

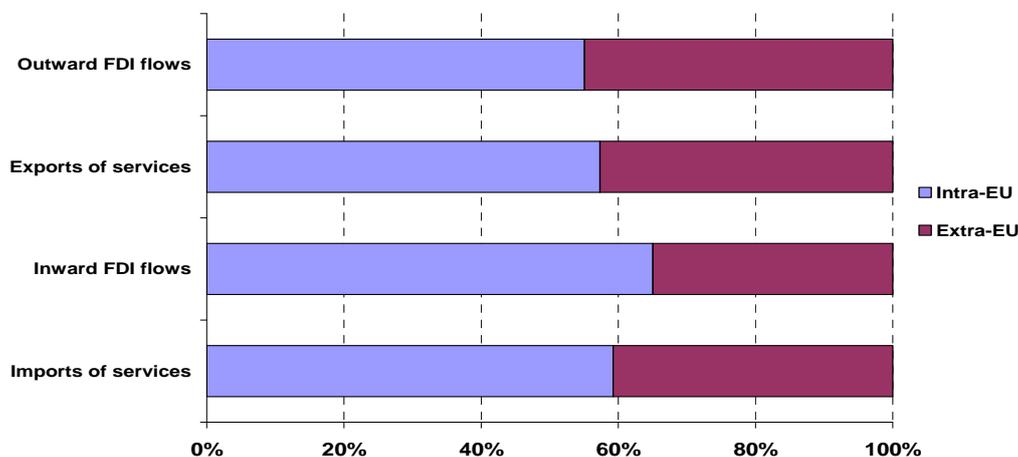
## Internal market still accounts for more than 50 % of EU foreign direct investments and trade in services

Data on EU international trade in services and foreign direct investments show that, although the Internal Market share is higher than the extra-EU share — 57 % against 43 % for trade in services and 55 % against 45 % for FDI in 2008 — the

intra-EU share has been decreasing in recent years.

This trend can probably be explained by further convergence in demand and cost structures between the EU Member States.

Chart 1: Share of intra-EU and extra-EU in U-27 FDI flows and trade in services, 2008



Source: Eurostat (Balance of payments: [bop\\_its\\_det](#), [bop\\_fdi\\_main](#))

One of the major achievements of the European Union is the free movement of goods, services, capital and labour between the Member States. The Internal Market remains one of the Union's most important and continuing priorities.

In the last decade, the structure of Europe's economies has changed substantially. The emergence of a single market as an outcome of economic integration has contributed to the growth of trade and investment. Increasing liberalisation and competition have led to increasing cross-border penetration of economic activity. Trade liberalisation is usually complementary to foreign direct investments (FDI). Location choices for European Union firms are wider within an integrated single market. Moreover, the single market raises the scope for production rationalisation and the building of a regionally integrated network of affiliated firms under common ownership, taking advantage of local supply differentiation, free intra-firm trade and the lowering of

cross-border coordination costs thanks to inter-country convergence of institutions and policies. However, the current financial and economic crises have significantly subdued the cross-border transactions in general.

This paper analyses intra-EU foreign direct investments and trade in services. Based on data for the period 2004-2008, it analyses the importance of the Internal Market in direct investments and trade in services in the Member States.

Services are increasingly important in the Internal Market. They account for about 70 % of gross value added and 69 % of employment in the EU-27. In recent decades their importance to the EU economy has risen steadily. The dismantling of non-tariff barriers and the establishment of free market entry in service sectors such as banking, financial services, telecommunications, etc. have made it the largest target sector for FDI as well.

## Intra-EU share of EU FDI flows and trade in services is decreasing

In 2008, the EU Member States invested outside their economic territory a total amount of EUR 788.5 billion, out of which investments in other Member States (intra-EU) amounted to EUR 434.2 billion. That means that the Internal Market accounted for 55.1 % of total outward investments. In the case of inward investments the share of the Internal Market was much higher, namely 65.0 %. With trade in services, the corresponding shares for exports and imports are 57.3 % and 59.2 % respectively. Table 1 shows that intra-EU shares of investments and trade in services have decreased over the last five years. In the case of outward

flows it went down from 61.5 % in 2004 to 55.1 % in 2008, while for inward investments it fell from 76.1 % to 65.0 % over the same period. The drop in the share of intra-EU trade in services was much less accentuated, both for exports and imports. This partly reflects the integration of the 12 new Member States in the EU Internal Market in the early years after their accession, but also the relatively enhanced interest in economies outside the EU in recent years. Factors in favour of the latter are the lower production costs, expanding resource potential and user demand in extra-EU markets

**Table 1: Share of intra-EU and extra-EU in EU FDI flows and trade in services, %**

Year	FDI flows				Services			
	Outward		Inward		Exports		Imports	
	Intra-EU	Extra-EU	Intra-EU	Extra-EU	Intra-EU	Extra-EU	Intra-EU	Extra-EU
2004	61.5	38.5	76.1	23.9	58.4	41.6	60.1	39.9
2005	64.2	35.8	78.1	21.9	58.0	42.0	59.8	40.2
2006	62.4	37.6	71.7	28.3	58.2	41.8	60.1	39.9
2007	57.1	42.9	62.2	37.8	57.6	42.4	60.2	39.8
2008	55.1	44.9	65.0	35.0	57.3	42.7	59.2	40.8

Source: Eurostat (Balance of payments: [bop\\_its\\_det](#), [bop\\_fdi\\_main](#))

## Evolution of EU exports of services and outward FDI

Chart 2 compares the growth of intra-EU and extra-EU exports of services, and FDI flows for EU-27 for the period 2005-2008.

EU direct investments have changed dynamically over the past five years. The biggest enlargement in the EU's history provided a good basis for expanded investment relations between Member States. Intra-EU almost doubled in 2005 and overshadowed the growth in FDI to extra-EU (68.3 %).

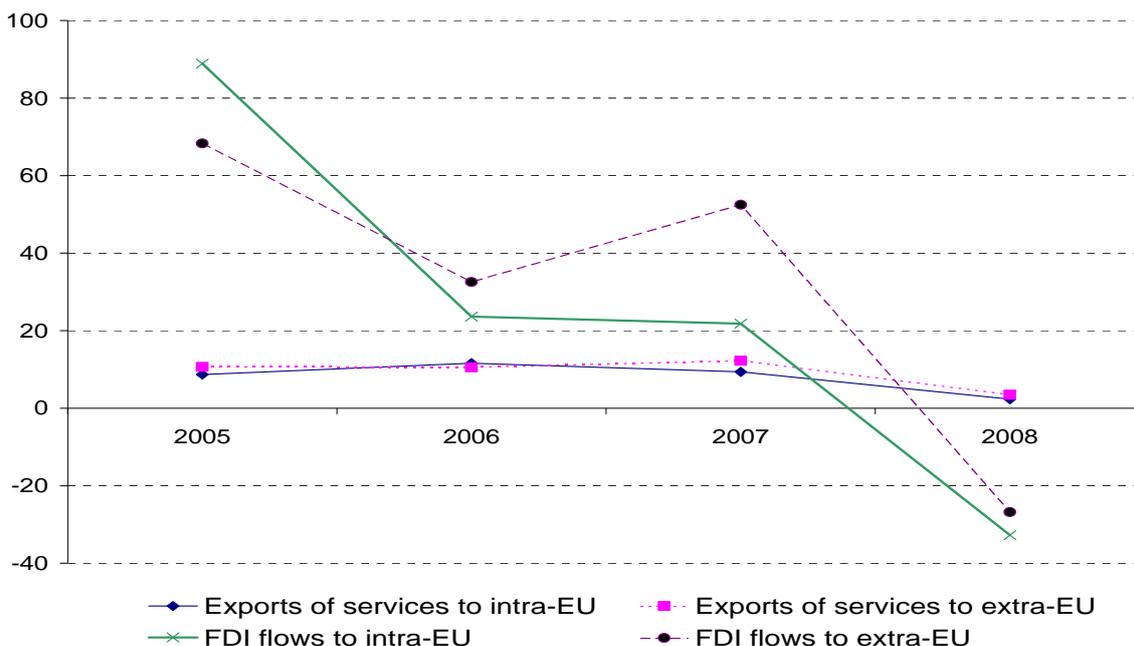
In the following two years, however, the growth rate of intra-EU investment dropped to 22.3 % in 2007, far below the growth in the direct investments to outside the EU (52.5 %). In the

global financial and economic crisis in 2008, foreign direct investments registered substantial decline in flows both to intra- and extra-EU, dropping by 32.7 % and 26.8 % respectively.

Although quite modest compared to FDI flows, the development in EU exports of services generally followed a similar pattern during the period in question.

From a rate of 11.6 % in 2006, the growth in the exchange of services between the Member States slowed down in 2007 (9.4 %) and 2008 (2.3 %), lagging behind the growth in services exported to outside the EU (12.3 % and 3.5 % for 2007 and 2008 respectively).

**Chart 2: Annual growth rates of EU Exports of services and Outward FDI, 2005-2008 (in %)**



Source: Eurostat (Balance of payments: [bop\\_its\\_det](#), [bop\\_fdi\\_main](#))

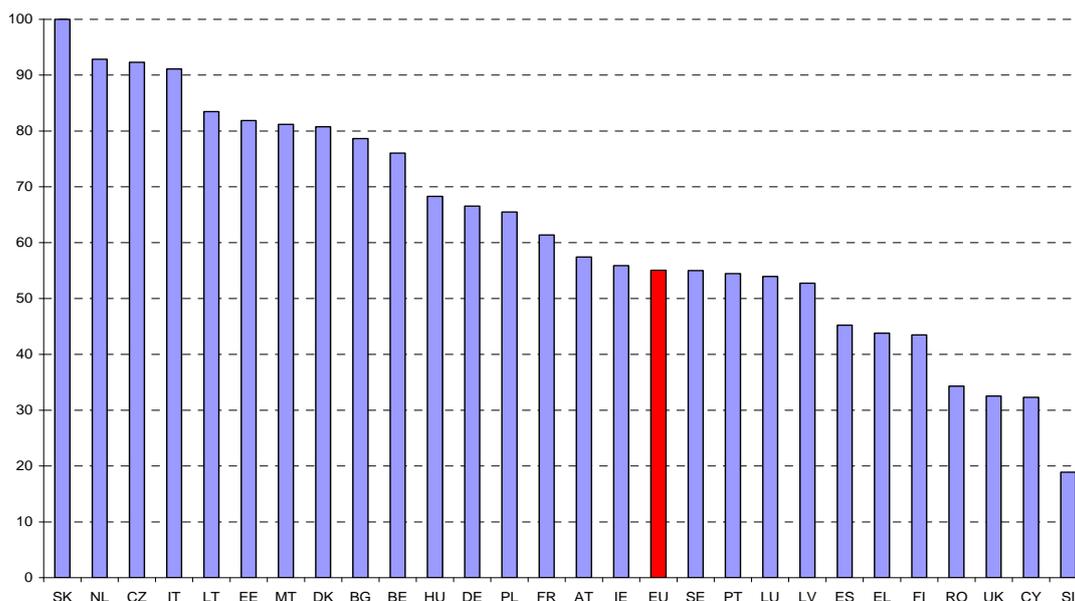
### Share of intra-EU in FDI outward flows and exports in services by Member States.

Chart 3 shows the great diversity in the intra-EU share of the Member States' total FDI flows.

Most 'new' Member States had an obvious dominance of intra-EU in the outward flows. The highest shares were reported by Slovakia, the Netherlands, the Czech Republic, and Italy,

exceeding 90% in their total outward FDI flows in 2008. In fact, Slovakia invested only in other Member States, while Slovenia, Cyprus, United Kingdom, Romania, Finland, Greece, and Spain preferred to invest outside the EU.

**Chart 3: Share of intra-EU in total outward FDI flows, 2008 (in %)**



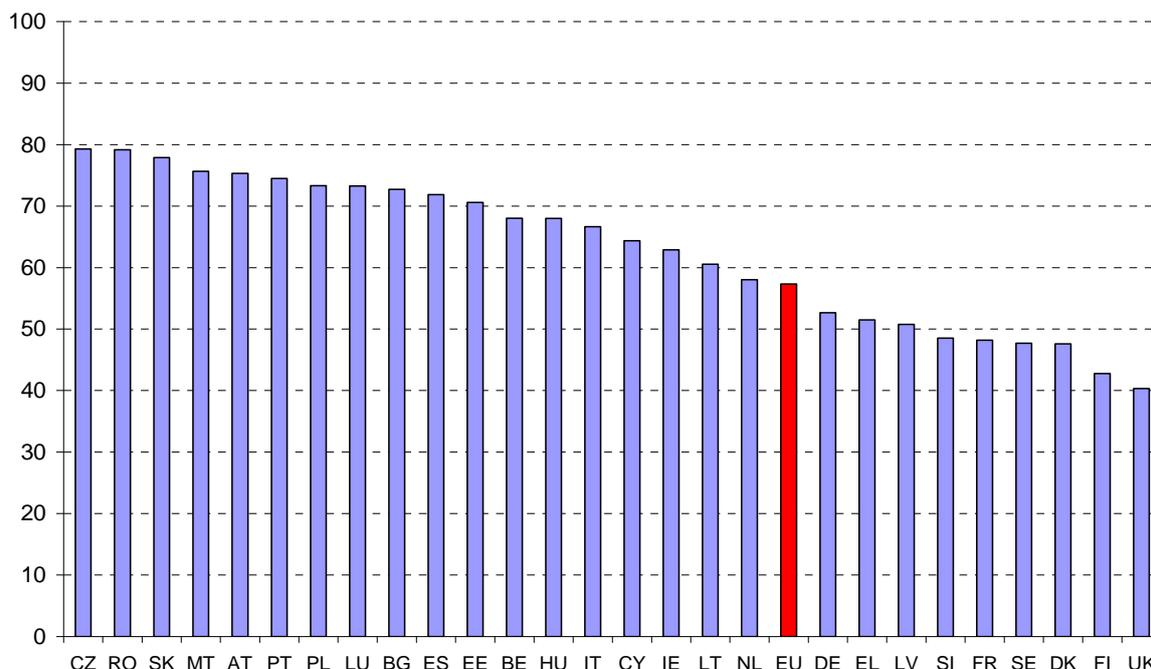
\* Shares for Luxembourg, Estonia and Romania are based on 2007 data.

Source: Eurostat (Balance of payments: [bop\\_fdi\\_main](#))

Among all EU Member States, the share of intra-EU exports in total exports of services is highest in the Czech Republic due to a strong relative increase in intra-EU exports between 2007 and 2008. Moreover, Romania, Slovakia, Malta and Austria all have a share of over 75%. At the other end of the scale, only 40% of all exports in

services from the UK go to other Member States. Germany and France are two other big countries whose shares of intra-EU exports are below the EU average. Slovenia saw its share of intra-EU exports falling below 50% last year due to a strong increase (218%) in extra-EU exports in 2008.

**Chart 4: Share of intra-EU in total exports of services, 2008 (in %)**



Source: Eurostat (Balance of payments: [bop\\_its\\_det](#))

## Evolution of intra-EU and extra-EU exports of services

Chart 5 compares the growth of intra-EU exports of services (exports to the EU internal market) for individual Member States over the period 2004-2008 with the corresponding extra-EU growth (exports to the countries outside the Union) over the same period.

Countries very close to the diagonal line (i.e. Greece, the Netherlands, United Kingdom, Poland, Malta and Denmark) are those for which exports of services to the EU internal market grew at the same rate as that of countries outside the Union.

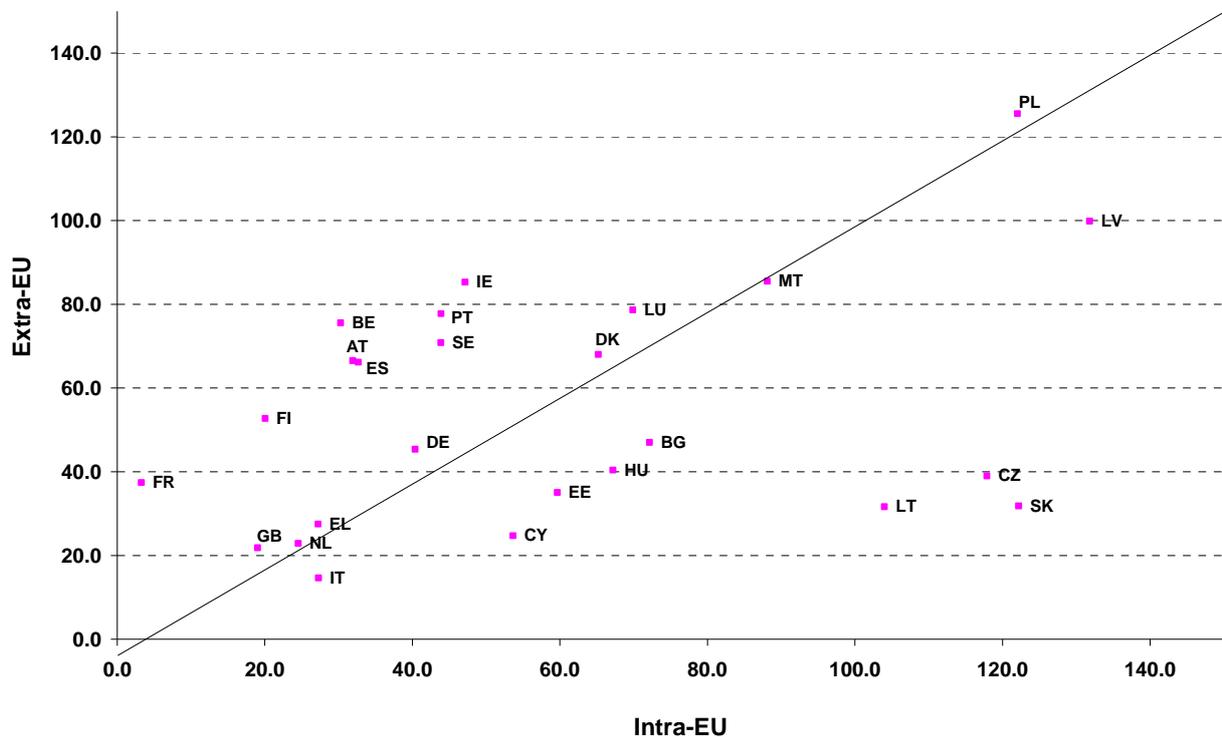
For the countries below the diagonal line, the rate of growth in exports to the EU internal market was higher than that of exports to extra-EU countries in the period 2004-2008. This is the case for most of the 'new' Member States which joined the EU in

2004. This means that, after joining the EU, these countries were able to increase their exports of services to the EU at a higher rate than their exports to third countries.

Most of the 'old' Member States are above the diagonal. Their exports to the EU grew at a slower rate than their extra-EU exports in the period 2004-2008.

There are two countries showing such an extreme growth rate that they could not be included in this chart. Romania recorded a strong growth rate of 228% in intra-EU exports, compared to 132% in extra-EU exports. Slovenia's extra-EU exports grew by a tremendous 378% during that period, compared to only 78% for intra-EU exports.

**Chart 5: Comparison of growth of intra-EU and extra-EU trade in services, 2004-2008 (in %)**



Source: Eurostat (Balance of payments: [bop\\_its\\_det](#))

### Contributions of Member States to total intra-EU outward FDI flows and exports of services

Table 2 presents the FDI flows and exports of services by the Member States to intra-EU in 2008.

France was the main actor in intra-EU FDI, investing EUR 92 billion, or almost one quarter of the total for the EU, followed by Germany (EUR 71 billion) and the Netherlands (EUR 37 billion). On the other hand, Luxembourg and Romania reported disinvestments inside the EU.

Germany (EUR 88 billion) contributed most (12.7%) to the total exports of services to intra-EU in 2008. United Kingdom (EUR 77 billion) and France (EUR 70 billion) followed, accounting for 11.0% and 10.0% of total Member State services inside the EU, respectively. Latvia (EUR 1.6 billion), Malta (1.9 billion), and Lithuania (EUR 2.0 billion) were the least active in exports of services within the EU.

**Table 2: Member States' outward FDI flows and exports of services to intra-EU, 2008 preliminary results**

	Outward FDI		Exports of services	
	bn Euro	share of total EU, %	bn Euro	share of total EU, %
<b>EU-27*</b>	<b>434.2</b>		<b>698.6</b>	<b>100.0</b>
<b>Belgium</b>	35.4	8.2	41.0	5.9
<b>Bulgaria</b>	0.4	0.1	3.9	0.6
<b>Czech Republic</b>	1.2	0.3	12.0	1.7
<b>Denmark</b>	15.1	3.5	23.3	3.3
<b>Germany</b>	71.1	16.4	88.4	12.7
<b>Estonia</b>	0.7	0.2	2.5	0.4
<b>Greece</b>	0.8	0.2	42.5	6.1
<b>Spain</b>	23.9	5.5	17.5	2.5
<b>France</b>	92.2	21.2	70.1	10.0
<b>Ireland</b>	5.0	1.2	52.8	7.6
<b>Italy</b>	28.3	6.5	55.8	8.0
<b>Cyprus</b>	0.3	0.1	4.6	0.7
<b>Latvia</b>	0.1	0.0	1.6	0.2
<b>Lithuania</b>	0.2	0.0	2.0	0.3
<b>Luxembourg</b>	-11.7	-2.7	34.5	4.9
<b>Hungary</b>	20.7	4.8	9.3	1.3
<b>Malta</b>	0.2	0.0	1.9	0.3
<b>Netherlands **</b>	36.5	8.4	49.1	7.0
<b>Austria</b>	11.3	2.6	32.0	4.6
<b>Poland</b>	1.5	0.3	17.7	2.5
<b>Portugal</b>	0.8	0.2	13.4	1.9
<b>Romania</b>	-0.2	0.0	6.9	1.0
<b>Slovenia</b>	0.2	0.0	3.6	0.5
<b>Slovakia</b>	0.2	0.0	4.5	0.6
<b>Finland</b>	0.5	0.1	7.1	1.0
<b>Sweden</b>	15.1	3.5	23.5	3.4
<b>United Kingdom</b>	25.2	5.8	77.2	11.0

Minus sign stands for disinvestment.

\* Data for EU aggregates take into account confidential data, estimates for Member States missing data and data for Special Purpose Entities (SPEs) that in some cases are supplementary collected by Eurostat and the ECB from Member States not including SPEs FDI in national data.

\*\* Data excluding SPEs

Source: Eurostat (Balance of payments: [bop its det](#), [bop fdi main](#))

## METHODOLOGICAL NOTES

**International Trade in Services**, analysed in this publication, refers to data registered in the Balance of Payments (BoP) Statistics. The BoP records all economic transactions between a country (i.e. its residents) and foreign countries or international organisations (i.e. the non-residents of that country) during a given period. The methodological framework used is that of the fifth edition of the International Monetary Fund Balance of Payments Manual (BPM5).

Trade in services is one of the major categories of the current account. The item services contains the following categories: transportation, travel, communications services, construction services, insurance services, financial services, computer and information services, royalties and licence fees, other business services, personal, cultural and recreational services and government services. Other business services include merchanting and other trade-related services, operational leasing services (rental) without operators, and miscellaneous business professional and technical services, which is again sub-divided into legal, accounting, management consulting, and public relations services, advertising, market research and public opinion polling services, research and development services, architectural, engineering and other technical services, agricultural, mining and on-site processing services, other miscellaneous business, professional and technical services, and services between affiliated enterprises, n.i.e.

Due to their intangible nature, trade in services is inherently subject to more constraints and is also much more difficult to record.

The EU International Trade in Services statistics are based on figures provided by the Member States to Eurostat. The data covered in this publication will be revised by the end of this year when revised annual data are transmitted by Member States. The figures shown in the tables may not add up exactly due to rounding.

For **Foreign Direct Investment**, 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 implies that a long-term relationship exists between the investor and the enterprise, and that the investor has a significant influence on the way the enterprise is managed. Such an interest is formally deemed to exist when a direct investor owns 10% or more of the voting power on the board of directors (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

**FDI flows.** 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). FDI flows 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.

FDI flows presented here include re-invested earnings. The figures presented are based on annual and quarterly data received up until 25 April 2009 from the Member States. Data for the EU aggregate takes into account confidential data, estimates for Member States missing data and data for Special Purpose Entities (SPEs), that are additionally collected by Eurostat and the ECB from Member States not including SPEs' FDI in national data. This ensures adherence to international standards, exhaustiveness of the EU aggregates and explains why the total of Member States' flows differs from the EU aggregates. SPEs are mainly financial holding companies, foreign-owned, and principally engaged in cross-border financial transactions, with no or negligible local activity in the Member State of residence.

## Further information

---

Data: [Eurostat Website: http://ec.europa.eu/eurostat](http://ec.europa.eu/eurostat)

Data on "Balance of Payment statistics ":

[http://epp.eurostat.ec.europa.eu/portal/page/portal/balance\\_of\\_payments/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/data/database)

More information about "Balance of Payment statistics":

[http://epp.eurostat.ec.europa.eu/portal/page/portal/balance\\_of\\_payments/introduction](http://epp.eurostat.ec.europa.eu/portal/page/portal/balance_of_payments/introduction)

---

### **Journalists can contact the media support service:**

Bech Building Office A4/125 L - 2920 Luxembourg

Tel. (352) 4301 33408 Fax (352) 4301 35349

E-mail: [eurostat-mediasupport@ec.europa.eu](mailto:eurostat-mediasupport@ec.europa.eu)

---

### **European Statistical Data Support:**

Eurostat set up with the members of the 'European statistical system' a network of support centres, which will exist in nearly all Member States as well as in some EFTA countries.

Their mission is to provide help and guidance to Internet users of European statistical data.

Contact details for this support network can be found on our Internet site:

<http://ec.europa.eu/eurostat/>

---

A list of worldwide sales outlets is available at the:

### **Office for Official Publications of the European Communities.**

2, rue Mercier

L - 2985 Luxembourg

URL: <http://publications.europa.eu>

E-mail: [info@publications.europa.eu](mailto:info@publications.europa.eu)

---

Manuscript completed on: 27.07.2009

Data extracted on: 05.06.2009

ISSN 1977-0316

Catalogue number: KS-SF-09-056-EN-N

© European Communities, 2009