

EU-27 Foreign Direct Investments in Brazil, Russia, India and China more than doubled in 2007

In 2007, the EU-27 invested EUR 43 bn in the BRIC countries (Brazil, Russia, India and China ⁽¹⁾), – an increase of 58 % on 2006 (EUR 27.3 bn), with the BRICs' share of extra EU-27 outflows remaining stable at 10 %. For the same year, Russia was the main destination of EU-27 FDI outflows to the BRIC countries. EU FDI in the BRIC countries was more profitable than FDI in extra-EU as a whole for 2003-2006.

Share of the BRIC countries in EU-27 FDI outflows remained stable in 2007
 EU investment activity in the BRIC countries remained fairly stable between 2004 and 2006, posting a three-year average of EUR 28.4 bn. In 2007, EU FDI outflows increased by 58 % compared to 2006, to stand at EUR 43 bn. The increased EU outward flows to the BRIC countries

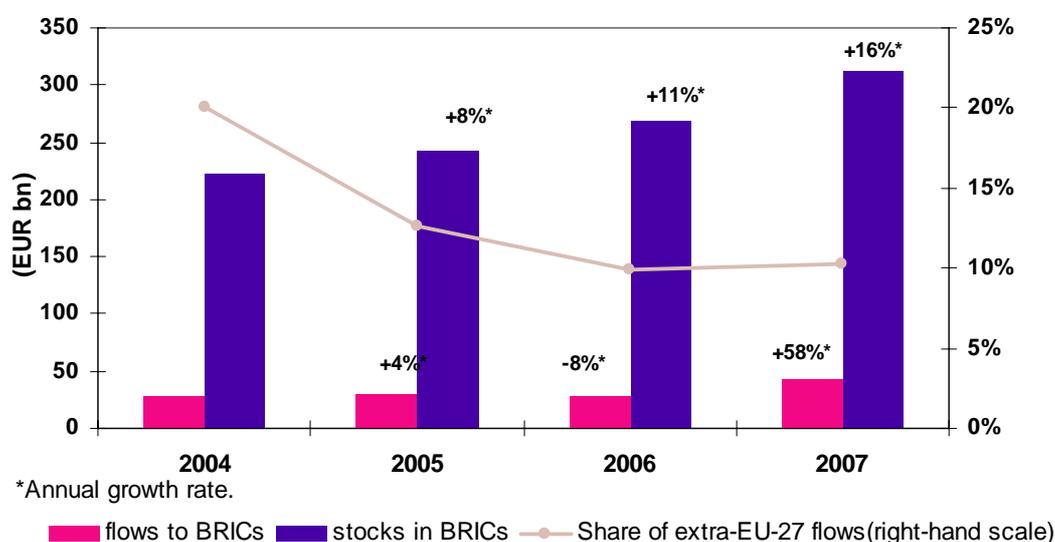
is in line with the significant increases in EU FDI recorded in extra-EU outflows for 2007, which went up from EUR 275 bn in 2006 to EUR 419.9 bn in 2007 ⁽²⁾ – an increase of 53 %. EU FDI flows to the BRIC countries as a share of total EU outward flows fell from 20 % in 2004 to 13 % the year after. In 2006 it dropped further to 10 %, where it remained in 2007.

EU-27 outward FDI stocks held in the BRIC group rose by 40 % between 2004 and 2007, reaching EUR 312.8 bn at the end of 2007. In a parallel development, EU FDI outward stocks in all extra-EU countries grew by 42 % during the same period, reaching EUR 3 126 bn at the end of 2007. EU FDI stocks in the BRIC group as a share of total EU outward stocks remained steady at 10 % during the period 2004-2007.

⁽¹⁾ China includes Hong Kong throughout this publication.

⁽²⁾ Published in Eurostat's News Release on 19.05.2008.

Figure 1: EU-27 outward FDI flows and stocks in the BRIC countries



Russia: main destination of EU-27 FDI outflows to the BRIC countries in 2007

Table 1: EU-27 FDI outflows to the BRIC countries 2004-2007 (in billion EUR)

	2004	2005	2006	2007
Extra-EU	142.3	234.5	275.0	419.9
BRIC	28.5	29.6	27.3	43.0
Brazil	5.7	7.4	5.4	7.1
Russia	6.0	9.6	10.7	17.1
India	1.6	2.5	2.5	10.9
China	15.2	10.1	8.7	7.8
of which				
Hong Kong	11.3	3.9	2.7	6.0

EU investment activity in Russia grew steadily throughout the period in question, reaching EUR 17.1 bn in 2007, making Russia the main BRIC recipient of EU FDI in 2007. EU outflows to Russia made up 4 % of total EU outward FDI to extra-EU countries. Despite the fact that the Netherlands – the main EU investor country in Russia in 2006 – withdrew significant amounts of capital in 2007, Russia remained top of the rankings among the BRIC countries. This was due to increased investments by Germany, up to EUR 6.7 bn in 2007 from EUR 2.6 bn in 2006. Germany's investments accounted for 39 % of total EU investments in Russia.

The EU is India's largest source of foreign direct investment, with EUR 2.2 bn on average for 2004-2006, compared to the United States with EUR 1 bn. EU investment flows to India gained significant momentum in 2007, seeing a more than fourfold increase from EUR 2.5 bn in 2006 to EUR 10.9 bn in 2007; this represented 3 % of

total EU outflows to extra-EU partners. When comparing 2007 levels with those of 2004, the increase is even more striking (more than sevenfold). In 2007, India attracted 25 % of total EU outward flows to the BRIC group.

In contrast, China saw a substantial decrease (- 49 %) in EU investments, which fell from EUR 15.2 bn in 2004 to EUR 7.8 bn in 2007. EU outflows to China in 2004 accounted for 11 % of total EU outward FDI flows to extra-EU countries, although their share dropped to 2 % in 2007. The United Kingdom accounted for the bulk of this reduction, as it cut its foreign direct investment in Hong Kong by 56 %. The Netherlands also contributed by withdrawing capital from mainland China (EUR 220 mn in 2004 compared to a disinvestment of EUR - 1.7 bn in 2007). In spite of these reductions in EU investments, China – with 18 % of the total EU outward FDI to the BRIC group – still ranked third.

Investment flows to Brazil followed very close behind, putting it in fourth place with 17 % of the total EU outward FDI to the BRIC countries. EU outflows to Brazil reveal a particular pattern, with a year of substantial growth being followed by a year of considerable contraction. In 2007, EU outflows to Brazil settled at EUR 7.1 bn (2 % of the total EU outward direct investment to extra-EU destinations) after hitting their lowest level of EUR 5.4 bn in 2006. Having increased its investments by 7 % since 2006, Spain – with EUR 2.5 bn – was the main EU investor in Brazil in 2007.

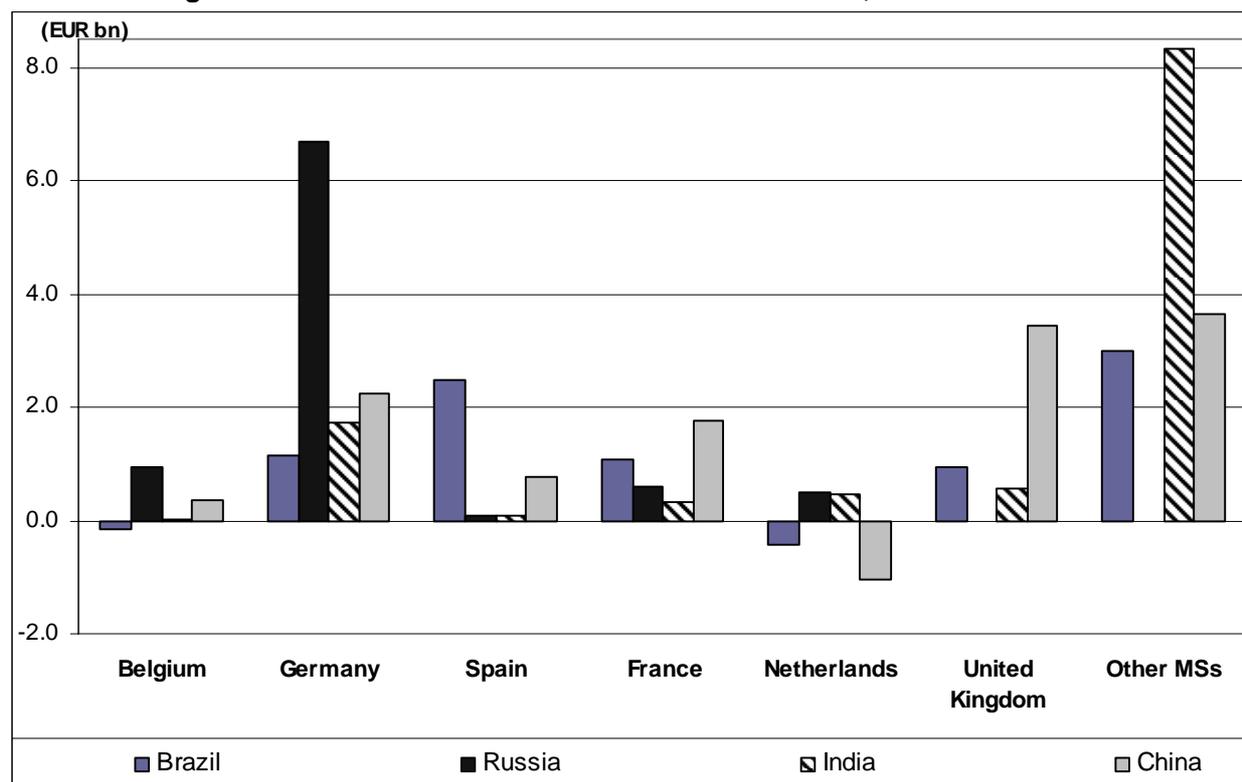
Germany was the largest investor in the BRIC countries in 2007

Figure 2 shows that Germany, with EUR 11.8 bn in 2007, almost doubled its investments in the BRIC group compared to 2006 (EUR 6.9 bn) and became the main EU investor, accounting for 27 % of total EU-27 investment flows in the BRIC countries. France was next with EUR 3.8 bn; French investments in the BRIC countries rose by 15 % from EUR 3.3 bn in 2006. Even though France decreased its direct investments in Russia by 40 % in 2007, the increase in outward flows to the BRICs was mainly due to higher investments in China, which rose from EUR 1 bn in 2006 to EUR 1.8 bn in

2007. The residual heading "Other MSs" in Figure 2 is very high because the national data do not include data on SPEs⁽³⁾. In addition, the value for Russia is not shown, as the United Kingdom's figure is confidential.

(3) SPEs: Special Purpose Entities are mainly financial holding companies, foreign-owned, and principally engaged in cross-border financial transactions, with little or no local activity in the Member State of residence.

Figure 2. Main EU-27 investors in the BRIC countries, FDI flows in 2007



Other Member States is the difference between EU-27 total and the Member States presented in Figure 2.

2004-2007: Spain was the main investor in Brazil

During the period 2004-2007, Brazil received an annual average of EUR 6.4 bn of European investments. The bulk of the outward FDI flows were driven by Spain, which accounted for 31 % of the total EU FDI investments towards Brazil for the four-year period in question. In fact, Spanish investments have increased consistently since 2004 (EUR 1.5 bn) to reach EUR 2.5 bn in 2007. Brazil also received

significant investments from Germany (EUR 1 bn as a four-year average). German investments started at EUR 1.4 bn in 2004, fell for the two subsequent periods, and picked up again to EUR 1.1 bn in 2007. In 2006, the majority of the German investments targeted the *metal and mechanical products* sector and *real estate activities*.

2004-2007: The Netherlands targeted oil-rich Russia

The preferred investment destination for Dutch companies in 2004-2007 was oil-rich Russia, with a four year average of EUR 2.8 bn. In 2004, Russia attracted EUR 2.2 bn of Dutch FDI, which more than doubled in 2006 to EUR 5.9 bn. These flows represented 26 % of the total EU FDI outward flows to Russia for the period 2004-2007. It is important to note that the *petroleum, chemical, rubber, and plastic products* sector, with EUR 4.2 bn, attracted 71 % of investments in Russia by the Netherlands in 2006. Dutch FDI flows to Russia fell heavily in 2007 following the partial divestment of Royal Dutch Shell

(Netherlands) in the Sakhalin II project (Russia) in April 2007 (from 55 % to 27.5 %) ⁽⁴⁾. Germany, with EUR 2.2 bn, also invested significant FDI in Russia throughout the four years in question. Even though disinvestments were recorded for 2004 and 2005, German investments to Russia increased to EUR 2.6 bn in 2006. *Financial intermediation* attracted most of the German investments in Russia in 2006 (20 %). A more than twofold increase was recorded in the German FDI towards Russia in 2007 (EUR 6.7 bn).

⁽⁴⁾ Source: Annual Report of Royal Dutch Shell, 2007.

2004-2007: German FDI focused on India

Germany recorded the highest investments in India, with an average for 2004-2007 of EUR 864 mn. In 2004, India attracted EUR 394 mn of German investments, which continued growing throughout the period in question to reach EUR 1.7 bn in 2007 – a more than four-fold increase since 2004. German outward investments to India accounted for 20 %

of the total EU outward FDI to India during 2004-2007.

In 2006, foreign direct investment from Germany to India was primarily concentrated in *real estate and business activities, financial intermediation* and, to a lesser degree, in *mechanical products, and motor and other transport equipment*.

2004-2007: United Kingdom was the main investor in China

During 2004-2007, the United Kingdom was by far the biggest EU investor in China, with EUR 4.7 bn on average for the four years in question. Total British investments in China began very high, at EUR 8.6 bn in 2004 (of which 7.8 bn were directed to Hong Kong) but fell by 64 % in 2005 to EUR 3.1 bn. They remained at similar levels until 2007. The vast majority of the United Kingdom's investments were directed towards Hong Kong throughout the period in question. Direct investments by the

United Kingdom targeting China represented nearly half of EU outward investments towards China during 2004-2007.

In 2004, *financial intermediation* accounted for the biggest share of these investments. Despite the decreased investments towards China in the following years, *financial intermediation* continued to capture the biggest share of the United Kingdom's investments towards China.

Table 2. FDI outflows to the BRIC countries by main EU investing country
(in EUR million)

	Brazil		Russia		India		China		Extra-EU		BRICs	
	2004-2007 average	2007	2004-2007 average	2007	2004-2007 average	2007	2004-2007 average	2007	2004-2007 average	2007	2004-2007 average	2007
*EU-27	6 404	7 143	10 844	17 106	4 376	10 947	10 454	7 780	267 928	419 912	32 077	42 976
Belgium	336	- 139	403	958	33	28	68	369	:	9 856	840	1 216
Germany	1 073	1 147	2 189	6 698	864	1 719	2 712	2 246	25 606	51 708	6 838	11 810
Spain	2 013	2 467	127	81	:	90	:	783	:	25 188	:	3 421
France	910	1 085	569	603	255	316	1 179	1 751	27 042	34 730	2 913	3 755
Italy	160	160	33	19	39	35	251	394	:	210	483	608
Luxembourg	223	- 6	320	417	9	5	42	31	38 714	78 287	594	447
**Netherlands	160	- 417	2 781	488	258	465	- 116	- 1 029	10 380	- 6 350	3 083	- 493
Finland	56	123	173	69	63	103	125	- 74	- 210	664	417	221
Sweden	42	377	454	407	44	96	78	95	:	32 004	618	975
United Kingdom	529	956	:	:	572	567	4 659	3 437	:	121 225	:	:
***Other Member States	902	1 390	3 796	7 366	2 240	7 523	1 455	- 223	166 396	72 390	16 293	21 016

Minus sign stands for disinvestment.

: indicates missing or confidential data.

* 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 additionally collected by Eurostat and the ECB from Member States not including SPEs FDI in national data.

** Netherlands: excluding SPEs.

*** Other Member States is the difference between the EU-27 and the Member States presented in Table 2. In many instances, this value is very high as the national data do not include data on SPEs, which are taken into account in the EU aggregates.

Figure 3. EU FDI outward flows to Brazil by main EU investor in 2007

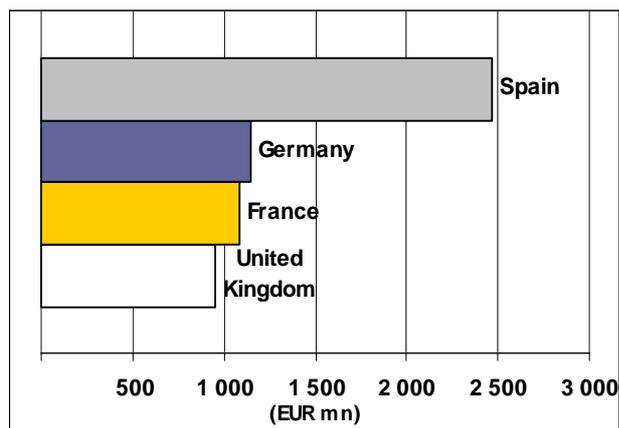


Figure 5. EU FDI outward flows to India by main EU investor in 2007

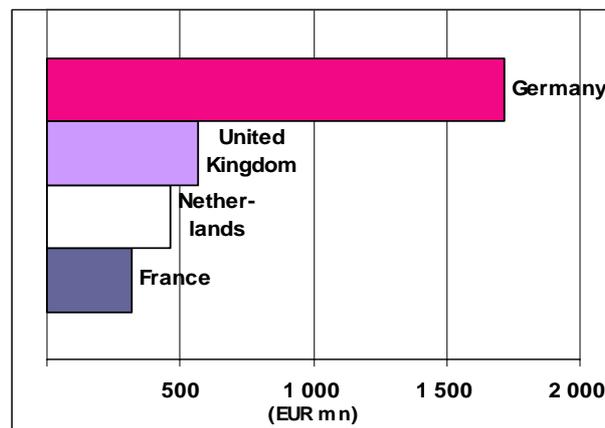


Figure 4. EU FDI outward flows to Russia by main EU investor in 2007

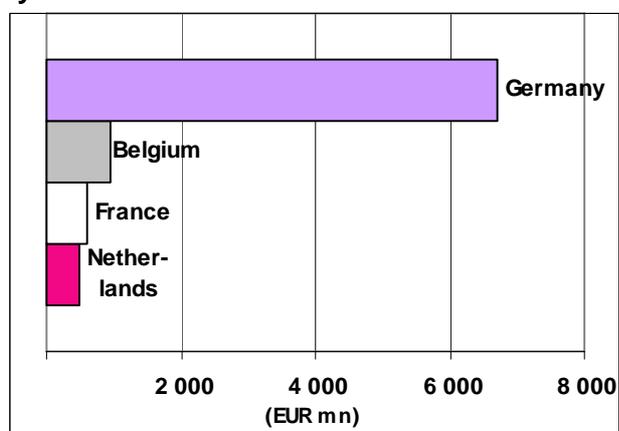
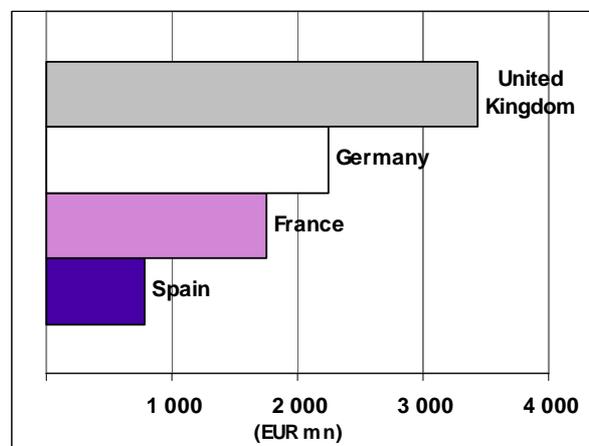


Figure 6. EU FDI outward flows to China by main EU investor in 2007



China was the top destination for EU-27 FDI outward stocks at end-2007

At end-2007, EU-27 FDI stocks held in the BRIC countries were estimated to be 40 % higher than in 2004, reaching EUR 312.8 bn.

Throughout the period under examination, China held the dominant position in EU outward FDI stocks in the BRICs. However, Hong Kong had the biggest share of EU FDI stocks targeting

China. At end-2007 in particular, China, with EUR 123.9 bn, accounted for 40 % of EU FDI stocks held in the BRIC countries and 4 % of the stocks invested in extra-EU partners. The United Kingdom, with EUR 40.1 bn, held the largest share of EU FDI stocks in China. Germany came next with EUR 17.7 bn.

Table 3: EU-27 outward FDI stocks in the BRIC countries (in billion EUR)

	2004	2005	2006	2007*
Extra-EU	2 200	2 435	2 706	3 126
BRIC	223.6	242.4	269.8	312.8
Brazil	72.8	84.4	88.0	95.1
Russia	21.6	33.3	52.2	69.4
India	9.1	11.1	13.4	24.4
China	120.2	113.6	116.1	123.9
of which				
Hong Kong	97.7	85.4	83.4	89.4

* Eurostat's estimated stock value for 2007.

Brazil was the second most important destination, with EUR 95.1 bn of EU FDI outward stocks. Spain ranked first in terms of investment in Brazil as it accounted for 32 % of the EU FDI stocks invested there. It was followed by France on 12 % and Germany with 10 % of total EU outward stocks to Brazil.

Russia ranked third in the list of the main BRIC recipients of EU FDI stocks at end-2007, with EUR 69.4 bn – an increase of 33 % over end-2006. Three Member States – namely Germany

with EUR 17.5 bn, the Netherlands with EUR 12.2 bn, and France with EUR 4 bn – accounted for nearly half of the EU FDI outward stocks in Russia at the end of 2007.

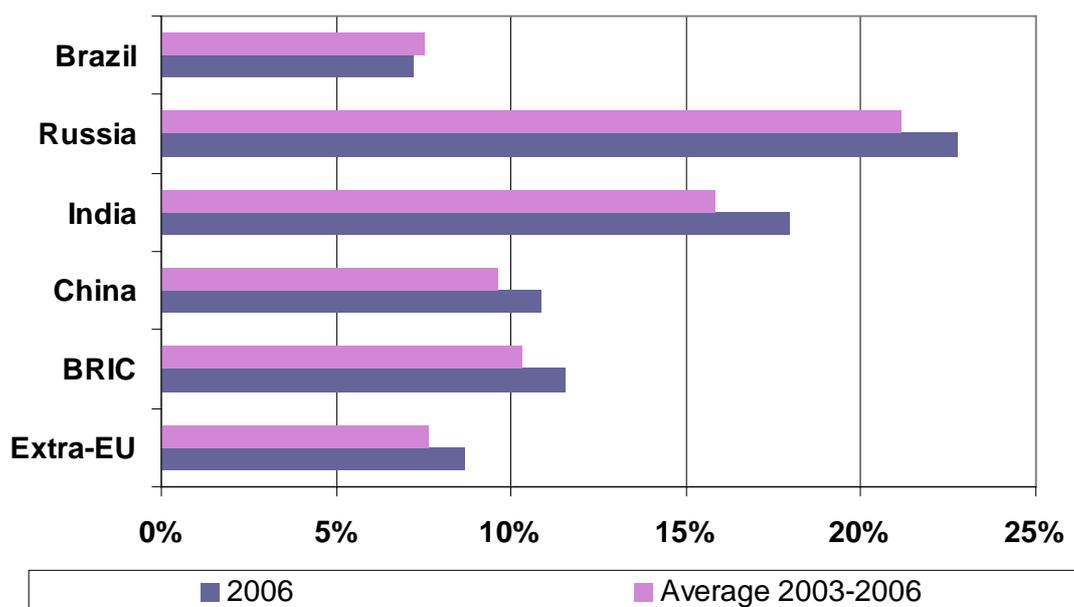
India accounted for the least amount of EU FDI stocks in the BRIC group, with EUR 24.4 bn at end-2007. Germany with EUR 5.6 bn and the United Kingdom with EUR 4 bn accounted for 39 % of the total EU outward FDI stocks invested in India.

EU FDI in the BRIC countries more profitable than FDI in extra-EU as a whole

In 2006, EU FDI outward stocks in the BRIC group generated income of EUR 28 bn. Income payments by China alone represented 44 % of this amount. Russia was the second source of income,

accounting for 27 % of income paid by the BRIC countries to the EU; Brazil was close behind on 22 %.

Figure 7: Rate of return on EU FDI outward stocks in BRIC countries
EU-27 for 2004-2006, EU-25 for 2003



The profitability of FDI in the BRIC countries over the whole period under review showed an upward trend, starting at 8 % in 2003 and reaching 12 % in 2006. EU investments in the BRIC countries were more profitable than investments in the extra-EU countries as a whole for the period 2003-2006.

Looking at the individual countries inside the BRIC group, the rate of return ⁽⁵⁾ on direct investment

positions during 2003-2006 shows high profitability for EU investments in Russia, with 21 %. India was next with an average rate of return of 16 %, while China and Brazil followed with 10 % and 8 % respectively.

In 2006, Russia – with a 23 % rate of return – continued to be the most profitable BRIC destination, followed by India with 18 % and China with 11 %.

⁽⁵⁾ Rate of return = (income paid in t) / (stocks at end of period t-1).

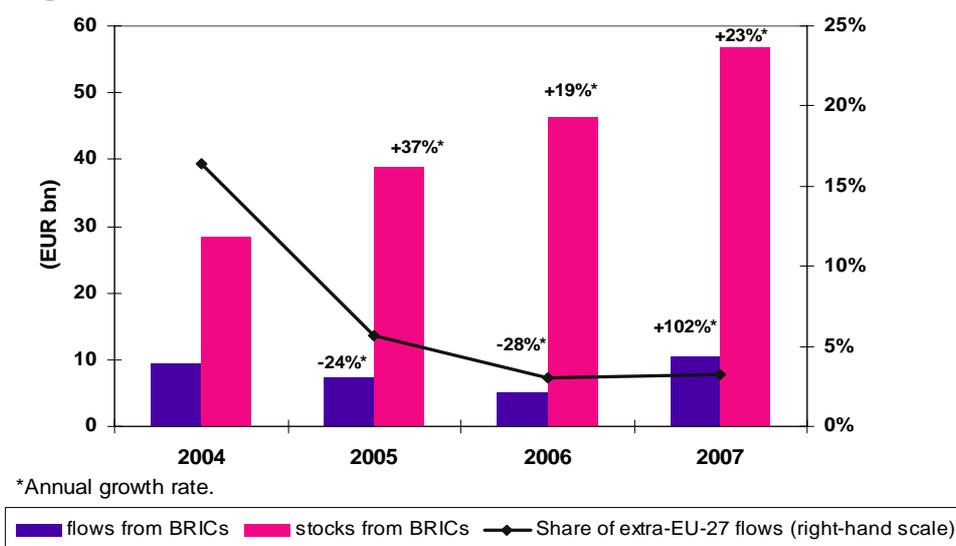
FDI inflows from the BRIC group increased in 2007

EU FDI inflows from the BRIC countries started high in 2004, at EUR 9.6, but fell to EUR 5.2 bn in 2006. EU inward flows from the BRICs doubled in 2007 (EUR 10.4 bn) compared to 2006. The enhanced EU inward flows from the BRIC countries moved in parallel with the noteworthy increases recorded by extra-EU countries in 2007; they escalated from EUR 168.9 bn in 2006 to EUR 319.2 bn in 2007 – an increase of 89 %. EU FDI flows from the

BRIC countries as a share of total EU inward flows displays a downward trend. It started at 16 % in 2004, fell to 6 % in the following year; its fall continued in 2006 and 2007 at 3 %.

EU-27 inward FDI stocks invested by the BRIC group increased by 99 % between 2004 and 2007, reaching EUR 56.8 bn at the end of 2007. The share of EU FDI stocks that originated in the BRIC group remained steady for 2004-2007 at 2 % of total EU inward stocks.

Figure 8: EU-27 inward FDI flows and stocks from the BRIC countries



Unprecedented investments from India in the EU in 2007

Table 4: EU-27 FDI inflows from the BRIC countries 2004-2007 (in billion EUR)

	2004	2005	2006	2007
Extra-EU	58.3	127.0	168.9	319.2
BRIC	9.6	7.2	5.2	10.4
Brazil	4.0	2.9	1.2	1.9
Russia	0.3	2.8	1.5	1.0
India	0.0	0.5	0.5	9.5
China	5.3	1.0	2.0	-1.9
of which				
Hong Kong	4.8	1.1	-0.2	-2.4

Inward FDI from the BRIC countries decreased from EUR 9.6 bn in 2004 to EUR 5.2 bn in 2006. This fall was the result of reduced investments in the EU from all BRIC countries, with the exception of India which kept its investments at a fairly low but stable level (EUR 0.5 bn) during 2005-2006. However, inward investments from the BRIC group soared to EUR 10.4 bn in 2007.

The main contribution to the increase in EU FDI inflows from the BRIC group in 2007, in both

absolute and relative values, was from India. Its investments in the EU followed a steep upward trend throughout the period in question. In particular, Indian foreign direct investments in the EU soared from no investments at all in 2004 to EUR 9.5 bn in 2007. This increase could be largely attributed to the acquisition of Corus (United Kingdom) by Tata Steel (India) ⁽⁶⁾. Brazil's investments towards the EU increased in 2007, but by a smaller magnitude than those of India.

Meanwhile, China's investment activity in the EU fell significantly from EUR 2 bn in 2006 to EUR - 1.9 bn in 2007. The fall in China's investments in EU is mainly due to Hong Kong's disinvestments in the European Union (EUR - 0.2 bn in 2006 to EUR - 2.4 bn in 2007). Russia's investments in the EU also decreased, from EUR 1.5 bn in 2006 to EUR 1 bn in 2007.

⁽⁶⁾ Source: Annual report of Tata Steel 2006-2007.

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 Eurostat database in May 2008. Series for FDI contain data for 1992-2006 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 1992-2005, and from 2001 for EU-25 and from 2004 for EU-27. Data for income cover 1995-2006 and data for FDI stocks go from end 1994 to end 2006. The FDI flow figures for 2007 are based on preliminary data from the Member States, FDI stock data for 2007 are estimated by Eurostat.

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