

Rising EU direct investment into services outside the EU 1996-1999

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Foreign direct investment statistics give information on one of the major aspects of globalisation. FDI (see definition on page 7) is a supplement or an alternative to cross border trade in goods and services. For Balance of Payments statistics, Eurostat maintains an FDI database that comprises harmonised and thus comparable data on inward and outward FDI flows, income and positions. It gives the geographical breakdown of FDI and it also provides users with detailed data by sector of activity.

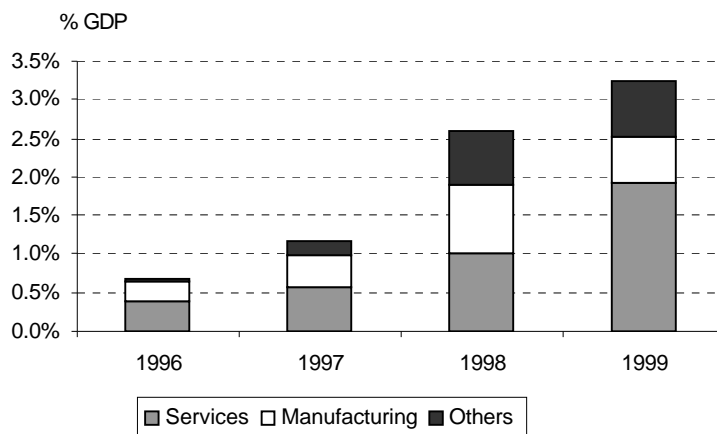
This article looks at the evolution of the outflows from the Member States of the European Union to the extra-EU countries in the services sector. The aim is to analyse: the trend of EU FDI flows to non-EU countries, which services sectors are primarily concerned by these investments, the recipients of these flows and where in the European Union the biggest investors are.

Services attracted extra-EU FDI outflows for EUR 154 bn in 1999

EU FDI flows to extra-EU countries amounted to a record EUR 260 bn in 1999 to reach a total of ECU/EUR 590 bn for the period 1996-1999.

One of the major characteristics of this trend is the growing importance of the investments in the services sector (from ECU 27 bn in 1996 to EUR 154 bn in 1999). Outflows in services more than doubled between 1998 and 1999, reaching 1.9% of EU GDP. The share of services in extra-EU outflows stood at about 50% on average since 1996 with a peak close to 60% in 1999 after two years of decline in favour of manufacturing and other sectors¹.

EU-15 FDI outflows* to extra-EU countries in major sectors
1996-1999



* excluding reinvested earnings

Statistics in focus

ECONOMY AND FINANCE

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BALANCE OF PAYMENTS

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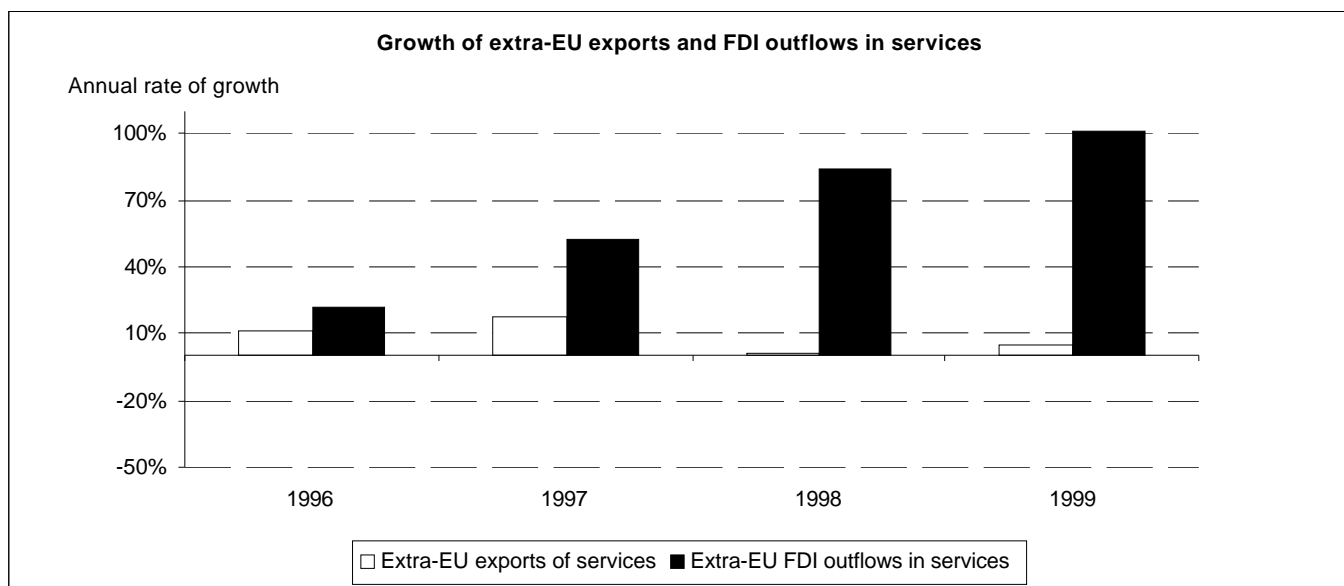
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¹ Other sectors include: agriculture and fishing, mining and quarrying, electricity, gas and water, construction.

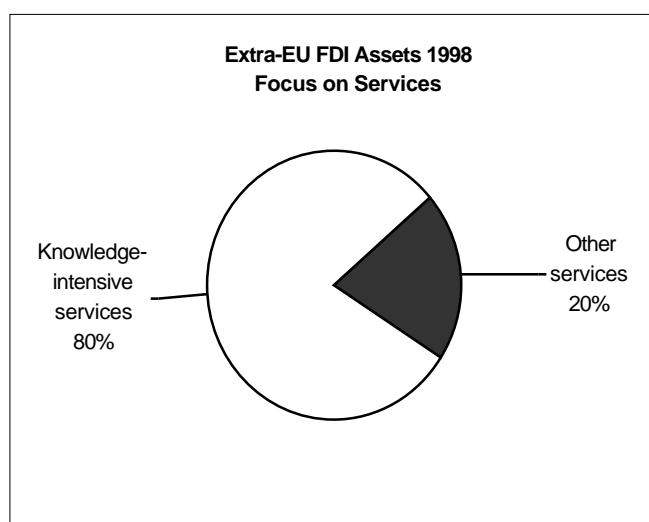
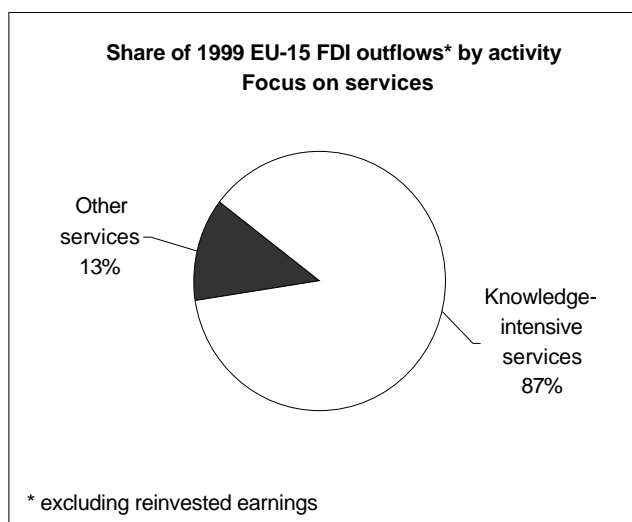
Moreover, FDI in services grew much faster than traditional exports of services over the period considered (8% for the traditional trade flows as opposed to +78% for FDI for 1996-1999).



Within this trend, FDI in services seemed to privilege activities with higher technological content rather than more traditional ones.

The charts below show the share of outward FDI flows in 1999 and the share of EU FDI assets owned abroad invested in the so-called knowledge-intensive services (see definition on page 7).

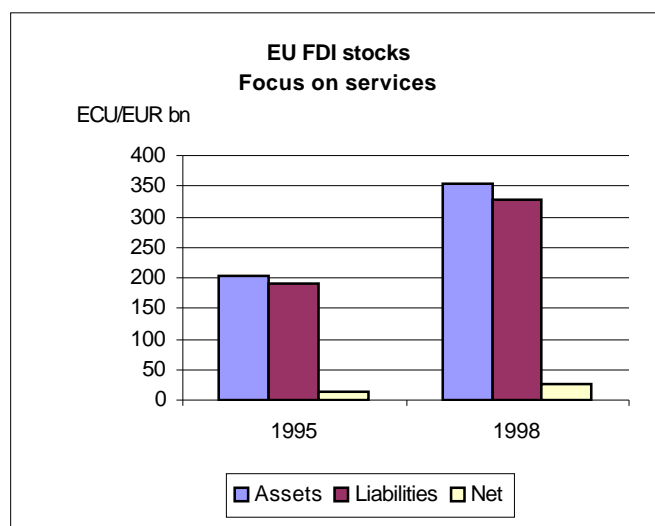
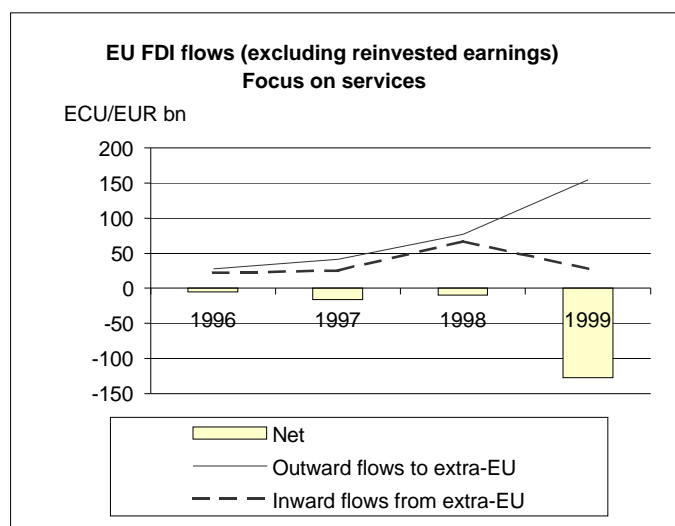
At the end of 1998, the knowledge-intensive services represented 80% of the total extra-EU FDI assets while 87% of the total EU outward FDI flows can be observed in one of these activities for 1999. For the Other services (which consists mainly of Hotels and restaurants, Trade and repair and Land Transport), the situation is opposite with moderate investments compared to the previously invested assets by the EU in 1998 (13% of the total EU outward flows against 20% of the total extra-EU assets).



In the EU balance of payments, the year 1999 which marked the start of the European Monetary Union saw a strong decrease of the inward flows in services from extra-EU countries (-60%). This sharp downturn combined to the continued increase of the outward flows to extra-EU countries led to the soaring rise of net outflows of FDI capital in services (EUR 127 bn, more than tenfold than in 1998). In the previous years (1996-1998), outward and inward flows into services were instead approximately balanced².

² For a full description of inward and intra-EU FDI in services, see Statistics in Focus n° 19/2001 "Services are taking an increasing part of inward EU FDI".

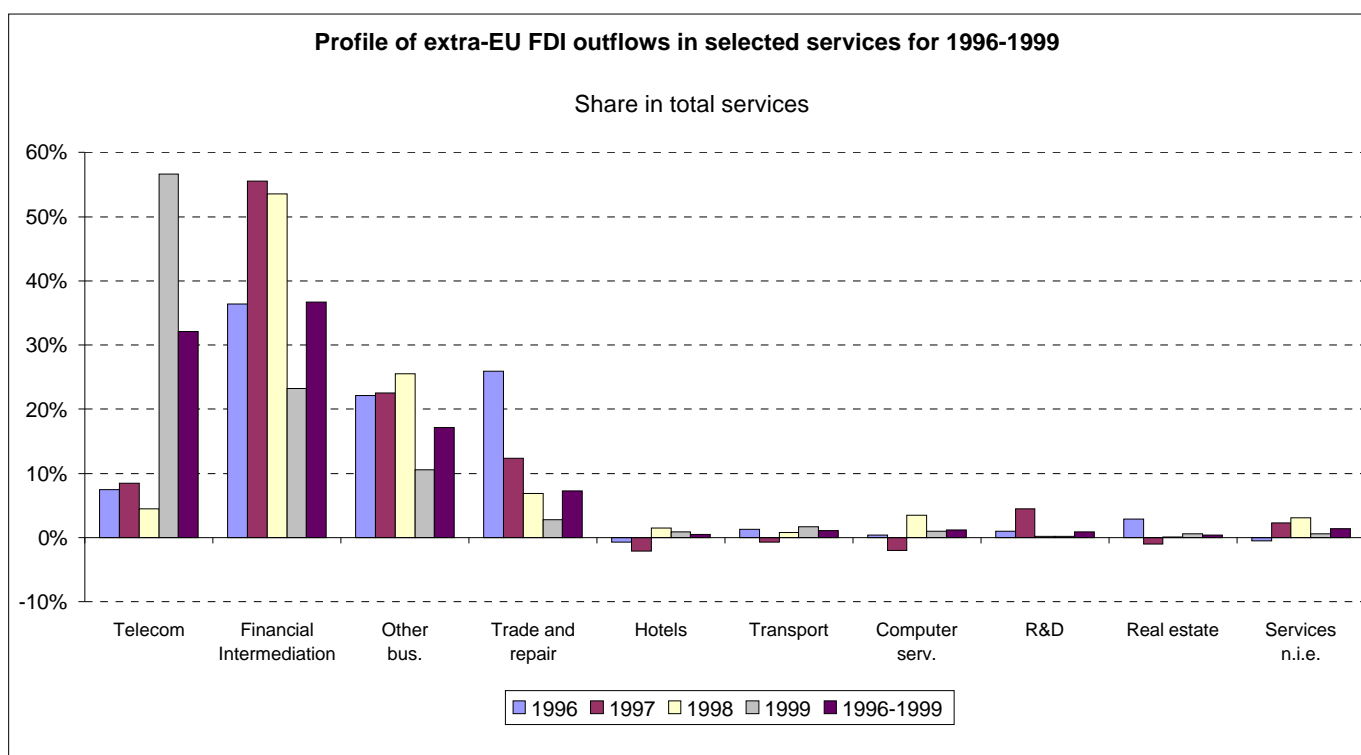
Concerning the stocks, at end 1998, extra-EU assets had grown of 73% as compared to 1995, while liabilities had risen by 70% during the same period.



EUR 87 bn invested in telecommunications in 1999 outside the EU

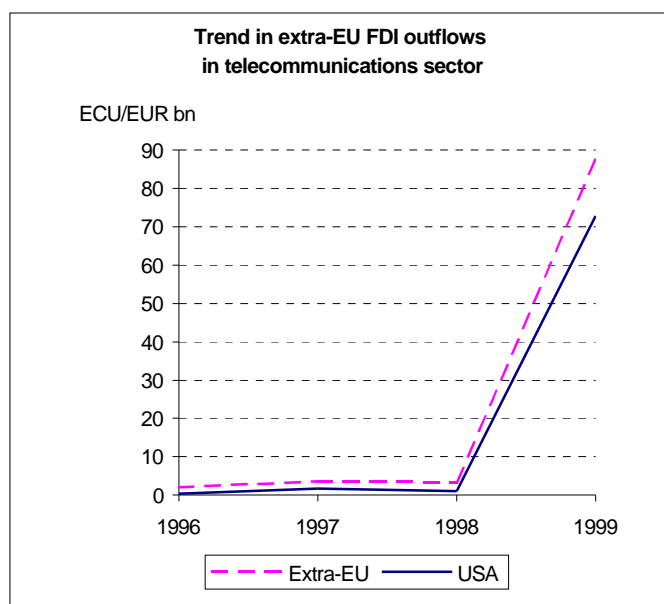
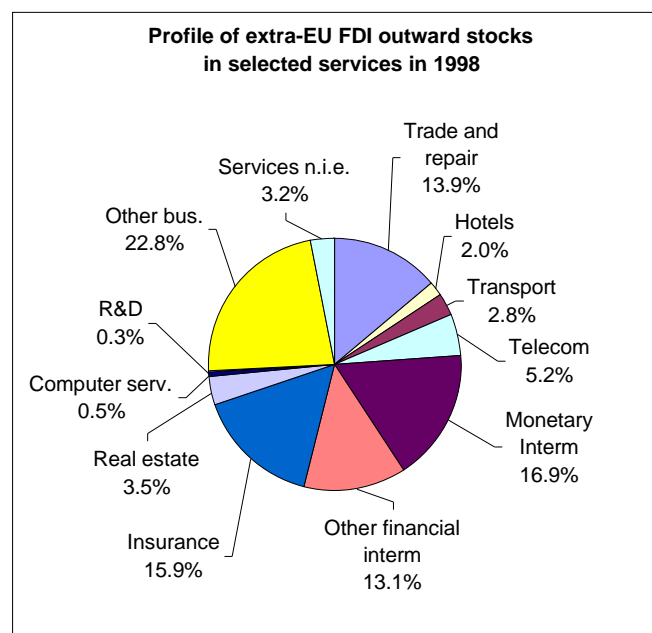
A further look at the profile of FDI outflows in services reveals that, within knowledge-intensive services, the telecommunication sector was the main target of the EU investments for 1999 (almost 60% of the total of FDI flows in market services). This importance was due in large part to the merger of the British telecommunications firm Vodafone with Airtouch from the United States. This single EUR 64.3 bn deal³ contributed to telecommunications forming one of the larger in the EU's outward sectoral flows for the period 1996-1999. Direct investments show this sharp upward turn in 1999 after three years of moderate investments (from ECU 3 430 Mio in 1998 to EUR 87 433 Mio in 1999).

The three following sectors (Financial intermediation, Other business activities and Trade and repair) all experienced a sharp decrease of their share of the extra-EU outflows from the EU Member States in 1999.



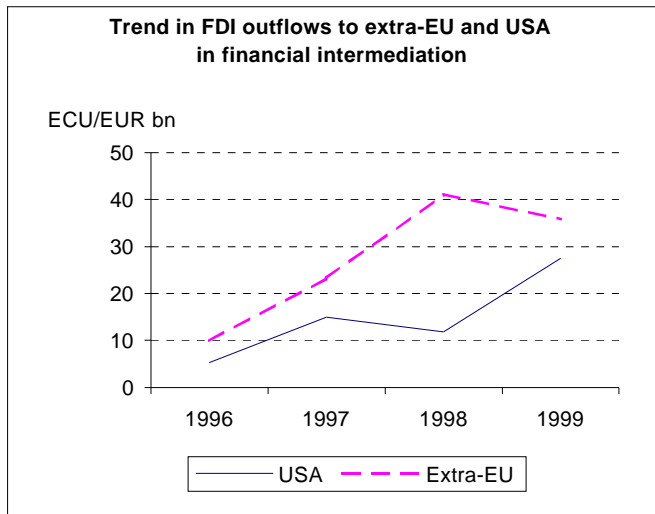
³ UNCTAD, "World Investment Report 2000".

A review of the sectoral profile of the FDI stocks invested by the EU Member States in the different services sectors highlights that the telecommunication sector is a very expanding sector: at the end of 1998, it only represented 5.2% of the total extra-EU FDI assets in services while nearly 60% of the total EU outward FDI flows can be observed in this sector for 1999.



Extra-EU FDI outflows and stocks in market services 1996-1999 (ECU/EUR Mio)

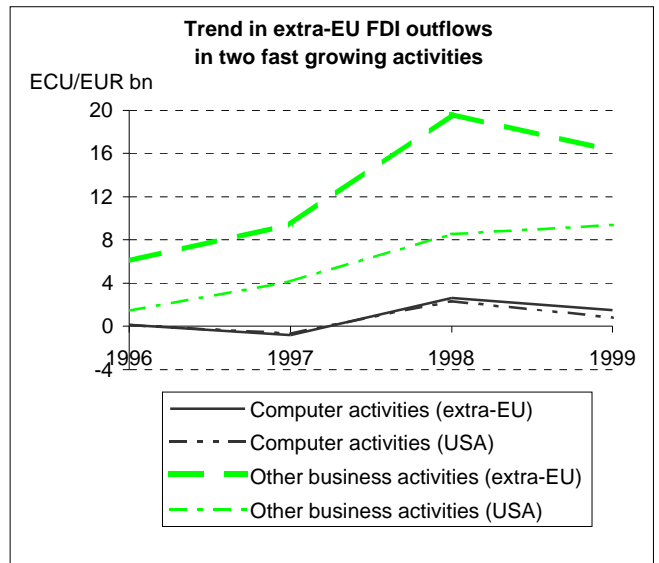
	1996	1997	1998	1999	1996-1999
Services	27 368	41 817	76 753	154 372	300 310
of which					
Trade and repair	7 089	5 176	5 232	4 347	21 845
Hotels & Restaurants	- 180	- 876	1 115	1 319	1 378
Transport	339	- 272	466	2 361	2 894
of which					
Land Transport	82	77	439	2 337	2 935
Sea & coastal water transport	575	- 177	332	818	1 550
Air transport	- 314	- 172	- 308	- 792	- 1 586
Telecommunications	2 054	3 558	3 430	87 433	96 474
Financial Intermediation	9 957	23 246	41 075	35 830	110 109
of which					
Monetary Intermediation	1 956	5 350	13 033	11 393	31 732
Other financial intermediation	5 268	6 992	22 855	17 890	53 005
Insurance & activities auxiliary to insurance	2 475	10 366	- 9 674	- 1 370	1 797
Real estate & Business activities	8 257	10 019	23 052	22 209	63 536
of which					
Real estate	791	- 409	49	855	1 286
Computer activities	102	- 834	2 655	1 491	3 414
Research & development	283	1 854	159	282	2 579
Other business activities	6 066	9 417	19 605	16 255	51 343
Services n.i.e.	- 148	966	2 384	873	4 074



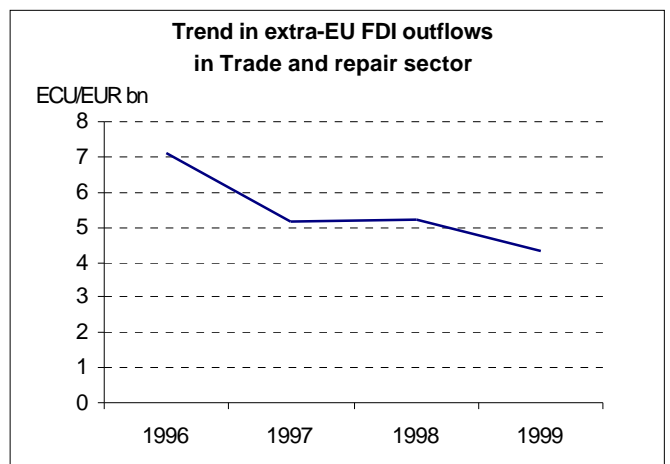
Financial intermediation received about 18.7% of cumulated 1996-1999 extra-EU FDI outflows from the European Union and is the main sector recipient of the extra-EU FDI assets owned by the European Union (almost half of the total of services in 1998).

Apart from telecommunication sector and financial intermediation sector, real estate and business activities is the other group which holds important shares of FDI stocks in services (11.7% at the end of 1998). Under this sector, we can mostly find computer activities and other business activities which group among others: legal services, advertising, recruitment, security and industrial cleaning.

Computer activities is not a major target for the EU investors but their growth during recent years is constant. Computer services only held 0.2% of all extra-EU FDI stocks by the end of 1998, but received 0.6% of cumulated 1996-99 extra-EU outflows from the European Union.



Another major characteristic of the trend of extra-EU FDI outflows in recent years was the regularly reduced importance of the trade and repair sector whose share decreased year after year (from 26% in 1996 to 3% in 1999).



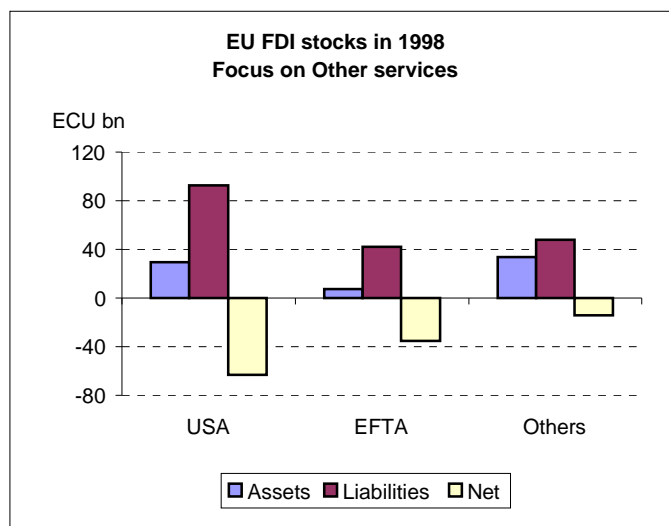
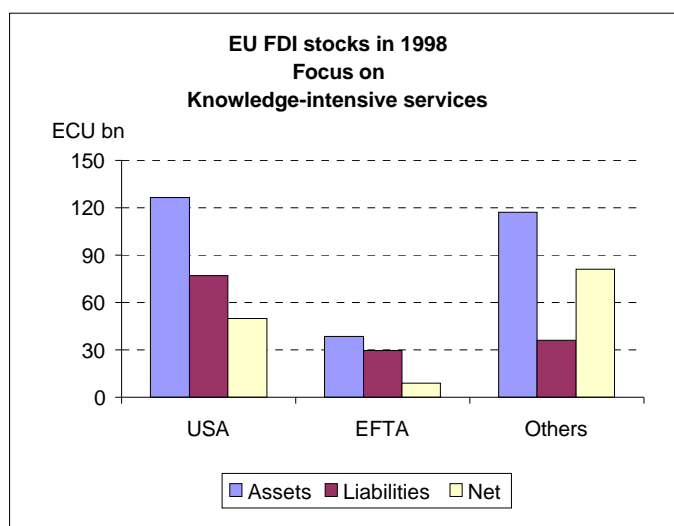
Recipients of extra-EU FDI flows from 1996 to 1999 and net positions

1996-1999 figures show that FDI relationships between the European Union and the rest of the world tend to be mainly focused on one country: the USA. From 1996 to 1999, its share increased constantly (from 44% of the total extra-EU outward flows in services sectors to 76% for an average of 58% through this period). In the same time, other recipients of these flows had a very different and contrasted evolution. For example, the share of the EFTA countries diminished considerably reaching the lowest value in 1999 (1%) while the rest of the world experienced an irregular trend of the EU flows (reaching the highest value in 1998 with 63% of the total of flows followed the year after by the lowest value with only 22%).

EU-FDI outward flows to major partners 1996-1999 (ECU/EUR Mio) – Focus on Services

		1996	1997	1998	1999	1996-1999
Extra-EU	Knowledge-intensive services	70%	86%	68%	87%	80%
	Other services	30%	14%	32%	13%	20%
	Total	27 373	41 818	76 751	154 374	300 315
USA	Knowledge-intensive services	64%	93%	85%	93%	90%
	Other services	36%	7%	15%	7%	10%
	Total	11 910	22 184	24 764	116 812	175 669
	% of extra-EU	44%	53%	32%	76%	58%
Japan	Knowledge-intensive services	72%	176%	206%	81%	88%
	Other services	28%	-76%	-106%	19%	12%
	Total	1 283	116	218	2 197	3 815
	% of extra-EU	5%	0%	0%	1%	1%
EFTA	Knowledge-intensive services	37%	116%	108%	144%	98%
	Other services	63%	-16%	-8%	-44%	2%
	Total	2 205	1 962	3 793	1 468	9 428
	% of extra-EU	8%	5%	5%	1%	3%
Others	Knowledge-intensive services	82%	73%	56%	65%	64%
	Other services	18%	27%	44%	35%	36%
	Total	11 975	17 556	47 975	33 897	111 403
	% of extra-EU	44%	42%	63%	22%	37%

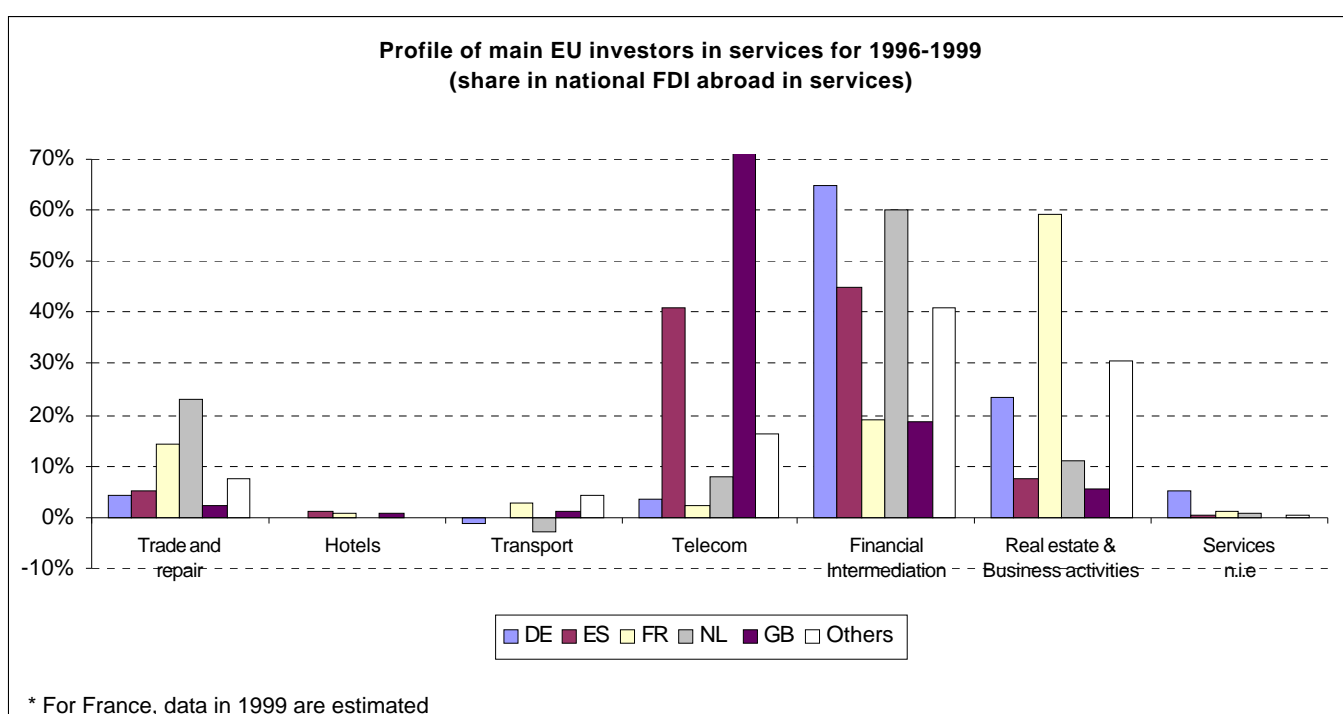
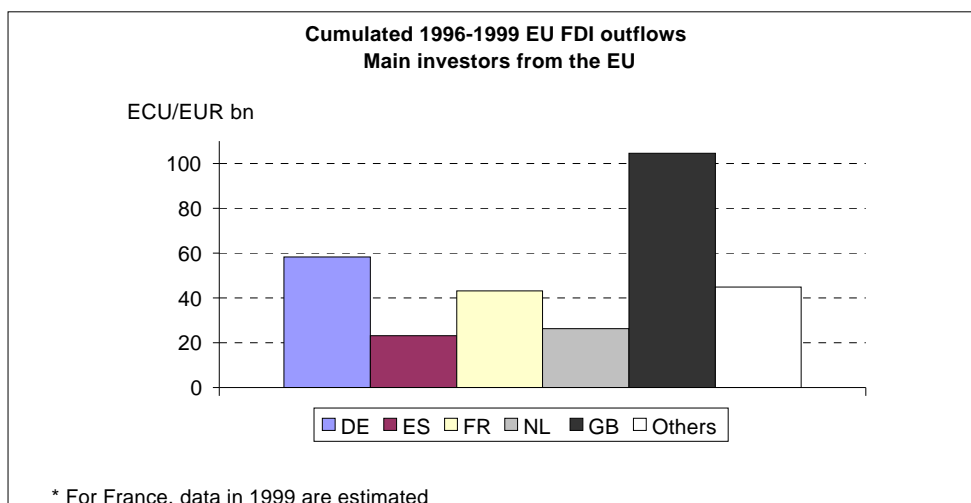
As well as for the flows, FDI EU-owned assets in foreign markets are principally located in the USA at the end of 1998 (almost equal to the rest of the world, 44% versus 41%). But this situation will probably be reshaped in the future as the share of the USA as a recipient of EU-FDI flows seems to become bigger year after year. It is interesting to notice that EFTA countries hosted 13% of all extra-EU FDI stocks in the services sector by the end of 1998 but only received 3% of the flows between 1996 and 1999.



United Kingdom and Germany are the main EU investors into the rest of the world

English and German investors held the strongest position as providers of FDI to non-EU countries over the period 1996-1999 (these two countries represent 54% of the EU total). During these years, these two countries gave mostly their preferences of investment to the knowledge-intensive services (more than 90% of the investments in the services sector are allocated to the knowledge-intensive services).

The investments coming from Germany, Netherlands are mainly focused on financial intermediation. In UK, the telecommunication sector is the main target of the investments while real estate & business activities are the main beneficiaries of French investments for 1996-1999. As opposed to these countries, in Spain, two sectors are preponderant: financial intermediation and also telecommunications.



Ø 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).

Classification of Services: The services are allocated to one of the two following broad economic branches: Knowledge-intensive services and Other services. The Knowledge-intensive services category contains: Sea & coastal water transport, Air transport, Telecommunications, Monetary intermediation, Other financial intermediation, Insurance & activities auxiliary to insurance, Real estate, Computer activities, Research & development and Other business activities. The Other Services category contains: Trade and repair, Hotels and restaurants, Public Services, Land transport, Other services n.i.e.

Further information:

Reference publications

Title "Services are taking an increasing part of inward EU FDI"
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