Statistics

in focus

ECONOMY AND FINANCE

THEME 2 – 15/2000

BALANCE OF PAYMENTS

Contents

Manuscript completed on: 28.02.2000
ISSN 1024-4298
Catalogue number: CA-NJ-00-015-EN-I
Price in Luxembourg per single copy (excl. VAT): EUR 6

Growing foreign direct investment into the EU

Decreasing shares for Italian and German markets

Paolo PASSERINI

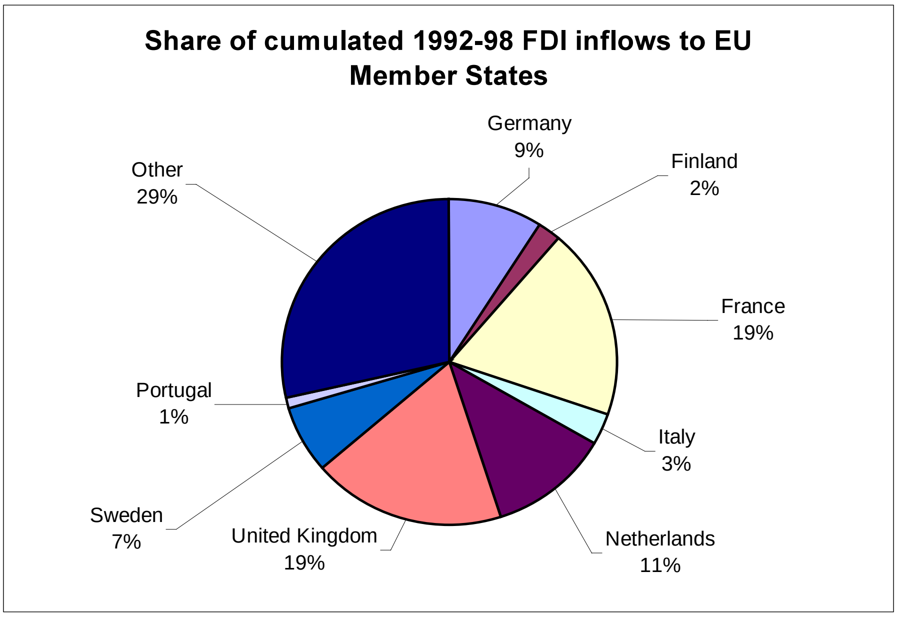
Foreign direct investment (FDI) statistics give information on one of the major aspects of globalisation. Unlike traditional cross border trade in goods and services, FDI (for definition see page 7) reflects the objectives of establishing a more strategic and long term engagement in a particular market. Eurostat maintains an FDI database which contains harmonized and thus comparable data on inward and outward FDI positions, flows and income for the European Union, its Member States and major FDI partners.

Though the growth in foreign-owned direct investments in the EU Member States did not follow the pace at which EU Member States invested abroad during the nineties, it still rose significantly, particularly during 1997 and 1998. In 1998, total inflows to the European Union reached 193 bn. ECU, a figure that almost doubled from 1997[1] and represented nearly 2.6% of the EU GDP in 1998.

This article looks at the evolution of inflows to the Member States of the European Union and in particular at the different components of this trend. The aim is to understand: 1) where in the European Union foreign investors chose to invest, and 2) which markets they focused on.

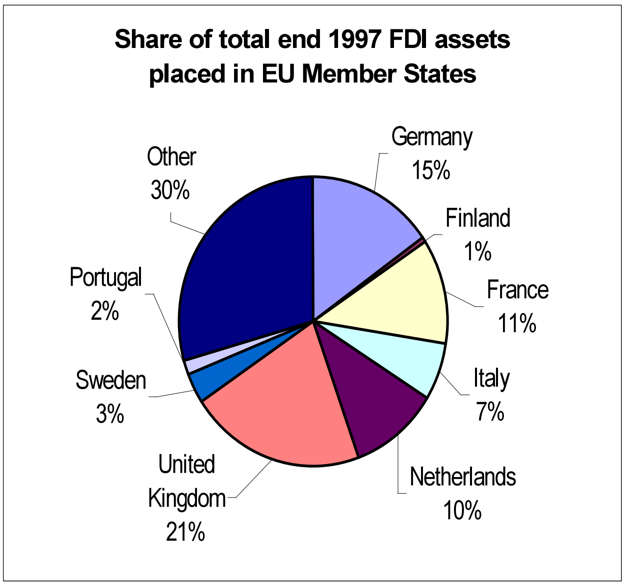
Foreign investment flows to Germany and Italy slowed down in the nineties…

Figure 1a: Share of FDI inward flows by Member State



[1] *Partly due to two major mergers and acquisitions in the mining and quarrying sector and in the motor vehicles sector*

Figure 1b: Share of foreign owned direct investment assets by Member State



The European Union still occupies a major role as recipient of direct investments in the world by the end of the nineties, but the allocation of FDI flows into the European Union markets was reshaped during the period 1992-98. One of the major characteristics of the trend in FDI statistics in the European Union is the reduced importance of Italy and to a lesser extent Germany as markets for foreign direct investments.

This trend emerges from several absolute and relative comparisons with other EU Member States. For example, while Germany and Italy were domicile for about 22% of all FDI capital stock in the European Union at the end of 1997, the two countries only received 12% of the cumulated inflows to EU countries during the 1992-98 period.

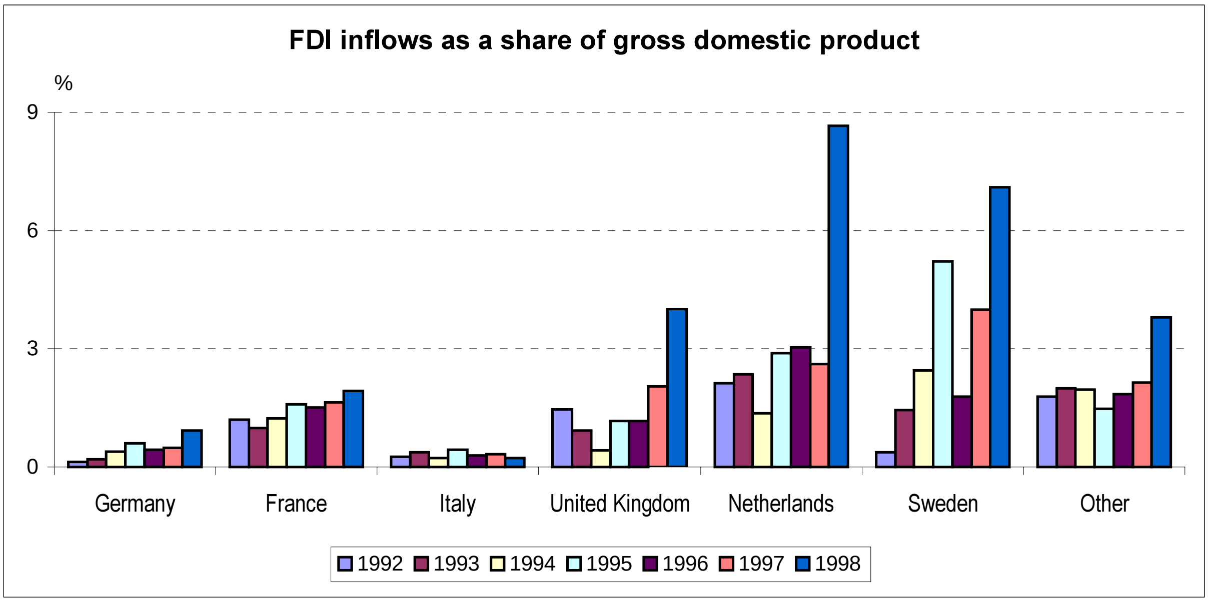
Table 1: Total FDI inward flows into EU Member States (ECU Mio, equity and other capital)

	Total FDI inward flows to EU Member States						
	1992	1993	1994	1995	1996	1997	1998
EU-15	55 494	55 893	57 735	80 344	77 759	101 986	193 409
BLEU	8 735	9 201	7 014	8 267	11 078	10 989	18 560
DENMARK	785	1 424	4 130	3 196	605	2 470	5 761
GERMANY	2 058	3 181	6 706	11 076	8 012	8 886	17 766
SPAIN	6 365	8 197	7 910	5 231	5 305	5 638	10 104
FRANCE	12 308	10 450	13 836	18 659	18 135	19 982	24 577
ITALY	2 442	3 202	1 883	3 683	2 784	3 263	2 332
NETHERLANDS	5 255	6 259	3 848	8 762	9 439	8 357	29 134
PORTUGAL	1 485	1 297	1 057	506	557	1 721	1 029
FINLAND	445	719	1 069	358	510	1 256	8 743
SWEDEN	700	2 287	4 106	9 208	3 551	8 023	14 377
UNITED KINGDOM	11 767	7 476	3 658	9 935	10 670	23 381	48 930
OTHER	3 149	2 201	2 519	1 463	7 113	8 019	12 097

…and these flows had lower economic importance than in other EU countries

Figure 2 illustrates that the real economic importance of inflows to Germany and Italy during the nineties was lower than in other EU Member States. The share of inflows in total was several times higher in most of the other EU Member States during this period.

Figure 2: FDI inflows as a share of gross domestic product by Member State



Other indicators such as those in table 2, show that inflows to Germany and Italy not only appear low in terms of GDP but also low, as compared to the two countries' share in gross fixed capital formation or total outflows, for example. In 1998, Germany and Italy together represented nearly 40% of all GDP or gross fixed capital formation in the European Union.

However, during the 1992-98 period the two countries only received 12% of total inflows in the European Union. Table 2 shows that in countries like the Netherlands, France, the United Kingdom and particularly Sweden, foreign direct investments had a much higher economic importance than in Germany and Italy.

Table 2: Relative size of FDI inflows

	Share of EU-15 aggregate by Member State (%)				
	FDI inflows (1992-98)	FDI positions (1997)	GDP (1998)*	Gross fixed capital formation (1998)*	FDI outflows (1992-98)
FRANCE	18.9	11.5	17.1	15.9	16.2
UNITED KINGDOM	18.6	21.2	16.3	14.6	17.7
BLEU	11.9	:	3.2	8.1	6.5
NETHERLANDS	11.4	10.4	4.5	4.9	13.4
GERMANY	9.3	15.2	25.6	26.8	13.6
SPAIN	7.8	:	6.8	8.1	4.7
SWEDEN	6.8	3.4	2.7	2.2	3.6
ITALY	3.1	6.6	14.0	12.7	5.0
DENMARK	3.0	:	2.0	2.3	2.0
FINLAND	2.1	0.8	1.5	1.4	3.7
PORTUGAL	1.2	1.6	1.3	1.8	0.7
OTHER	5.9	:	5.0	1.2	2.9
EU-15	100	:	100	100	100

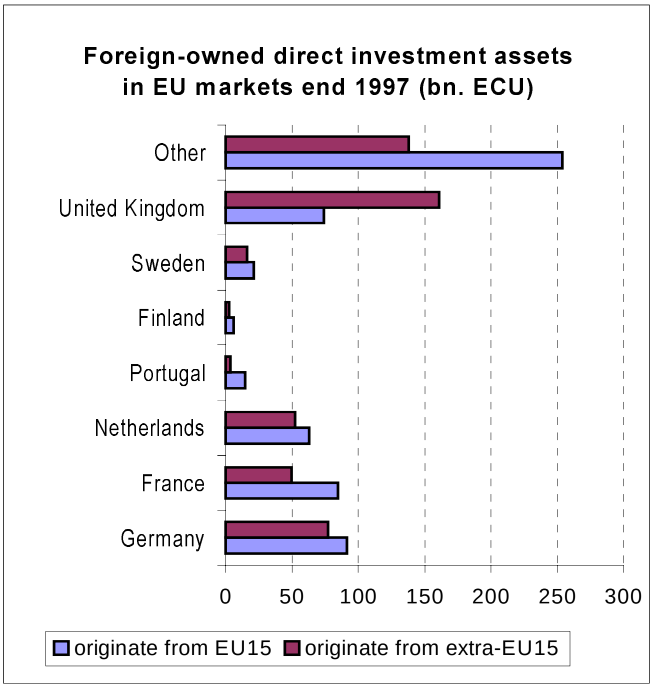
*** Source: Eurostat New Cronos**

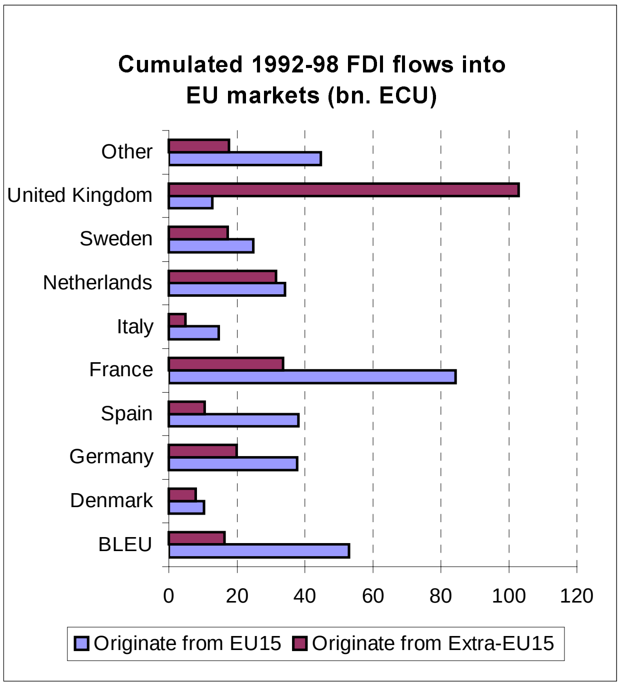
EU countries receive most investments from other EU partners, UK being the exception

Most EU countries receive a majority of foreign investments from other EU Member States. Figure 3 shows that this pattern was reinforced in the nineties. Germany and France for example, received more than twice the amount of investments from other EU partners they attracted from Extra-EU partners between 1992 and 1998.

The United Kingdom stands out and contradicts the general pattern as it receives a large majority of FDI from Extra-EU partners. The close links that the UK has to the United States and the Commonwealth countries is probably one of the main reasons why about two thirds of all FDI capital in the British market was owned by investors from outside the EU. Figure 3 illustrates that during the nineties, the role played by these investors in the British market was further enhanced.

Figure 3: FDI in EU Member States





FDI in Sweden and Finland were made relatively recently

Flow/stock ratios for foreign-owned direct investments in the European markets confirm the trends described above: Foreign-owned assets in Germany and Italy rank as the oldest in the European Union as a majority of them were established long before 1992.

Direct investments in the two new Member States, Finland and Sweden, were established much more recently. The data therefore partly reflect possible economic effects of the two countries' decision to join the European Union in 1995.

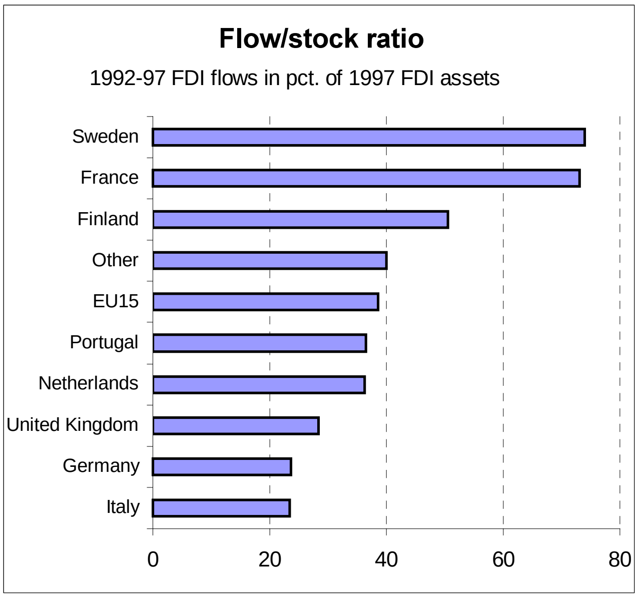
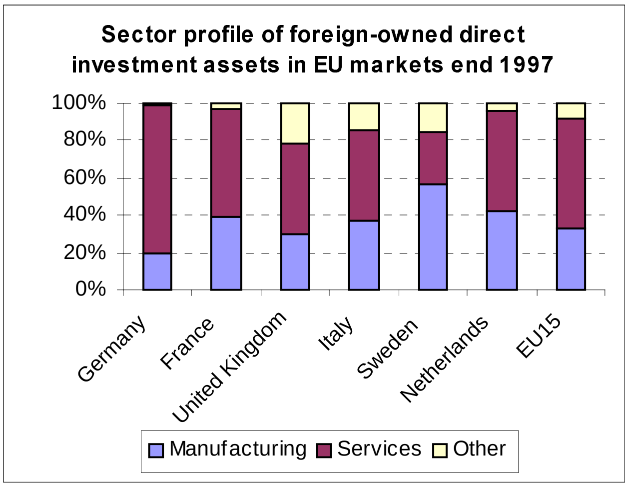


Figure 4: Flow/Stock ratios for foreign-owned direct investments in EU markets by Member state

German manufacturing abandoned by foreign investors in the nineties…

A review of the sectoral profile of the FDI capital invested in the European Union helps to explain why inflows to certain Member States were relatively limited during the nineties. Figure 5a, for example, shows that foreign assets in the German market are concentrated in the services sector (80% share of total foreign assets compared with only 20% in manufacturing).

Figure 5: Sector profile of foreign-owned FDI capital in EU Member States



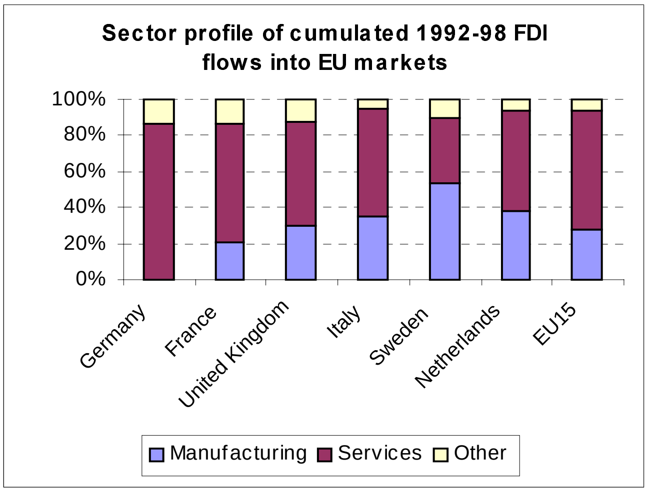


Figure 5b indicates that this trend was reinforced during the nineties. It also underlines the fact that since 1992 foreign investments in the manufacturing sector have virtually come to a halt in Germany. In three of the seven years from 1992 to 1998, foreign investors withdrew FDI capital from German manufacturing industries. The moderate inflows which Germany recorded in the nineties was solely driven by investments in services sectors.

Displacements have also taken place in Italy where foreign investors moved their attention from manufacturing towards services sectors. Unlike in Germany, the sluggish trend in FDI inflows to Italy cannot be assigned to a particular sector of the economy as none of the sectors show any particular growth in FDI.

…while British, Swedish, French and Dutch markets have taken over

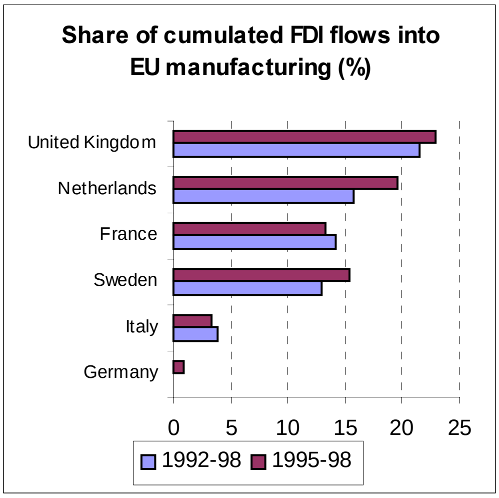
The profile of foreign-owned capital in Sweden is particular in the sense that nearly 60% of the investments have been made in the manufacturing industries. Figure 5 illustrates that this focus on manufacturing in Sweden, exceptional in a European context, continued through most of the nineties. In addition, an increasing number of investors decided to invest in the services sectors in Sweden.

The French economy has also been hit by a certain shift away from the manufacturing sectors and into services during the nineties: Only one out of five ECU invested in France went into manufacturing in recent years. The diminishing importance of manufacturing in France was more than offset by strong increases in FDI in services. However, it is the United Kingdom and to a lesser extent the Netherlands that have recorded the strongest growth in incoming FDI during the last years and this growth seems to have been relatively evenly spread between manufacturing and services

Table 3: Total FDI inward flows into manufacturing by Member State (ECU Mio, equity and other capital)

	Total inward flows into manufacturing						
	1992	1993	1994	1995	1996	1997	1998
Germany	-1 300	1 356	-806	920	-1467	611	960
France	4 079	2 278	2 111	2 938	3 308	4 265	5 702
Italy	1 150	1 241	296	1 655	498	1 049	880
Netherlands	1 784	504	1 238	1 854	5 292	2 271	14 431
Sweden	-378	1 461	2 840	8 205	902	3 878	5 628
United Kingdom	4 725	3 924	1 124	2 972	3 205	7 085	14 603

Figure 6: Share in cumulated FDI flows into manufacturing and services



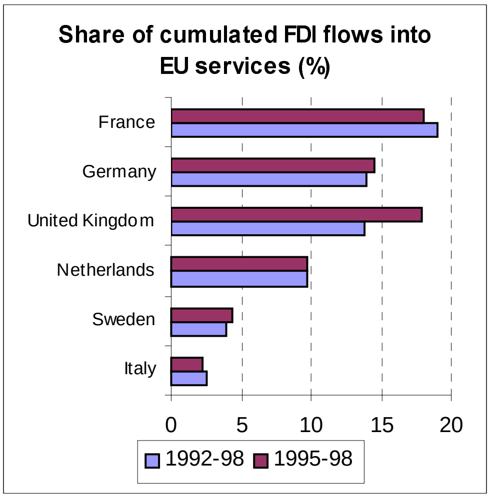


Table 4: Total FDI inward flows into services by Member State (ECU Mio, equity and other capital)

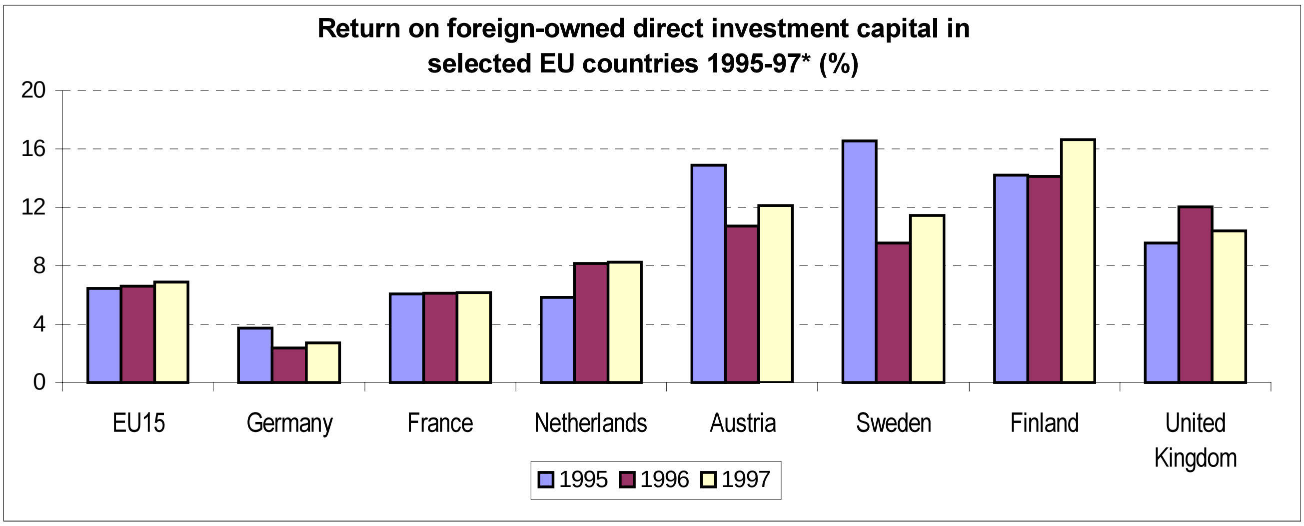
	Total inward flows into services sectors						
	1992	1993	1994	1995	1996	1997	1998
Germany	3 361	1 863	7 240	10 007	10 065	8 418	15 596
France	8 015	7 931	6 880	7 105	13 688	15 240	18 593
Italy	889	1 644	1 310	1 716	2 062	1 597	1 301
Netherlands	3 579	4 055	1 973	6 519	3 768	5 266	14 145
Sweden	739	641	1 126	618	1 004	2 832	8 442
United Kingdom	:	:	1 490	6 745	6 150	14 004	27 663

FDI capital in Germany also among the least profitable

Data for income and rate of return are available only for the period 1995-97 and only for about half of the Member States. These data show that return on FDI capital in Germany was less than the average return on FDI capital in the European Union markets which reached close to 6% during that period.

The Austrian, Finnish, Swedish and British markets, on the other hand, have generated higher income from direct investments during that period. In all four countries the return on direct investments were well above the European average.

Figure 7: Return on foreign-owned direct investment assets in EU Member States



*** EU-15 estimated; Germany: 1997 estimated; France: estimate based on dividends; Sweden: Sveriges Riksbank**

In particular, there is a minor tendency, in the Member States under review, for FDI originating from outside the European Union to have been slightly more profitable than FDI originating from other EU countries during the 1995-97 period (table 5).

Table 5: Return[2] on foreign-owned direct investment capital in EU Member States (%)

	FDI income (t) in percentage of FDI positions (t-1)					
	Originating from EU			Originating from Extra-EU		
	1995	1996	1997	1995	1996	1997
GERMANY	1.0	1.6	4.9	5.7	3.3	4.8
FRANCE	6.1	6.4	5.4	4.7	4.8	5.8
UNITED KINGDOM	10.9	11.7	10.2	9.1	9.3	7.1
NETHERLANDS	4.5	5.6	6.9	6.1	9.3	8.2
AUSTRIA	11.9	9.4	8.6	11.8	10.5	17.5
PORTUGAL	:	4.7	4.3	:	8.2	5.0
FINLAND	12.2	12.7	12.6	11.8	13.7	16.1
OTHER EU-15	:	4.5	5.9	:	9.6	8.5

NB: Germany: 1997 estimated; France: estimate based on dividends; Sweden: Sveriges Riksbank

The fact that certain EU Member States are loosing weight have been the subject of different analyses in recent years. The reasons behind these developments are obviously many and to give a full explanation would be extremely complex.

However, the trends within the period analysed here are not easily explained through statistical uncertainties or by economical cycles in the Member States.

Data would rather seem to describe a situation where foreign investors see investment climates and business conditions throughout the EU Member States as being significantly different, and are making their investment decisions in accordance.

➢ 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).

[2] *Return rates are calculated by dividing total income in period t with total positions at the end of period t-1*

Further information:

➢ **Reference publications**

Title **European Union Direct Investment Yearbook 1999**
Catalogue No CA-26-99-425-EN-C Price EUR 30

➢ **Databases**

New Cronos
Domain Theme2/bop/FDI

To obtain information or to order publications, databases and special sets of data, please contact the **Data Shop** network:

BELGIQUE/BELGIË
Eurostat Data Shop
Bruxelles/Brussel
Planistat Belgique
124 Rue du Commerce
Handelsstraat 124
B-1000 BRUXELLES / BRUSSEL
Tel. (32-2) 234 67 50
Fax (32-2) 234 67 51
E-Mail: datashop@planistat.be

DANMARK
DANMARKS STATISTIK
Bibliotek og Information
Eurostat Data Shop
Sejrøgade 11
DK-2100 KØBENHAVN Ø
Tel. (45-39) 17 30 30
Fax (45-39) 17 30 03
E-Mail: bib@dst.dk

DEUTSCHLAND
STATISTISCHES BUNDESAMT
Eurostat Data Shop Berlin
Otto-Braun-Straße 70-72
D-10178 BERLIN
Tel. (49-30) 23 24 64 27/28
Fax (49-30) 23 24 64 30
E-Mail:
datashop@statistik-bund.de

ESPAÑA
INE Eurostat Data Shop
Paseo de la Castellana, 183
Oficina 009
Entrada por Estébanez Calderón
E-28046 MADRID
Tel. (34-91) 583 91 67
Fax (34-91) 579 71 20
E-Mail: datashop.eurostat@ine.es

FRANCE
INSEE Info Service
Eurostat Data Shop
195, rue de Bercy
Tour Gamma A
F-75582 PARIS CEDEX 12
Tel. (33-1) 53 17 88 44
Fax (33-1) 53 17 88 22
E-Mail: datashop@insee.fr

ITALIA – Roma
ISTAT
Centro di Informazione Statistica
Sede di Roma, Eurostat Data Shop
Via Cesare Balbo, 11a
I-00184 ROMA
Tel. (39-06) 46 73 31 02/06
Fax (39-06) 46 73 31 01/07
E-Mail: dipdiff@istat.it

ITALIA – Milano
ISTAT
Ufficio Regionale per la Lombardia
Eurostat Data Shop
Via Fieno 3
I-20123 MILANO
Tel. (39-02) 8061 32460
Fax (39-02) 8061 32304
E-mail: mileuro@tin.it

LUXEMBOURG
Eurostat Data Shop Luxembourg
BP 453
L-2014 LUXEMBOURG
4, rue A. Weicker
L-2721 LUXEMBOURG
Tel. (352) 43 35 22 51
Fax (352) 43 35 22 221
E-Mail: dslux@eurostat.datashop.lu

NEDERLAND
STATISTICS NETHERLANDS
Eurostat Data Shop-Voorburg
po box 4000
2270 JM VOORBURG
Nederland
Tel. (31-70) 337 49 00
Fax (31-70) 337 59 84
E-Mail: datashop@cbs.nl

NORGE
Statistics Norway
Library and Information Centre
Eurostat Data Shop
Kongens gate 6
P. b. 8131, dep.
N-0033 OSLO
Tel. (47-22) 86 46 43
Fax (47-22) 86 45 04
E-Mail: datashop@ssb.no

PORTUGAL
Eurostat Data Shop Lisboa
INE/Serviço de Difusão
Av. António José de Almeida, 2
P-1000-043 LISBOA
Tel. (351-21) 842 61 00
Fax (351-21) 842 63 64
E-Mail: data.shop@ine.pt

SCHWEIZ/SUISSE/SVIZZERA
Statistisches Amt des Kantons
Zürich, Eurostat Data Shop
Bleicherweg 5
CH-8090 Zürich
Tel. (41-1) 225 12 12
Fax (41-1) 225 12 99
E-Mail: datashop@zh.ch
Internetadresse:
http://www.zh.ch/statistik

SUOMI/FINLAND
Eurostat Data Shop Helsinki
Tilastokirjasto
Postiosoite: PL 2B
Käyntiosoite: Työpajakatu 13 B, 2 krs
FIN-00022 Tilastokeskus
Tel. (358-9) 17 34 22 21
Fax (358-9) 17 34 22 79
S-posti: datashop.tilastokeskus@tilastokeskus.fi
Internetadresse:
http://www.tilastokeskus.fi/tk/kk/datashop.html

SVERIGE
STATISTICS SWEDEN
Information service
Eurostat Data Shop
Karlavägen 100 - Box 24 300
S-104 51 STOCKHOLM
Tel. (46-8) 50 69 48 01
Fax (46-8) 50 69 48 99
E-Mail: infoservice@scb.se
URL: http://www.scb.se/info/datashop/
eudatashop.asp

UNITED KINGDOM
Eurostat Data Shop
Enquiries & advice and publications
Office for National Statistics
Customers & Electronic Services Unit
1 Drummond Gate - B1/05
UK-LONDON SW1V 2QQ
Tel. (44-171) 533 56 76
Fax (44-1633) 812 762
E-Mail: eurostat.datashop@ons.gov.uk

UNITED KINGDOM
Eurostat Data Shop
Electronic Data Extractions,
Enquiries & advice - R.CADE
Unit 1L Mountjoy Research Centre
University of Durham
UK - DURHAM DH1 3SW
Tel: (44-191) 374 7350
Fax: (44-191) 384 4971
E-Mail: r-cade@dur.ac.uk
URL: http://www-rcade.dur.ac.uk

UNITED STATES OF AMERICA
HAVER ANALYTICS
Eurostat Data Shop
60 East 42nd Street
Suite 3310
USA-NEW YORK, NY 10165
Tel. (1-212) 986 93 00
Fax (1-212) 986 58 57
E-Mail: eurodata@haver.com

Media Support Eurostat (for professional journalists only).
Bech Building Office A3/48 • L-2920 Luxembourg • Tel. (352) 4301 33408 • Fax (352) 4301 32649 • e-mail: media.support@cec.eu.int

---

For information on methodology

Paolo PASSERINI, Eurostat/B5, L-2920 Luxembourg, tel. (352) 4301 33754, fax (352) 4301 33859, e-mail:Paolo.Passerini@cec.eu.int
ORIGINAL: English. This issue of Statistics in focus was produced by Lars Michael ENGSTED

Please visit our web site at **www.europa.eu.int/comm/eurostat/** for further information!

A list of worldwide sales outlets is available at the **Office for Official Publications of the European Communities**.

2 rue Mercier – L-2985 Luxembourg
Tel. (352) 2929 42118 Fax (352) 2929 42709
Internet Address **http://eur-op.eu.int/fr/general/s-ad.htm**
e-mail: info.info@cec.eu.int

BELGIQUE/BELGIË – DANMARK – DEUTSCHLAND – GREECE/ELLADA – ESPAÑA – FRANCE – IRELAND – ITALIA – LUXEMBOURG – NEDERLAND – ÖSTERREICH PORTUGAL – SUOMI/FINLAND – SVERIGE – UNITED KINGDOM – ÍSLAND – NORGE – SCHWEIZ/SUISSE/SVIZZERA – BALGARIJA – CESKÁ REPUBLIKA – CYPRUS EESTI – HRVATSKA – MAGYARORSZÁG – MALTA – POLSKA – ROMÂNIA – RUSSIA – SLOVAKIA – SLOVENIA – TÜRKIYE – AUSTRALIA – CANADA – EGYPT – INDIA ISRAËL – JAPAN – MALAYSIA – PHILIPPINES – SOUTH KOREA – THAILAND – UNITED STATES OF AMERICA

Order form

I would like to subscribe to Statistics in focus (from 1.1.2000 to 31.12.2000):
(for the Data Shop and sales office addresses see above)

❒ **Formula 1**: All 9 themes (approximately 140 issues)

- ❒ Paper: EUR 360
- ❒ PDF: EUR 264
- ❒ Paper + PDF: EUR 432

Language required: ❒ DE ❒ EN ❒ FR

❒ **Formula 2:** One or more of the following seven themes:

- ❒ Theme 1 'General statistics'
  ❒ Paper: EUR 42 ❒ PDF: EUR 30 ❒ Combined: EUR 54
- ❒ Theme 2 'Economy and finance'
- ❒ Theme 3 'Population and social conditions'
- ❒ Theme 4 'Industry, trade and services
- ❒ Theme 5 'Agriculture and fisheries'
- ❒ Theme 6 'External trade'
- ❒ Theme 8 'Environment and energy
  ❒ Paper: EUR 84 ❒ PDF: EUR 60 ❒ Combined: EUR 114

Language required: ❒ DE ❒ EN ❒ FR

❑ Please send me a free copy of 'Eurostat Mini-Guide' (catalogue containing a selection of Eurostat products and services)
Language required: ❒ DE ❒ EN ❒ FR

❑ I would like a free subscription to 'Statistical References', the information letter on Eurostat products and services
Language required: ❒ DE ❒ EN ❒ FR

❒ Mr ❒ Mrs ❒ Ms

(Please use block capitals)

Surname: __________________ Forename: _____________________
Company: _________________ Department: ____________________
Function: ____
Address: ____
Post code: _________________ Town: ________________________
Country: ____
Tel.: ______________________ Fax: ___________________________
E-mail: ____

Payment on receipt of invoice, preferably by:

❒ Bank transfer
❒ Visa ❒ Eurocard

Card No: __________________________ Expires on: _____/_____

Please confirm your intra-Community VAT number:
If no number is entered, VAT will be automatically applied. Subsequent reimbursement will not be possible.

____