU FDI stocks by main activity\*



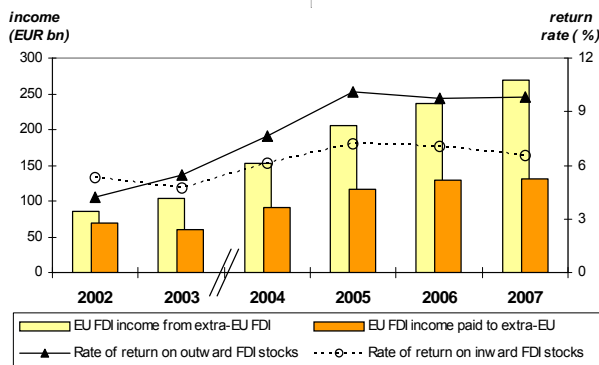
\* EU-27 for 2006, EU-25 for 2002

<sup>3</sup> Services activities consist of: Trade, Hotels and Restaurants, Transport, Telecommunication, Financial intermediation, Business services, Real estate services, Other services not elsewhere classified.

Other activities include Agriculture & fishing, Mining & quarrying, Electricity, gas and water, Construction and Not allocated. Financial intermediation includes Monetary intermediation, Other financial intermediation, insurance and pension funding (except compulsory social security) and Activities auxiliary to financial intermediation.

## EU net income of EUR 139.0 bn from FDI in 2007

Figure 3: EU FDI income and rates of return 2002-2007\*



\* EU-27 for 2004-2007, EU-25 for 2002-2003

EU investment income from abroad followed its upward trend in 2007, reaching EUR 269.3 bn (+14.1% as compared to the previous year), while income paid to foreign owners remained stable at EUR 130.3 bn.

However, the resulting net FDI income amounted to a record EUR 139.0 bn in 2007 (against EUR 17.4 bn in 2002), accounting for 1.13% of GDP (0.18% in 2002).

The rate of return<sup>4</sup> on EU outward stocks remained stable at 9.8%, while a drop from 7.0% to 6.5% was recorded for investors in the EU.

<sup>4</sup> The FDI rate of return is measured here as (FDI income of year t) / (stock of FDI at the end of year t-1)

## METHODOLOGICAL NOTES

The methodological framework used is that of the OECD Benchmark Definition of Foreign Direct Investment Third Edition, a detailed operational definition fully consistent with the IMF Balance of Payments Manual, Fifth Edition, BPM5.

**Foreign Direct Investment (FDI)** is the category of international investment made by an entity resident in one economy (*direct investor*) to acquire a lasting interest in an enterprise operating in another economy (*direct investment enterprise*). The lasting interest is deemed to exist if the direct investor acquires at least 10% of the voting power of the direct investment enterprise.

**FDI flows, stocks and income.** Through outward FDI flows, an investor country builds up FDI assets abroad (outward FDI stocks). Correspondingly, inward FDI flows cumulate into liabilities towards foreign investors (inward FDI stocks). However changes in FDI stocks differ from FDI flows because of the impact of revaluation (changes in prices and, for outward stocks, exchange rates) and other adjustments such as catastrophic losses, cancellation of loans, reclassification of existing assets or liabilities. FDI flows are components of the financial account of the Balance of Payments, while FDI assets and liabilities are components of the International Investment Position. Finally, FDI income consists of the income accruing to the direct investor from its affiliates abroad. Income earned from outward FDI is recorded among credits in the current account of the Balance of Payments, while income paid to foreign owners of inward FDI stocks is recorded among debits.

FDI flows and positions are recorded according to the immediate host/investing country criterion. The economic activity for both flows abroad and flows in the reporting economy are classified according to the economic activity of the resident enterprise. The same applies to FDI positions in the reporting economy while FDI positions abroad are classified according to the activity of the non-resident enterprise.

This article is based on detailed data that were published in the Eurostat database in February 2009. Series for FDI contain data for 1992-2007 with detail by partner country and kind of investment (equity capital, loans and reinvested earnings). Data by Member State, by economic activity and by main partner are available for the period 1992-2007, and from 2001 for EU-25 and from 2004 for EU-27. Data for income cover 1995-2007, and data for FDI stocks go from end 1994 to end 2007.

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### Further information

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Manuscript completed on: 12.03.2009

Data extracted on: 25.02.2009

ISSN 1977-0316

Catalogue number: KS-SF-09-019-EN-N

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