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# EU Foreign Direct Investment in 2004

*New partners emerging for FDI outflows, both inward and outward FDI flows continued to fall*

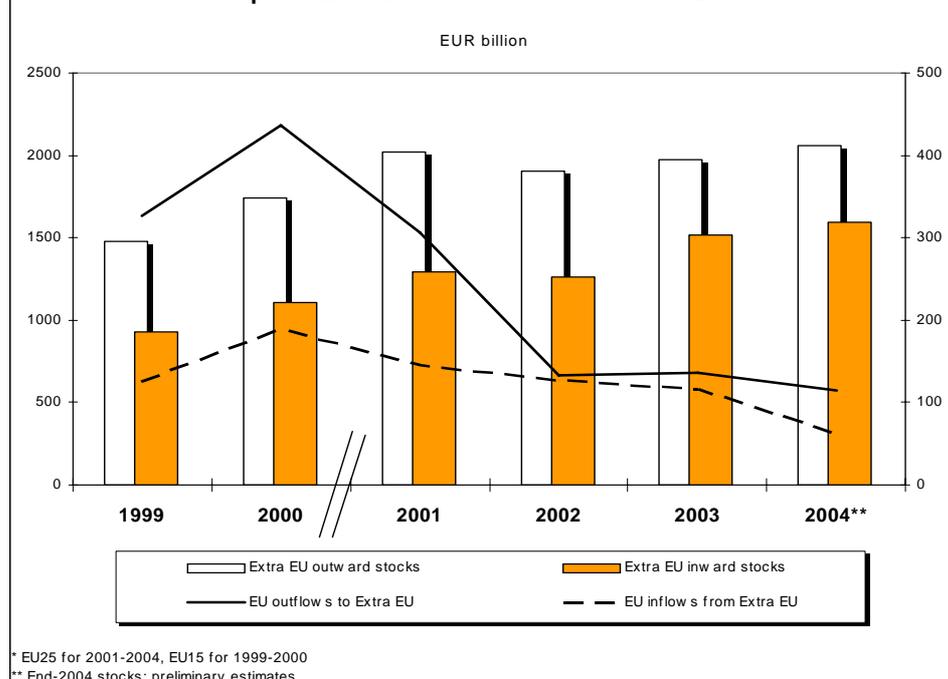
This article gives an overview of EU Foreign Direct Investment (FDI) statistics for annual flows, stocks at year-end and annual income for the period 1999-2004. Both outward and inward FDI flows continued to fall in 2004 (-15% and 46% respectively), but outflows exceeded the inflows by EUR 53 bn. There was a disinvestment of EUR 3 bn towards USA and new countries emerged as the main partners for FDI outflows in 2004. At EUR 131 bn, FDI investment income reached a record high, exceeding income paid to investors abroad by EUR 46 bn. Services activities remained dominant for both outward and inward FDI.

## New decrease of EU FDI flows to extra-EU countries in 2004

EU FDI outflows recorded a strong 69% decrease between 2000 and 2002, from EUR 437 bn to EUR 133.9 bn. After the relative stability observed in 2003, outward FDI fell again in 2004, to EUR 115 bn (1.1% of GDP), 15% less than the year before (EUR 135.5 bn, 1.4% of GDP).

FDI inflows from outside the EU have declined continuously since 2001, falling 39% between 2000 and 2003. The drop was even sharper in 2004, with a 46% drop from EUR 115.4 bn (1.2% of GDP) in 2003 to EUR 62.3 bn in 2004, representing 0.6% of GDP. After two consecutive years of almost balanced EU outflows and inflows, in 2004 FDI outflows exceeded inflows by EUR 53 bn.

Graph 1: EU FDI flows and stocks 1999-2004\*



Preliminary estimates for total EU FDI stocks<sup>1</sup> at end-2004 are also displayed in Graph 1 above, while data for stocks up to end-2003 with further detail by partner country and by economic activity are presented in the rest of this publication<sup>2</sup>.

<sup>1</sup> End-2004 stocks were partially provided by some Member States. For the estimation of the EU aggregate, missing data were estimated by summing up end-2003 stocks and 2004 flows.

<sup>2</sup> See pages 4-6. For the relation between FDI flows and stocks, see the methodological note on page 7.

## China<sup>3</sup>, Mexico and Japan the top three destinations of EU FDI outward flows

The reduction of the global amount invested by the EU abroad in 2004 was combined with a modification in the main destinations of EU outward flows, as can be seen from table 1.

On the one hand, EU FDI flows to **Central America** recovered in 2004, amounting to EUR 31.7 bn. This was due in particular to the EUR 9.2 bn invested in **Mexico** which attained its highest share in the period (8%) thus becoming the EU's second most important destination after **China**. The latter attracted EUR 11.3 bn reaching the highest share (9.8%) of extra-EU FDI flows whereas EUR 8.1 bn (7.1%) were invested in **Japan**. This resulted in an expansion of the EU outflows towards **Asia** from EUR 21.9 bn in 2003 to EUR 31.4 bn in 2004.

On the other hand a disinvestment affected both the United States (EUR -2.7 bn) and Switzerland (EUR -10 bn) while

these two countries were usually among the most important destinations: in 2003 they represented respectively 35% (at EUR 47.1 bn) and 10% (at EUR 13 bn) of extra-EU FDI. As a consequence EU FDI towards both **North America** and **Europe** (non-EU) declined significantly in 2004: they amounted respectively to EUR -1.3 bn (a drop of EUR 54.3 bn compared to 2003) and EUR 22.4 bn (EUR 30.3 bn less than in 2003). It is worth noting though that among the European/non-EU partner countries Norway (4%), Russia (6%) and the Candidate Countries (4%) reached their highest share of extra-EU FDI over the period under consideration.

The growth rate of EU outward stocks (graph 2) was the highest for Romania (45%), followed by Russia, Mexico and China, whereas Argentina and Singapore registered the highest negative rates (-11%).

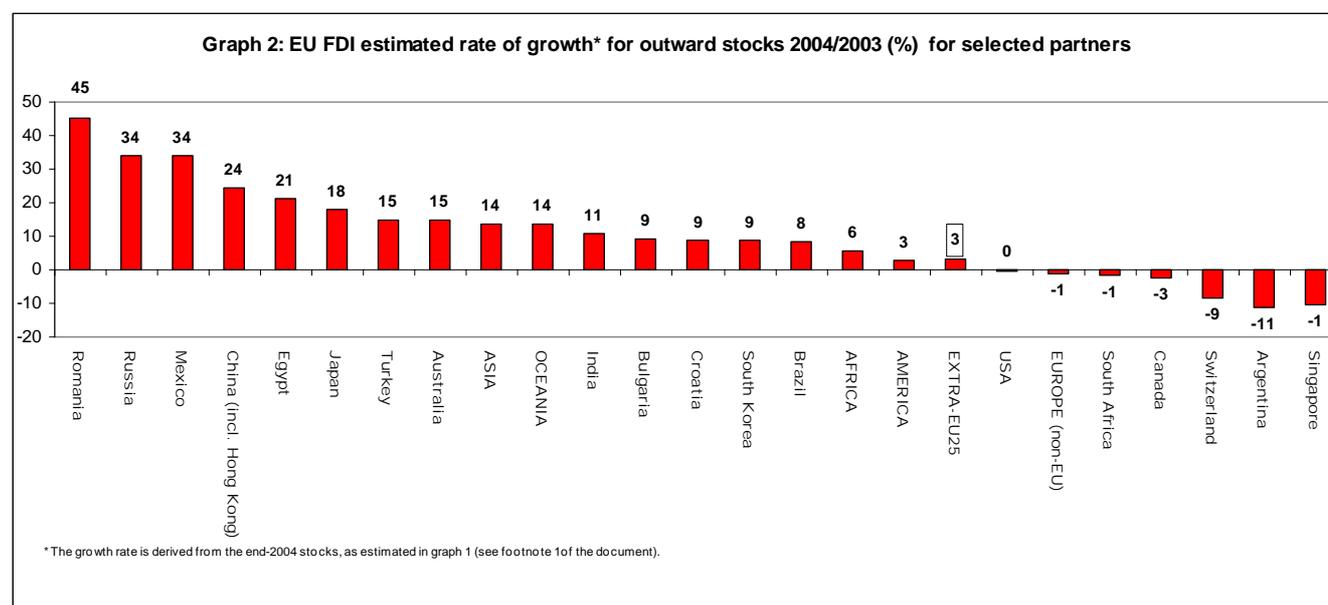
**Table 1: Main destinations of EU outward FDI flows 1999-2004\***

	1999		2000		2001		2002		2003		2004	
	EUR bn	%										
<b>Extra EU of which</b>	<b>327.1</b>	<b>100.0%</b>	<b>437.0</b>	<b>100.0%</b>	<b>306.1</b>	<b>100.0%</b>	<b>133.9</b>	<b>100.0%</b>	<b>135.5</b>	<b>100.0%</b>	<b>115.0</b>	<b>100.0%</b>
<b>OECD (non-EU)</b>	<b>251.4</b>	<b>76.9%</b>	<b>353.3</b>	<b>80.8%</b>	<b>172.5</b>	<b>56.4%</b>	<b>60.8</b>	<b>45.4%</b>	<b>75.9</b>	<b>56.0%</b>	<b>17.9</b>	<b>15.6%</b>
<b>Europe (non-EU) of which</b>	<b>35.8</b>	<b>10.9%</b>	<b>110.2</b>	<b>25.2%</b>	<b>23.6</b>	<b>7.7%</b>	<b>31.2</b>	<b>23.3%</b>	<b>52.7</b>	<b>38.9%</b>	<b>22.4</b>	<b>19.5%</b>
Switzerland	8.4	2.6%	72.3	16.5%	7.1	2.3%	24.2	18.0%	13.0	9.6%	-10.0	-8.7%
Norway	5.1	1.5%	7.6	1.7%	2.7	0.9%	1.6	1.2%	0.0	0.0%	4.9	4.3%
Russia	1.4	0.4%	2.3	0.5%	2.5	0.8%	2.5	1.8%	7.4	5.5%	6.4	5.6%
Candidate Countries**	3.3	1.0%	3.7	0.9%	5.4	1.8%	3.3	2.5%	4.3	3.2%	5.0	4.3%
<b>Africa</b>	<b>3.9</b>	<b>1.2%</b>	<b>8.8</b>	<b>2.0%</b>	<b>10.2</b>	<b>3.3%</b>	<b>7.1</b>	<b>5.3%</b>	<b>9.8</b>	<b>7.2%</b>	<b>11.8</b>	<b>10.3%</b>
<b>North America of which</b>	<b>207.3</b>	<b>63.4%</b>	<b>231.8</b>	<b>53.0%</b>	<b>164.5</b>	<b>53.7%</b>	<b>4.1</b>	<b>3.1%</b>	<b>53.0</b>	<b>39.1%</b>	<b>-1.3</b>	<b>-1.1%</b>
USA	202.1	61.8%	186.4	42.6%	158.7	51.8%	2.7	2.0%	47.1	34.7%	-2.7	-2.3%
Canada	5.2	1.6%	45.5	10.4%	5.8	1.9%	1.4	1.0%	5.9	4.4%	1.4	1.2%
<b>Central America of which</b>	<b>8.0</b>	<b>2.4%</b>	<b>22.1</b>	<b>5.0%</b>	<b>22.6</b>	<b>7.4%</b>	<b>40.6</b>	<b>30.3%</b>	<b>-4.0</b>	<b>-2.9%</b>	<b>31.7</b>	<b>27.6%</b>
Mexico	2.6	0.8%	6.7	1.5%	4.8	1.6%	6.6	4.9%	2.0	1.4%	9.2	8.0%
<b>South America of which:</b>	<b>35.6</b>	<b>10.9%</b>	<b>36.9</b>	<b>8.4%</b>	<b>24.0</b>	<b>7.8%</b>	<b>3.3</b>	<b>2.5%</b>	<b>2.6</b>	<b>1.9%</b>	<b>3.6</b>	<b>3.1%</b>
Brazil	13.9	4.2%	23.6	5.4%	10.1	3.3%	-1.4	-1.0%	2.2	1.6%	2.8	2.5%
Argentina	15.3	4.7%	5.9	1.4%	5.6	1.8%	1.2	0.9%	-1.5	-1.1%	-1.8	-1.5%
<b>Asia of which</b>	<b>31.4</b>	<b>9.6%</b>	<b>17.6</b>	<b>4.0%</b>	<b>58.2</b>	<b>19.0%</b>	<b>31.0</b>	<b>23.2%</b>	<b>21.9</b>	<b>16.1%</b>	<b>31.4</b>	<b>27.3%</b>
Japan	10.7	3.3%	5.5	1.2%	-8.9	-2.9%	10.2	7.6%	5.8	4.3%	8.1	7.1%
China (incl. Hong Kong)	5.0	1.5%	-0.9	-0.2%	51.4	16.8%	6.4	4.8%	6.1	4.5%	11.3	9.8%
South Korea	3.9	1.2%	3.2	0.7%	1.1	0.4%	1.6	1.2%	3.0	2.2%	1.4	1.2%
<b>Oceania of which</b>	<b>0.0</b>	<b>0.0%</b>	<b>4.3</b>	<b>1.0%</b>	<b>-1.7</b>	<b>-0.6%</b>	<b>11.7</b>	<b>8.7%</b>	<b>-1.9</b>	<b>-1.4%</b>	<b>4.4</b>	<b>3.8%</b>
Australia	1.9	0.6%	6.8	1.6%	2.1	0.7%	11.2	8.4%	-1.8	-1.3%	3.4	2.9%

\* EU25 for 2001-2004, EU15 for 1999-2000. 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.

\*\* Candidate countries: Bulgaria, Croatia, Romania and Turkey



<sup>3</sup> Including Hong Kong

## Fall in EU FDI inflows from abroad - the US and Switzerland remain the main investors

In 2004, the amount invested by extra-EU countries in the EU dropped considerably, reaching EUR 62.3 bn compared with EUR 115.4 bn in 2003. This 46% decline was mainly due to the contraction of investments made by **European countries** (non-EU) and **North America**. The EUR 45.2 bn invested by European countries (non-EU) in 2003 was reduced by half in 2004, falling to EUR 22.6 bn. The same was observed for **USA** with EUR 23.4 bn invested in 2004, compared with EUR 47.6 bn recorded the year before. FDI inflows from **Canada** also decreased strongly, from EUR 12.2 bn in 2003 to a disinvestment of EUR -4.1 bn. Conversely, inflows from **South America** reversed from a disinvestment of EUR -0.3 bn the previous year to EUR 3.6 bn investment in 2004, the main investor being Brazil.

Although the amount invested by **China** expanded from EUR 1.7 bn to EUR 4.8 bn, FDI inflows from **Asia** as a whole

slowed down in 2004 to EUR 5.4 bn (against EUR 6.5 bn in 2003).

As regards the origin of inward FDI flows, the picture remained similar to the situation observed in 2003, with the **OECD countries** (non-EU) as the main foreign investors in the EU (71%). European (non-EU) countries made 36% of FDI inflows in 2004, with **Switzerland** registering its highest share (23%) over the period, thus confirming its position of second main investor. The bulk of the FDI inflows from extra-EU countries originated from the US (38%), while **China** (8%) and **Japan** (6%) ranked third and fourth biggest investors respectively.

As regards the estimated growth rate of EU inward FDI stocks between 2003 and 2004 (**graph 3**) the highest were recorded from Romania, China and South Korea. At the opposite end FDI stocks held by Argentina experienced the highest negative rate.

Table 2: Main foreign investors in the EU. Inward FDI flows 1999-2004\*

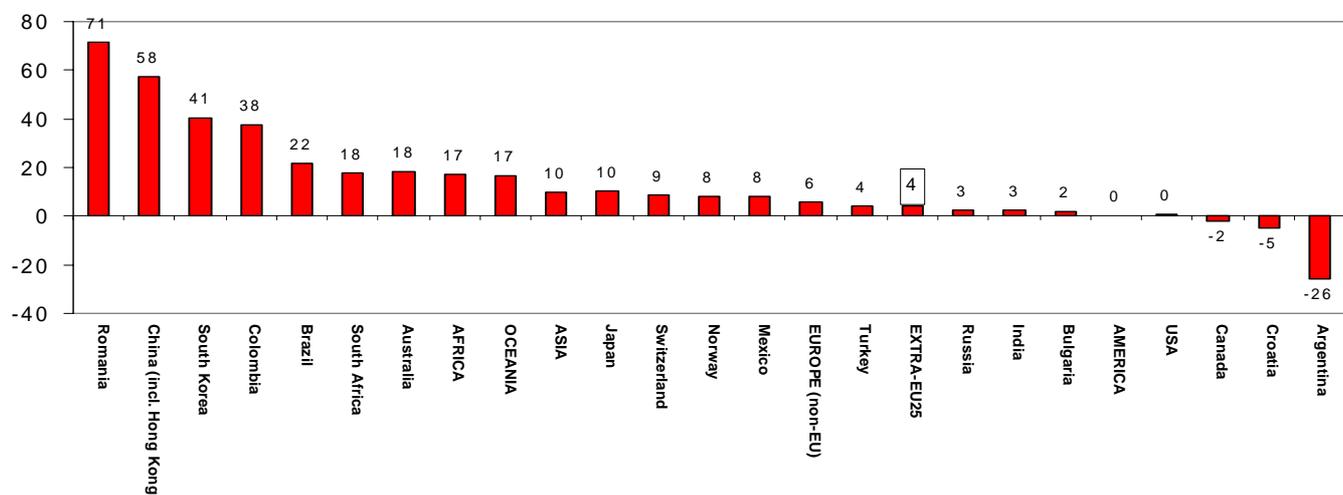
	1999		2000		2001		2002		2003		2004	
	EUR bn	%	EUR bn	%								
<b>Extra EU of which</b>	<b>125.8</b>	<b>100.0%</b>	<b>188.5</b>	<b>100.0%</b>	<b>145.9</b>	<b>100.0%</b>	<b>126.6</b>	<b>100.0%</b>	<b>115.4</b>	<b>100.0%</b>	<b>62.3</b>	<b>100.0%</b>
<b>OECD (non-EU)</b>	<b>89.0</b>	<b>70.7%</b>	<b>159.2</b>	<b>84.5%</b>	<b>107.7</b>	<b>73.8%</b>	<b>88.9</b>	<b>70.2%</b>	<b>85.2</b>	<b>73.8%</b>	<b>44.4</b>	<b>71.3%</b>
<b>Europe (non-EU) of which</b>	<b>19.7</b>	<b>15.7%</b>	<b>33.1</b>	<b>17.6%</b>	<b>18.2</b>	<b>12.5%</b>	<b>20.1</b>	<b>15.9%</b>	<b>45.2</b>	<b>39.2%</b>	<b>22.6</b>	<b>36.3%</b>
Switzerland	8.7	6.9%	22.4	11.9%	9.9	6.8%	10.5	8.3%	19.2	16.6%	14.5	23.3%
Norway	0.6	0.5%	7.1	3.8%	1.5	1.0%	4.9	3.9%	1.4	1.2%	0.4	0.6%
Russia	0.2	0.2%	0.4	0.2%	0.8	0.5%	0.3	0.2%	0.7	0.6%	0.1	0.2%
Candidate Countries**	0.3	0.2%	1.1	0.6%	0.4	0.3%	-0.1	-0.1%	0.3	0.3%	0.2	0.3%
<b>Africa</b>	<b>0.9</b>	<b>0.7%</b>	<b>3.6</b>	<b>1.9%</b>	<b>4.1</b>	<b>2.8%</b>	<b>3.6</b>	<b>2.8%</b>	<b>0.6</b>	<b>0.5%</b>	<b>0.9</b>	<b>1.4%</b>
<b>North America of which</b>	<b>79.5</b>	<b>63.2%</b>	<b>105.5</b>	<b>56.0%</b>	<b>85.3</b>	<b>58.5%</b>	<b>61.6</b>	<b>48.7%</b>	<b>59.8</b>	<b>51.8%</b>	<b>19.3</b>	<b>31.0%</b>
USA	75.9	60.3%	88.4	46.9%	79.6	54.6%	57.6	45.5%	47.6	41.2%	23.4	37.6%
Canada	3.6	2.9%	17.2	9.1%	5.6	3.8%	4.0	3.2%	12.2	10.6%	-4.1	-6.6%
<b>Central America of which</b>	<b>18.8</b>	<b>14.9%</b>	<b>8.5</b>	<b>4.5%</b>	<b>8.7</b>	<b>6.0%</b>	<b>12.8</b>	<b>10.1%</b>	<b>5.2</b>	<b>4.5%</b>	<b>-0.1</b>	<b>-0.2%</b>
Mexico	0.5	0.4%	1.1	0.6%	0.9	0.6%	-0.2	-0.2%	0.2	0.1%	0.7	1.2%
<b>South America of which:</b>	<b>0.3</b>	<b>0.2%</b>	<b>0.6</b>	<b>0.3%</b>	<b>2.1</b>	<b>1.4%</b>	<b>5.2</b>	<b>4.1%</b>	<b>-0.3</b>	<b>-0.3%</b>	<b>3.6</b>	<b>5.8%</b>
Brazil	0.3	0.2%	1.5	0.8%	1.0	0.7%	0.6	0.5%	-1.0	-0.9%	3.6	5.8%
Argentina	0.1	0.1%	0.5	0.3%	0.3	0.2%	1.8	1.4%	0.7	0.6%	-0.6	-1.0%
<b>Asia of which</b>	<b>7.0</b>	<b>5.6%</b>	<b>31.1</b>	<b>16.5%</b>	<b>26.1</b>	<b>17.9%</b>	<b>17.3</b>	<b>13.7%</b>	<b>6.5</b>	<b>5.6%</b>	<b>5.4</b>	<b>8.7%</b>
Japan	-2.2	-1.7%	17.0	9.0%	8.8	6.0%	8.3	6.6%	3.1	2.7%	3.9	6.3%
China (incl. Hong Kong)	3.5	2.8%	6.4	3.4%	10.0	6.9%	3.1	2.4%	1.7	1.5%	4.8	7.7%
South Korea	0.0	0.0%	0.1	0.1%	-0.5	-0.3%	-0.2	-0.2%	0.4	0.3%	0.9	1.4%
<b>Oceania of which</b>	<b>1.4</b>	<b>1.1%</b>	<b>3.6</b>	<b>1.9%</b>	<b>1.3</b>	<b>0.9%</b>	<b>4.1</b>	<b>3.2%</b>	<b>0.5</b>	<b>0.4%</b>	<b>2.8</b>	<b>4.5%</b>
Australia	0.8	0.6%	3.2	1.7%	0.8	0.5%	3.7	2.9%	0.6	0.5%	2.8	4.5%

\* EU25 for 2001-2004, EU15 for 1999-2000. 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.

\*\* Candidate countries: Bulgaria, Croatia, Romania and Turkey

Graph 3: EU FDI estimated rate of growth\* for inward stocks 2004/2003 (%) for selected partners

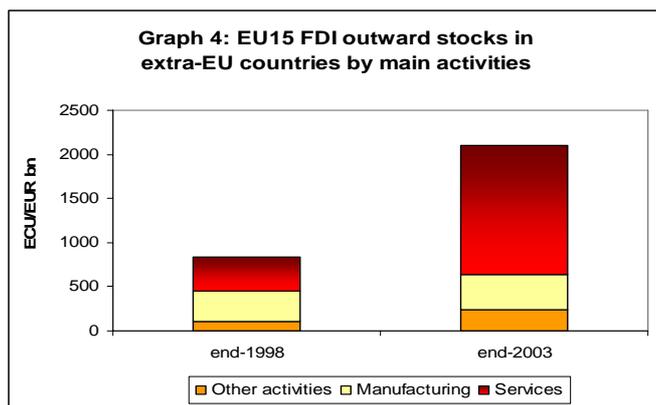


\* The growth rate is derived from the end-2004 stocks, as estimated in graph 1 (see footnote 10 of the document).

## Most FDI still going to services – financial intermediation the predominant activity

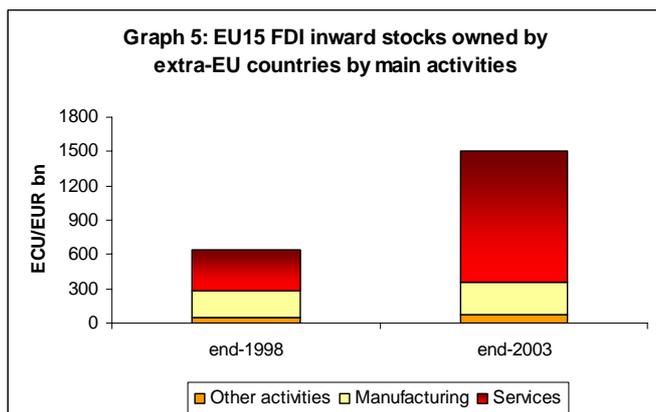
The relative importance of **services**<sup>4</sup> has continued to grow from 1998 both for inward and outward FDI with extra-EU countries. EU FDI assets (**outward FDI stocks**)<sup>5</sup> invested in services were ECU 388 bn at the end of 1998 and increased to EUR 1 453 bn at the end of 2003, the share of services in total FDI assets growing from 46% to 69%.

During the same period, FDI assets in **manufacturing** rose from ECU 348 bn to EUR 408 bn, but their share of the total fell from 41% to 19%. The share of **other activities**<sup>6</sup> remained stable at around 12%, in absolute terms there was an increase from ECU 109 bn to EUR 236 bn.



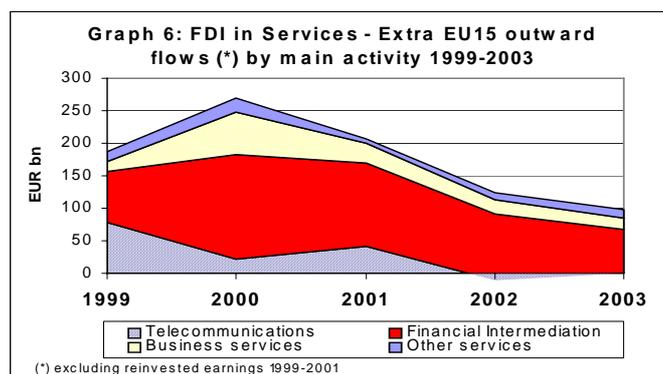
Data for EU **FDI inward stocks** show a very similar picture, although on a reduced scale and with an even more predominant role played by services. Inward FDI stocks in **services** grew from ECU 360 bn in 1998 to EUR 1 140 bn at the end of 2003, representing 56% and 75% of the total respectively.

**Manufacturing** grew from ECU 238 bn in 1998 to EUR 286 bn at the end of 2003, but its relative share decreased from 37% to 19% of the total. The share of **other activities** remained stable at about 7% during the period in question, even if the absolute figure increased from ECU 49 bn to EUR 102 bn.

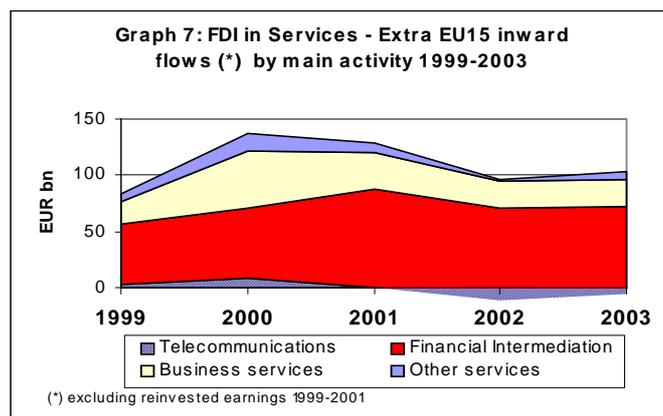


While the share of services in total FDI **outward flows**<sup>7</sup> grew from 74% in 1998 to 92% in 2003, the annual extra-EU15 FDI outward flows in services in absolute terms decreased by 21% from EUR 124 bn in 2002 to EUR 98 bn in 2003.

**Financial intermediation**<sup>8</sup> increased its relative share of outward FDI flows from 41% in 1999 to 70% in 2003. However, after the peak of EUR 162 bn in 2000, the absolute value decreased to EUR 69 bn in 2003. **Business services** was the second most important services' activity for outward FDI flows at EUR 16 bn in 2003, increasing its relative importance from 7% in 1999 to 16% in 2003. Direct outward investment by entities in **telecommunications** have reduced dramatically from EUR 79 bn in 1999 to disinvestment both in 2002 and 2003 (EUR -1 bn in 2003).



**Inward FDI flows**<sup>9</sup> into services increased by 8% to EUR 104 bn in 2003. **Financial intermediation** as the most predominant activity increased its relative share from 64% in 1999 (EUR 54 bn) to 75% in 2003 (EUR 78 bn). **Business services** has kept its place as the second main services activity with a 23% share in 2003, a slight reduction from the peak in 2000 (36%). Inward FDI flows into **telecommunications** or other services activities have been less important in the period covered, a disinvestment during the last two years (EUR -6 bn in 2003) in telecommunications can be observed.



<sup>4</sup> Services activities consist of: Trade, Hotels and restaurants, Transport, Telecommunication, Financial Intermediation, Business services (includes Business and Management consulting, Advertising, Computer activities and Research and Development), Real estate services, Other services not elsewhere classified.

<sup>5</sup> The analysis on the sectoral breakdown of EU FDI covers the EU15 countries as the activity breakdown data is not yet available for EU25. Hence data on 2003 FDI stocks presented here differ from the EU25 FDI stocks presented in table 3.

<sup>6</sup> "Other activities" include Agriculture and fishing, Mining and quarrying, Electricity, gas and water, Construction and Not allocated.

<sup>7</sup> FDI outward flows are classified according to the activity of the direct investor.

<sup>8</sup> Financial intermediation includes Monetary intermediation (banks), Other financial intermediation, insurance and pension funding (except compulsory social security) and Activities auxiliary to financial intermediation.

<sup>9</sup> FDI inward flows are classified according to the activity of the recipient of FDI, the direct investment enterprise.

**Table 3: EU FDI, Net bilateral stocks and flows with selected partners**

ECU/EUR billion

Partner	end-1998 net position	Annual net flows					end-2003 net position
		1999	2000	2001	2002	2003	
Extra-EU	197	201	249	160	7	20	457
USA	46	126	98	79	-55	-1	-41
Japan	-23	13	-12	-18	2	3	-17
EFTA(*)	-29	4	50	-2	10	-8	79
Other OECD	61	19	58	6	15	-4	95
Others	142	39	55	95	35	29	343

EU25 for 2001-2003, EU15 for 1998-2000.

Net position and net flows equal EU outward FDI stocks or flows minus EU inward FDI stocks or flows.

(\*) European Free Trade Association (Switzerland, Norway, Iceland, Liechtenstein).

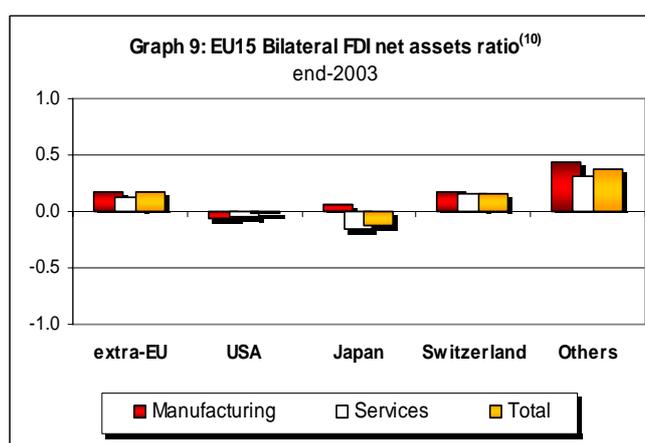
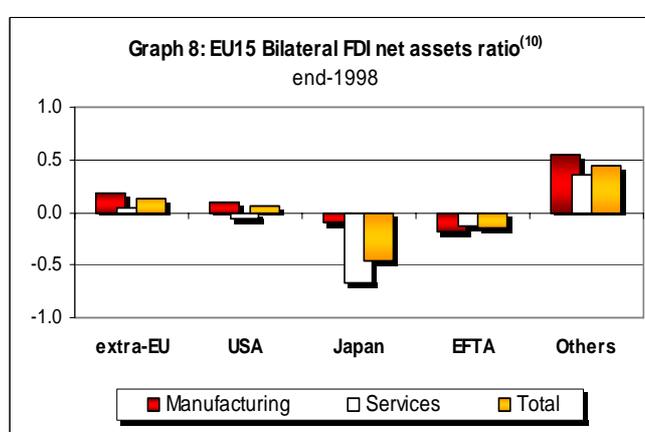
### The EU was a net investor at the end of 2003 with EUR 457 bn of net assets

With outward FDI stocks always exceeding inward FDI stocks the EU has traditionally held a positive net position in FDI stocks. Net FDI assets experienced a vigorous growth from ECU 197 bn at the end of 1998 to EUR 457 bn at the end of 2003. This sharp rise was mainly due to large net flows (measured as the difference between outward FDI flows and inward flows) during the period 1999-2001. However, changes in net assets are also the effect of revaluations due to variations in prices and exchange rates, and to other changes in the volume of stocks.

As can be seen from table 3, annual extra-EU net flows were positive over the whole period, but decreased significantly in 2002 at EUR 7 bn (0.1% of GDP), to be compared with EUR 201 bn (2.5% of GDP) recorded in 1999. FDI net flows with extra-EU partners rose slightly in 2003 to EUR 20 bn (0.2% of GDP) and this limited recovery was confirmed in 2004 with annual net flows amounting to EUR 53 bn (see tables 1 and 2) and representing 0.5% of GDP.

The bilateral net FDI asset ratio provides further insight into the reciprocal investment positions with main partners and activities. The ratio can range from +1 (with positive outward stocks and zero inward stocks) to -1 (with positive inward stocks and zero outward stocks)<sup>10</sup>. Comparing the ratios in 1998 and in 2003, it can be observed that the index with extra-EU rose for total activity (from 0.13 to 0.17) due to a rise in net assets in services (from 0.04 to 0.12). Manufacturing net assets remained quite stable, but the ratio is still higher than for services (0.18 in 2003).

The index decreased for the majority of the main partners considered here. Particularly noticeable were the reversal of the net assets ratio with EFTA<sup>11</sup> and the reversal of the ratio in manufacturing with the USA, moving from 0.09 in 1998 to -0.07 in 2003. The opposite can be observed with Japan, the manufacturing net asset ratio becoming positive 0.07 in 2003 (-0.09 in 1998).

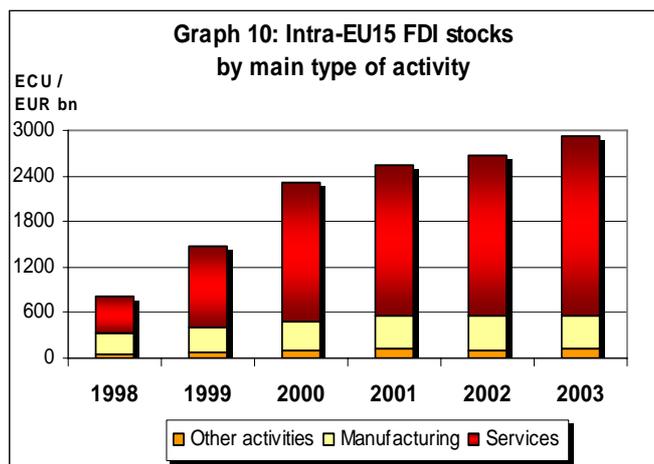


<sup>10</sup> The bilateral FDI net asset ratio is defined as (Outward stocks – Inward stocks)/(Outward stocks+ Inward stocks). Therefore, for each partner and activity shown, EU net assets are expressed as a ratio of the level of total FDI stocks involved in the bilateral relationship. The ratio measures the extent to which reciprocal investments are balanced. It can go from +1 (with positive outward stocks and zero inward stocks) to -1 in the opposite case. The ratio allows for a comparison which is not affected by the size of the economies involved.

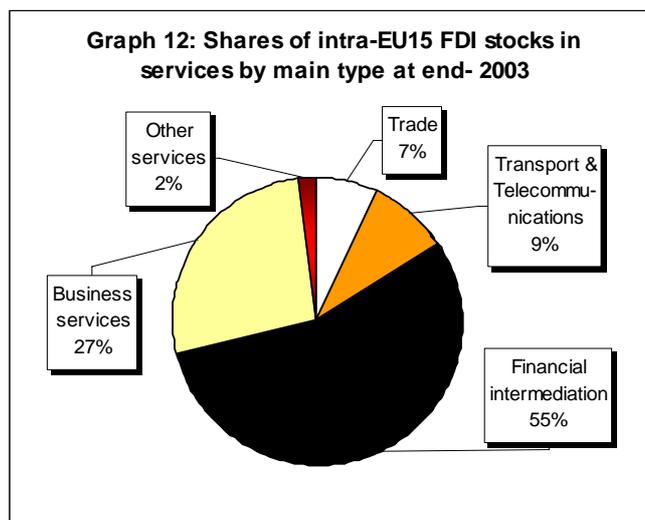
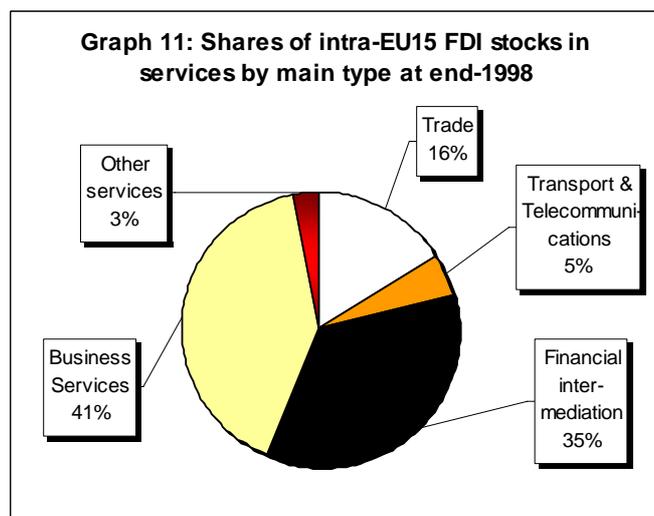
<sup>11</sup> EFTA: Switzerland, Iceland, Norway and Lichtenstein. Represented by Switzerland in 2003 as a proxy.

## Intra-EU FDI grows faster than extra-EU FDI - services activities dominating

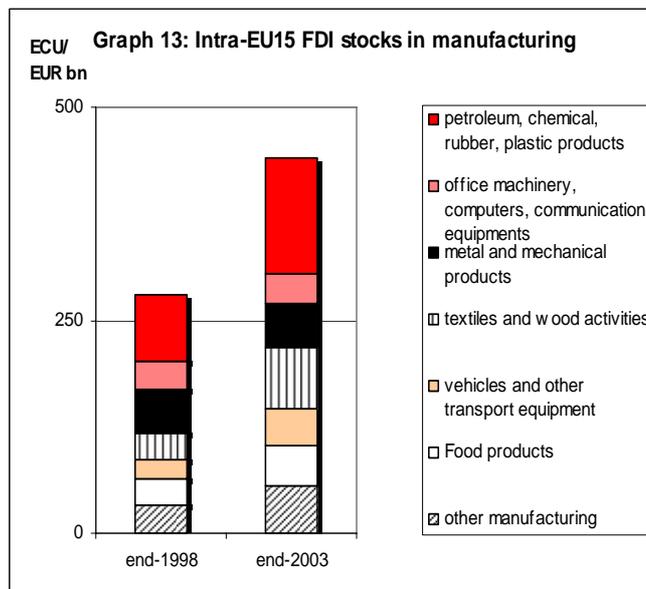
Intra EU FDI stocks grew on average faster than extra-EU FDI between 1998 and 2003. The ratio between the end of year 2003 and end 1998 values for intra-EU FDI was 3.6 while for extra-EU it was 2.5 for outward stocks and 2.3 for inward stocks. Graph 10 shows the composition of the intra-EU FDI stocks by main type of activity. *Services* continued to gain importance during the period covered. At the end of 1998, intra-EU FDI stocks invested in services activities were 60% of the total and reached 80% at the end of 2003. The share of *manufacturing* fell from 34% to 15% over the same period, while the share of *other activities* accounted for 6% and 7% respectively.



Graphs 11 and 12 present the percentage shares by main type of service activity in 1998 and 2003. While the intra-EU FDI stocks in all types of services grew, the growth was most pronounced in *financial intermediation* (from 35% to 55%) and in *transport and telecommunications* (from 5% to 9%) mainly due to increased investment in telecommunications during 1999-2001. The relative importance of investment in the *trade* sector declined from 16% in 1998 to 7% in 2003 and from 41% to 27% in *business services*.



Intra-EU FDI stocks in manufacturing grew from ECU 279 bn at the end of 1998 to EUR 440 bn at the end of 2003 (graph 13). The most important activity within the manufacturing sector was the manufacture of *petroleum, chemical, rubber and plastic products* increasing by EUR 58 bn from a 28% share at the end of 1998 to 31% at the end of 2003. Manufacture of *textiles and wood activities* increased from a share of 11% to 16% at the end of 2003. The *metal and mechanical products* sector lost some of its relative importance declining from a share of 18% to 12% at the end of 2003. Manufacture of *food products* and *vehicles and other transportation equipment* both had a 10% share of FDI manufacturing stocks at the end of 2003 and *other manufacturing activities* 13%, all keeping their share stable.

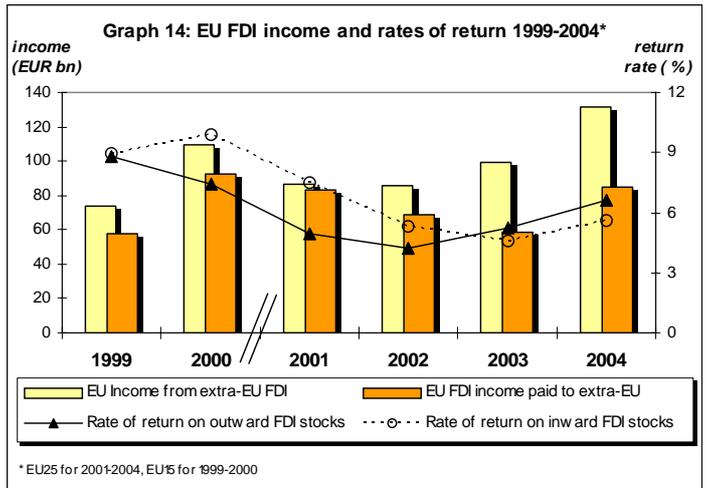


## In 2004 the EU had EUR 46 bn net income from FDI

At EUR 131 bn in 2004, EU income earned from FDI abroad reached its highest level over the period under consideration, representing a 32% rise from 2003. This result confirmed the recovery already observed in 2003 (+15% at EUR 99 bn) after two years of stagnation (EUR 86 bn both in 2001 and 2002).

On the other hand, income paid to foreign owners in 2004 recorded a 47% increase to EUR 85 bn. The resulting net FDI income amounted to a record EUR 46 bn in 2004 to be compared with EUR 16 bn in 1999. These results represented 0.44% of GDP in 2004 against 0.20% in 1999.

Rates of return<sup>12</sup> experienced similar results with an increase from 5.2% in 2003 to 6.6% in 2004 in the rate of return on EU outward stocks and from 4.6% to 5.6% for the rate of return earned by foreign owners. As shown in graph 14 (right scale), in the last two years the rate of return on EU outward FDI was higher than the one on EU inward FDI.



### ➤ ESSENTIAL INFORMATION – 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. A significant revision was incorporated as from 1999 onwards consisting of the inclusion of investment operated through financial holding companies located in the EU that were previously only partially covered.

**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 equity capital 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.

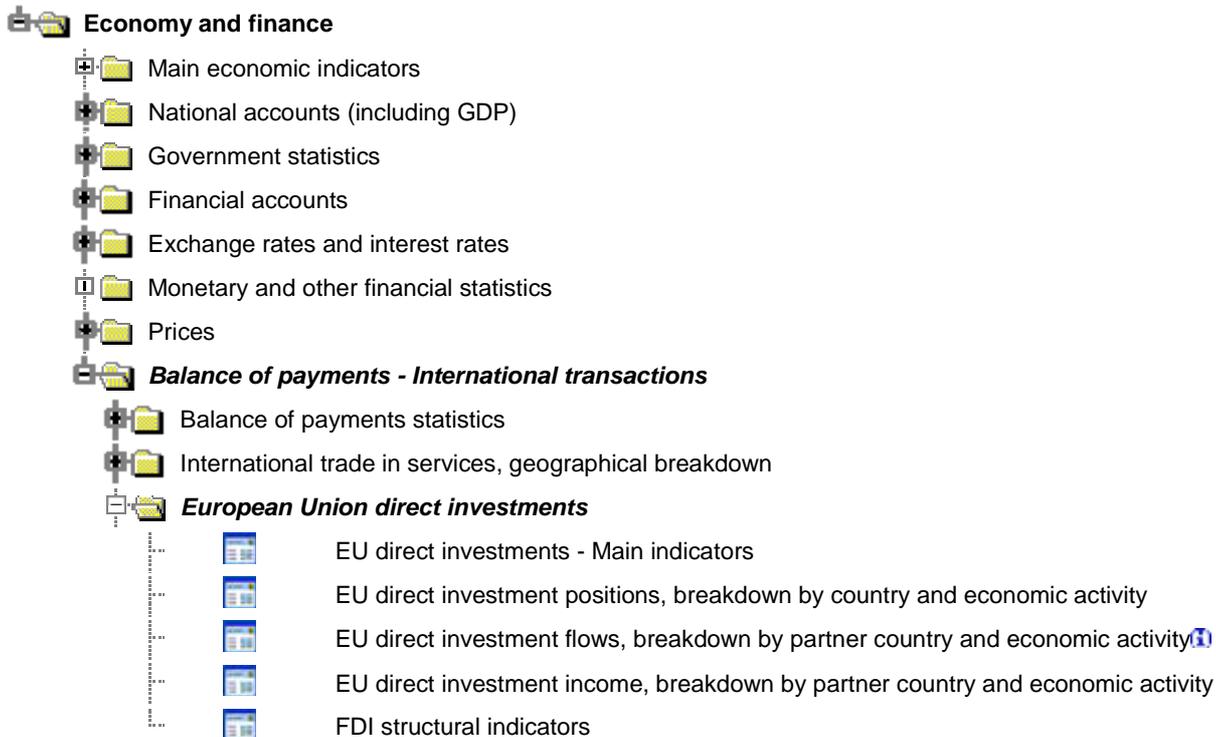
This article is based on detailed data that were published in Eurostat database in April 2006. Series for FDI contain data for 1992-2004 with detail by partner country and kind of investment (equity capital, loans and reinvested earnings). Data by economic activity and by main partner are available for the period 1992-2003, but for the EU-15 only. Data for income cover 1995-2004 and data for FDI stocks go from end 1994 to end 2003. Intra-EU data used in this publication are the average between outward and inward data as supplied by Member States.

The ECU (former European Currency Unit) was replaced by the Euro, the new European single currency, on 1.1.1999 at a ratio of 1:1.

<sup>12</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*)

## Further information:

Data: [EUROSTAT Website/Home page/Economy and finance/Data](#)



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