

EU-25 Foreign Direct Investment in Brazil, Russia, India and China¹

In 2005, the EU-25 invested EUR 25 bn in Brazil, Russia, India and China (BRIC), which is 5% down on 2004 (EUR 27 bn). The share of BRIC in extra-EU-25 outflows dropped from 20 % in 2004 to 15 % in 2005. Russia was the most profitable BRIC destination in 2004 with a 20 % rate of return.

Share of the BRIC countries in EU-25 FDI outflows is falling slightly

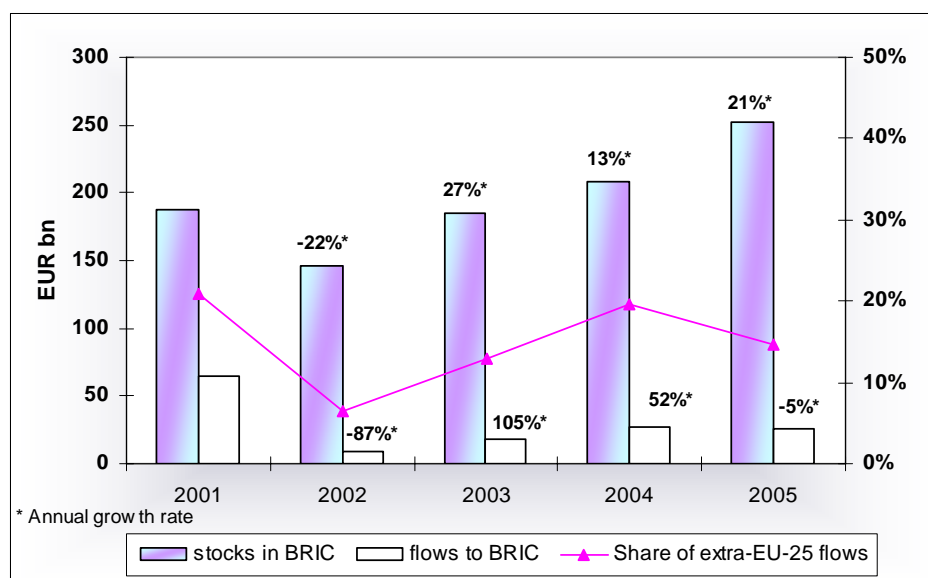
EU investment activity in the BRIC countries decreased noticeably from 2001 (EUR 64 bn), which was the peak period, to EUR 9 bn in 2002. In the next two years EU FDI outflows recorded significant growth, standing at EUR 27 bn in 2004 and remaining at relatively stable levels in 2005 (EUR 25 bn). The decline of EU outward flows to the BRIC countries is in line with the significant decreases in EU FDI observed in extra-EU outflows for 2001-2005. In particular, EU outflows towards extra-EU countries dropped from EUR 306 bn in 2001 to EUR 134 bn in 2002, recording the sharpest drop (-56 %) throughout the period in question. In 2005, at EUR 172 bn, EU outflows to extra-EU recorded a 26 % increase when compared to 2004 (EUR 136 bn).

The share of EU FDI flows to the BRIC countries in total EU outward flows shows a fluctuating pattern. It stood at 21 % in 2001 and fell to 6 % in the subsequent year. In 2005 it stood at 15 %, after having fallen slightly from 2004 levels (20 %).

EU-25 outward FDI stocks held in the BRIC group increased 34 % between 2001 and 2005, reaching EUR 252 bn at the end of 2005. In comparison, EU FDI outward stocks directed towards extra-EU countries grew by 18 % during the same period, reaching EUR 2 380 bn at the end of 2005.

The share of EU FDI stocks targeting the BRIC group in total EU outward stocks shows incremental growth for 2001-2005. It started at 9 % in 2001 and stood at 11 % in 2005.

Figure 1: EU-25 outward FDI flows and stocks in the BRIC countries



Statistics in focus

ECONOMY AND FINANCE

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Balance of payments

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¹ China includes Hong Kong.

China and Russia: main destinations of EU-25 FDI outflows to the BRIC countries in 2005

Although China was the main BRIC recipient of EU FDI during 2001-2005 (EUR 18 bn as a five year average), in 2005, the top place in the ranking was shared with Russia at almost EUR 9 bn each. In fact, China saw a substantial decrease in EU investments, which fell from EUR 14 bn in 2004 to EUR 9 bn in 2005. Germany and the United Kingdom both invested EUR 6 bn and accounted for 70 % of the total EU-25 outflows to China in 2005.

In contrast, EU investment activity in Russia continued to rise throughout the period in question with a 53 % increase from the 2004 levels. Russia attracted more than one third of the total EU outflows directed to the BRIC countries in 2005. The Netherlands, with EUR 3 bn, was the main investing country in Russia.

Investment flows to Brazil ranked third with 22 % of the total EU outward FDI to the BRIC countries. EU outflows to Brazil fell significantly from EUR 10 bn in 2001 to EUR 5 bn in 2005. In particular, Spain and France lowered their investments in Brazil between 2001 and 2005. After the drop in 2002 (EUR -1 bn) the

upward trend of EU investments in Brazil continued until 2005, reaching EUR 5 bn.

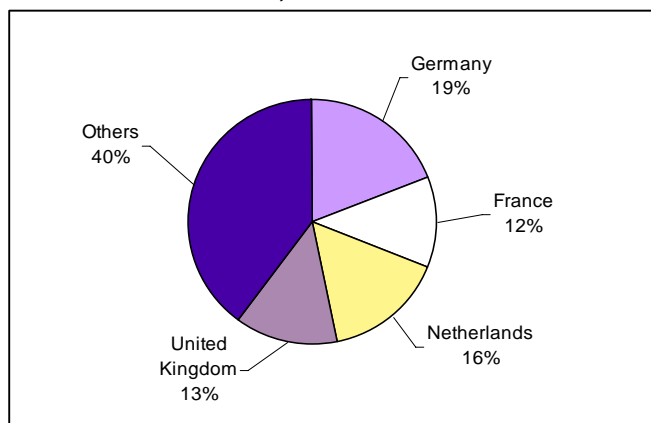
India with EUR 2 bn held the fourth place in the ranking in 2005 as it attracted 9 % of the total EU-25 outward investment in the BRIC countries.

Table 1: EU-25 FDI outflows to the BRIC countries 2001-2005 (in million EUR)

	2001	2002	2003	2004	2005
Extra-EU	306 140	133 897	135 711	136 388	171 757
BRIC	64 306	8 579	17 580	26 750	25 295
Brazil	10 050	- 1 367	2 149	5 180	5 490
Russia	2 495	2 454	7 704	5 878	8 997
India	353	1 075	767	1 452	2 170
China	51 408	6 417	6 960	14 240	8 638
<i>of which</i>					
Hong Kong	49 115	3 314	3 770	11 033	2 902

Germany was the largest investor in the BRIC countries in 2005

Figure 2: Main EU-25 investors in the BRIC countries, FDI flows in 2005



With EUR 5 bn in 2005, Germany more than doubled its investments in the BRIC group when compared to 2004 (EUR 2 bn) and became the principal EU investor accounting for 19% of the total EU-25 investment flows in the BRIC countries. The Netherlands with 16 % was the second largest investor, with flows directed mainly towards Russia.

The United Kingdom (EUR 3 bn), despite its significant decrease of 72% from 2004 (EUR 12 bn) ranked third with 13 % of the EU outward flows to the BRIC group. The major part of this reduction is due to lower investment in Hong Kong in 2005 (EUR 2 bn) compared with investments of EUR 8 bn in 2004.

France, with EUR 3 bn, accounted for 12 % of the total EU-25 investment flows to the BRIC group. The bulk of its FDI outflows were concentrated in Brazil (EUR 1 bn).

China was the top destination for EU-25 FDI outward stocks at end-2005

Table 2: EU-25 outward FDI stocks in the BRIC countries at end-2005 (in million EUR)

	2001	2002	2003	2004	2005
Extra-EU	2 017 386	1 904 845	2 011 069	2 048 346	2 380 303
BRIC	187 475	145 965	184 795	208 301	252 085
Brazil	73 492	44 369	59 214	70 768	80 069
Russia	10 693	10 220	14 786	20 983	31 324
India	6 276	6 398	6 764	9 713	13 682
China	97 014	84 978	104 031	106 837	127 010
<i>of which</i>					
Hong Kong	77 705	65 009	85 326	85 559	95 740

At end-2005, EU-25 stocks held in the BRIC countries were 34 % higher than in 2001, reaching EUR 252 bn.

Throughout the period under examination, China held the dominant position in attracting EU outward FDI stocks. At end-2005 particularly, China, with EUR 127 bn, accounted for 50 % of EU FDI stocks held in the BRIC countries. The United Kingdom with EUR 38 bn held the largest share of EU FDI stocks in China. Germany followed next with EUR 22 bn.

Brazil was the second most important destination with EUR 80 bn of EU FDI outward stocks. Spain ranked first in terms of investment activity in Brazil as it accounted for 34 % of the EU-25 FDI stocks invested in this country. It was followed by the Netherlands with 10 % and by Germany with 9 %.

The Netherlands, with EUR 8 bn, and Germany, with EUR 4 bn, accounted for 38 % of the EU FDI outward stocks in Russia at the end of 2005. It is worthwhile noting that at end-2004 the Netherlands held EUR 3 bn of FDI stocks in Russia (out of their EUR 5 bn in total) in the 'petroleum, chemicals, rubber and plastic products' activity. Germany had a different allocation with EUR 1 bn held in the 'real estate, renting and business

activities' sector and EUR 1 bn in 'other business activities'².

India accounted for the least amount of EU FDI stocks in the BRIC group reaching EUR 14 bn at end-2005. Germany and the United Kingdom both invested EUR 6 bn and accounted for 44 % of the total EU outward FDI stock invested in India.

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

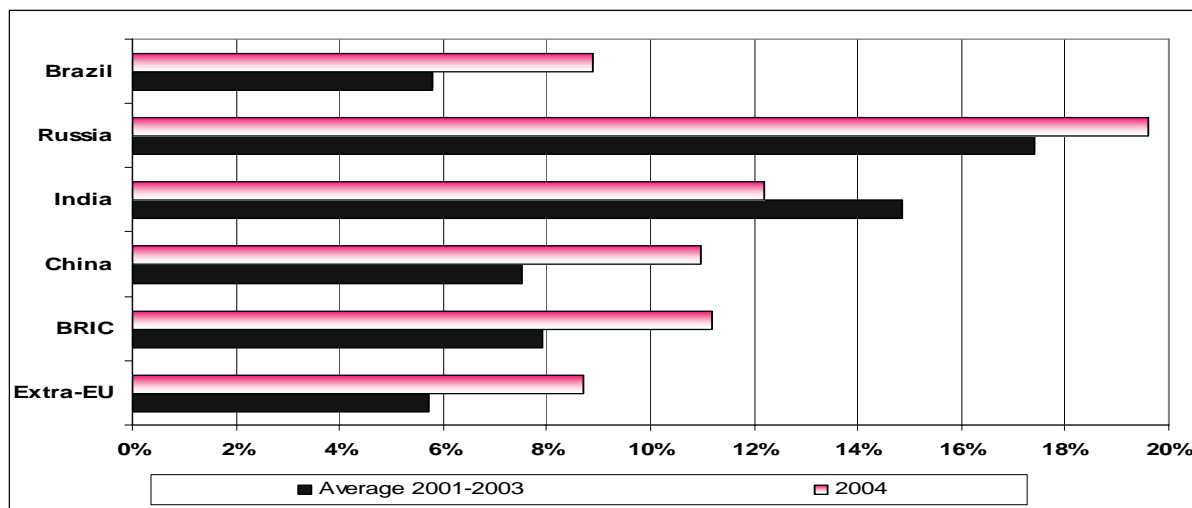
In 2005 EU FDI outward stocks in the BRIC group generated income of EUR 23 bn. Income payments by China alone represented 50 % of this amount. Brazil was the second source of income accounting for 27 % of income paid by the BRIC countries to the EU.

The profitability of FDI in the BRIC countries over the whole period under investigation showed an upward trend starting at 6 % in 2001. It almost doubled in 2004 at 11 %. EU investments in the BRIC countries were more profitable than investments in the extra-EU countries as a whole for the period 2001-2004.

Looking at the individual countries inside the BRIC group, the rate of return³ on direct investment positions during 2001-2003 shows high profitability for EU investments in Russia with 17 %. India followed closely with an average rate of return of 15 %, while China and Brazil followed behind with 8 % and 6 % respectively.

In 2004, Russia continued to be the most profitable BRIC destination with a 20 % rate of return followed by India with 12 % and China with 11 %.

Figure 3: Rate of return on EU FDI outward stocks in BRIC countries



FDI Inflows from the BRIC countries increased in 2005

Inflows from the BRIC countries fluctuated, starting at EUR 12 bn in 2001, falling to EUR 2 bn in 2003 and then rising again to EUR 11 bn in 2005. The main BRIC country that contributed to that increase in absolute terms is Brazil with EUR 5 bn. In relative terms though, EU FDI inflows from Russia jumped from EUR 196 mn in 2004 to EUR 4 bn in 2005.

In contrast, China's investment activity in the EU dropped significantly by 85 % between 2001 and 2005. This drop is mainly due to Hong Kong's reduced investments in the EU (EUR 10 bn in 2001 to EUR 1 bn in 2005).

Inflows from India reached their peak level in 2003 with EUR 615 mn invested in the EU. 2004 was a trough as

its investment activity fell sharply to reach EUR 1 mn. In 2005 though, the Indian FDI flows to the EU recovered back to EUR 220 mn.

Table 3: EU-25 FDI inflows from BRIC countries (in million EUR)

	2001	2002	2003	2004	2005
Extra-EU	145 867	126 567	123 541	53 072	94 149
BRIC	11 975	4 240	2 167	8 812	11 287
Brazil	1 023	599	- 878	4 014	5 488
Russia	752	342	704	196	4 107
India	108	133	615	1	220
China	10 092	3 166	1 726	4 601	1 472
of which					
Hong Kong	9 545	2 925	1 436	4 748	1 071

² 'Other business activities' includes business services such as: legal, accounting, book-keeping, market research activities, etc.

³ Rate of return = (income paid in t) / (stocks at end of period t-1).

➤ 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.

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.

This article is based on detailed data that were published in Eurostat database in February 2007. Series for FDI contain data for 1992-2005 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 1992-2004, from 2001 onward for EU-25. Data for income cover 1995-2005 and data for FDI stocks cover end 1994 to end 2005.






Further information:

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

Economy and finance

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European Union direct investments

-  EU direct investments - Main indicators
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