

## **SOME FDI DISPARITIES WITHIN THE EU REGION**

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### ***Abstract:***

*It means at least performance and competitiveness taking part to a global activity for which political, economic and technological borders vanish as quickly. The foreign direct investments (FDI) define an economic strategy type that belongs to an entity either investing in a new plant or establishment, or purchasing an already existing assets lot that belong to another enterprise, i.e. non resident one. This entity does complete or replace its foreign trade activity by producing (often producing plus selling) goods and services in another country (called the host country) than the home one.*

*It is neither financing, nor consumption facilities brought in by FDI, but productivity growth, technological modernization, the creation of an export capacity indispensable for a healthy growth potential and the creation of new jobs; furthermore, non-debt generating FDI is a key factor in improving the country's external balance of payments (EBP).*

*Last, but not least, FDI is equally accused of being chronically unequal all over, so completing a kind of 'capitalist inequality' for the today world. This is nonetheless for the today Europe, as well.*

**Keywords:** foreign direct investments (FDI), economic growth, employment, multinational companies (MNC); direct investments abroad (DIA).

### **1. Some introductory remarks**

This is actually dealing with two FDI types. The one is building-producing new assets by non-residents – and this displays similarities with the home investments-- and the other is purchasing already existing assets by the same non-

residents in the host country – and this broadly classifies as the *mergers-acquisitions* category. On the other hand, FDI differ equally from the *portfolio type investments* – the last stop on a pure market acquisition, whereas FDI include their further interests on management controlling, and on capital transactions between different establishments of the same company.

As for the EU, the EU27 formula will be used in this paper for here identifying the largest area related to this regional Organization. As for another detail, there is to make the difference in this paper at least between international investments of EU27, as a distinct entity – that are supposed to develop fully outside the EU27 area – and the cumulated international investments developed by all the 27 member countries – that include even significant developments within the region; a region in which investment relationships developed between member countries are as international as the ones between member countries and countries of the rest of the world. In another development, all individual countries, all the more EU27 develop on both FDI – international investment inflows -- and *direct investments abroad*<sup>1</sup> (*DIA*) – investment outflows, made by residents in the international area. Despite opposite senses, the two flows prove related to each other as for another rule and both statically and in their dynamics. Finally, they are considered to cumulate for the *international investment* of a country, so of the Union (EU27).

Last, but not least, just mentioning that this paper founds itself and develops on data and basic comments provided by statistics<sup>2</sup> – calculations, syntheses and conclusions belong to the authors of this paper<sup>3</sup>.

## **2. The FDI flows were recovering in 2011, after the fall of 2008-2010<sup>4</sup>**

The classical trade looks less significant for services than it is for goods. So, when the services trade was raising during the last decade its weight in the intra-Union total trade beard not quite important changes. Despite that, the services trade related FDI rose more rapidly than their other part, the one related to goods and to conventional trade. And, as the result, the services related part of the FDI flows obviously raised in the total FDI flows, as concomitantly with the service related to international trade [ECB/Eurostat 2011, 2012].

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<sup>1</sup> Also called sometimes “outward FDI” by Eurostat, other papers and even in the below Figures.

<sup>2</sup> Especially *Eurostat* and UNCTAD

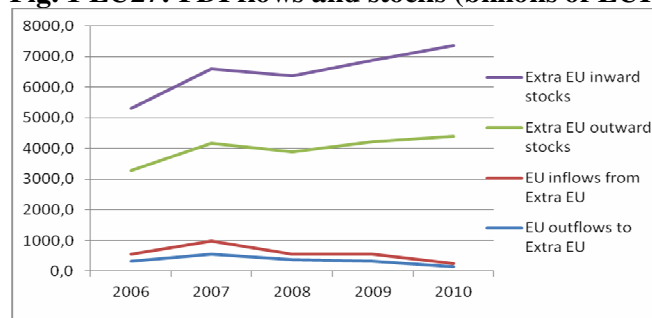
<sup>3</sup> The content of this paper was extracted from the POSDRU /89/1.5/S/62988 report paper.

<sup>4</sup> ECB 2012

It is in 2011 that the FDI flows of EU27 origin seemed recovering for the first time after the crisis. The *direct investments abroad (DIA)* from EU27 increased for the first time in four years up to 154% as compared to 2010, whereas FDI were more than double than the previous year (117%). But despite such a favorable dynamic of the EU27 region, the previous 2008-2010 downturns were yet far from being totally recovered. In fact, all the world-wide FDI flows were staying underneath their record high of 2007.

The same year 2011, the same EU27 FDI level rose even as compared to the rest of the world, the way that a kind of global recovery was so announced. As more deeply analyzed, this was especially thanks to *investments of special targets (IST)*.

**Fig. 1 EU27: FDI flows and stocks (billions of EUR)**



Calculated on the UNCTAD's data

Earlier in 2009, the EU27 *DIA (outward FDI)* were lowering by 17%, due especially to 'other capitals', an item that was continuing this trend in the following 2010, meaning -54%, as firstly caused by securities purchasing outside EU27. As on the *FDI* opposite side, a slight 2009 recovery was followed by a sharp downturn in 2010 (-56%), as for a 'mirror' dynamic of the other *DIA* (Figure 1). Securities purchasing, as well, plus other investing procedures were playing their role in this, but there might equally be noticed, in context, a pretty different behavior of the *reinvested profits* since 2008: they stay positively evolving. The return to the investments stocks was rising on both inside (*FDI*) and outside (*DIA*) the region (EU27), in 2010, as compared to previous periods, but stayed obviously lower than in the previous 2007.

EU27 saw all its *international investment* flows enough affected by the global economic and financial crisis. Both *FDI* and *DIA* have fallen down in 2010 to their half levels of the previous 2009. And similarly to the same 2009 period, the

2010 DIA downturn was arising from the geographic mainstream formed by the US (-75%, down to EUR 20.9 billion) and Switzerland (down to EUR 0.9 billion). Concomitantly, in 2010 there was to be noticed an abrupt DIA flows reduction to the 'offshore' areas (e.g. offshore placements in the Central America), down to EUR 5.3 billion, viewed as a true *disinvestment* process by analysts. Pretty the same on the FDI inflows side -- the same foreign investment country and region partners with important flow reductions: US (-61%), Switzerland (-67%) and an 'offshore' total disinvestment of EUR 7.8 billion. Plus, here adding the important role played by the IST part [UNCTAD/IFS /2012]. A meanwhile international investment repositioning of EU27 was equally to be noticed. *Brazil* tripled its direct investment flows to the region during the 2008-2011 intervals and, besides, this country got the top DIA destination of EU27 in 2010, against the old and longtime position hold by the US.

*Russia* took a different (negative) behavior on this point, vis-à-vis EU27, than the other international investment top country partners of the last. Simply, Russia was another EUR 2.7 billion '*disinvestment target*' of EU27 in 2011. And that when the US', Switzerland's and offshore establishments' come-back up to cumulating as high as 54% of DIA and 73% of the EU27's FDI -- as related the whole (rest of the) world and total EU27's international investment flows.

As for *Canada*, similarly vis-à-vis EU27 as international investment partner, a 2010 disinvestment on the DIA's flow sense was followed by a 2011 recovery through which this investment outflow came back up to EUR 12.4 billion. As on the other FDI sense, Canada was still the second top investor country-region in EU27 with EUR 23.9 billion in 2010, then went down to the quarter level of this (EUR 6.8 billion) in the next 2011 [UNCTAD/IFS /2012].

The *East-Asia* geographical investment relationships of EU27 seemed less affected by this crisis. Actually, except for the double FDI-DIA disinvestment on the *Japan* trajectory from EU27, 2010 came with recovery signs on this neighborhood, e.g. *China* (+EUR 17.5 billion as FDI) and *India* (+EUR 12.0 billion as FDI) – plus similar dynamics on both investment country partners for DIA from EU27. Nevertheless, the EU27's top FDI country sources of the East Asia remain in 2011 *Hong-Kong* (EUR 6.5 billion) and *Japan* (EUR 5.4 billion).

As one more interesting example, *Australia* was directly investing in EU27 as high as EU 14.9 billion (10% of the total EU27's world-wide FDI) in 2010, then a EUR 1.9 billion disinvestment in the next 2011 came to reverse this previously

(2009) built EU27-Australia investment partnership's performing [UNCTAD/WIR /2012].

### 3. The EU27's DIA<sup>5</sup>

It is well known that *international investment* flows (FDI and DIA) are likely to vary as year by year, and this is especially due to their *mergers-acquisitions* important part. As for EU27, *Luxembourg* did hold as high as 36% of the whole EU27's DIA amount yearly average of the 2009-2011 interval – see also an 85% IST ratio in the total Luxembourg's investments for the same time<sup>6</sup>[UNCTAD/IFS (2012)]. The fact is that in 2010 the total Luxembourg's DIA amount outside EU27 was lowered to the half of the previous 2009 corresponding amounts, but the country stayed the EU27's top investor member country outside the region. Undoubtedly, this stays related either to that the Luxembourg's top DIA recipient countries are the *Bermuda Islands*, *US* and *Switzerland* (pretty similarly to the whole EU27 region's situation, as seen above), or to the significance of the country's financial sector, as so demonstrated [ECB/Eurostat 2011 & 2012].

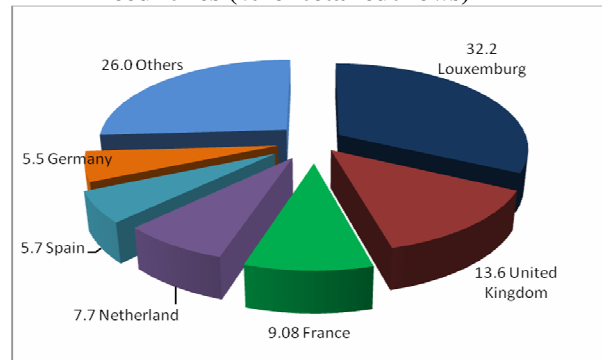
The other significant example as EU27 member country is the *UK* – this is for a major fall of (outside the region) DIA, where important disinvestments did occur in 2010 on the *US* and *Canada* partnership relationships, as parallel to redirecting the same country's international investment flows to *East Asia*, *Australia* and *Brazil*.

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<sup>5</sup> There is the difference is to be made between the EU27's FDI-DIA and the total FDI-DIA performed by all member countries of the same area – the intra-EU27 FDI-DIA are here subtracted.

<sup>6</sup> Netherlands and Hungary are other examples of the EU27 member countries with important IST investment amounts. Both States prefer to exclude these amounts from their official statistics.

**Fig 2. EU27: DIA on annual averages of the 2008-2010 by member countries (% of total outflows)**



Calculated on the UNCTAD's data

**A moderate growth of EU27's stocks in 2010** - in 2010, the FDI-DIA stocks of EU27 have increased by 13% and 12%, as respectively, whereas the previous 2009 year the same dynamics had been 10% and 6%, as respectively [UNCTAD/WIR /2012].

**North America keeps on the top recipient of the EU27's DIA** - in the 2010 year end, the *North American* region was the top recipient of the EU27's DIA with 34% of the of the year. Apart of this, the US had EUR 1,195 billion; meaning 28% of the total corresponding EU27's DIA amount, but a shrinking trend (see of -5.7% in 2010) was also becoming obvious. *Switzerland* [UNCTAD/IFS (2012)] was the second EU27's DIA recipients, as already mentioned above and this may be given by its geographical proximity to the region. In 2010, this country had 14% of the EU27's DIA stocks, as predominantly in its financial and insurance companies. The third recipient country of the EU27's DIA was *Canada* and this country hold 4.8% of these stocks at the end of 2010.

The EU27's DIA stocks in *Brazil* increased as high as by 73% between 2008 and 2010, as a newly designed interest that Europeans got for this country target. Besides, as for the *East Asian* country destinations for the EU27's DIA, two mentions ought to be made. First, in 2010 *Singapore*, *Hong Kong* and *Japan* gathered a half of the corresponding amount for the whole Asia in 2010. Second, and certainly in the same context, *China* totalized a stock of EUR 75.1 billion from the EU27's DIA in the same year end, so over passing what *South Korea*, *India* and *Indonesia* had gathered together [UNCTAD/IFS (2012)].

As for the African destination of the EU27 DIA, in 2010 South Africa (EUR 92.2 billion), Nigeria (EUR 34.5 billion) and Egypt (EUR 24.4 billion) were

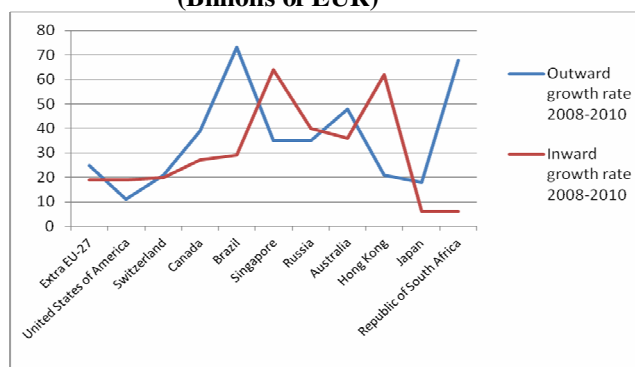
dominating. The EU27's DIA stocks in South Africa so rose by 19% the same year and this country was staying in the top-10 of the investment country partners of EU27 [UNCTAD/WIR /2012].

### 5. The US stays the major stock-holder of the EU27's FDI

In the 2010 year end, the *US* were contributing to the FDI stock of the EU27 region with EUR 1,201.4 billion (41% of it), plus this contribution so strengthened. These American investments were predominantly targeting the *financial, insurance*, but also *manufacturing* sectors, the last for *metal processing* and *machinery producing*, as in detail. The second country position in this FDI order was *Switzerland*, again, with a total stock of EUR 365.4 billion on the EU27 land in 2010, meaning 10% higher than in 2009.

See also other representative EU27 DIA stockholder countries' cases, like *Canada* and *Japan*, that hold together 14% of the EU27's FDI stock in 2010, so 4% more than in the previous 2009. But really representative for this period dynamic of the EU27's FDI were countries like: *Hong Kong* (+51%), *Singapore* (+34%) and *Brazil* +21% [UNCTAD/IFS (2012)].

**Fig.3 EU27: Top-10 of FDI-DIA country sources-destinations (Billions of EUR)**



Calculated on the UNCTAD's data

### 6. The service activities with their dominant weight in the EU27's FDI

The stock structure of the EU27's FDI<sup>7</sup> stayed roughly unchanged in 2009, plus EU27 keeps an active international investments balance over the rest of the world, at least on its larger sectors. Structurally, as well, *services* are the top sector of both DIA and FDI – see 57% and 63% weights in the DIA and FDI stocks, as

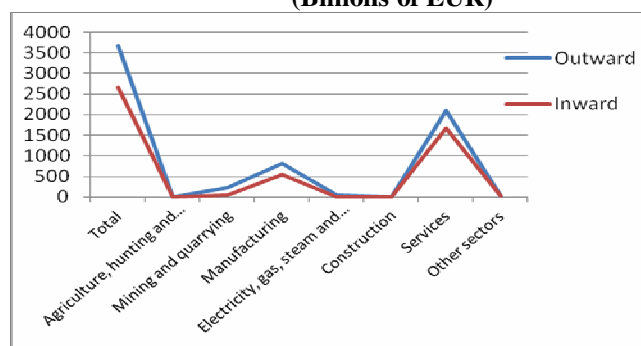
<sup>7</sup> See the NACE REV.2 classification.

respectively, plus these weights were either slightly increasing, as compared to the previous 2008, or approaching corresponding weights in the real economy.

Nearly two thirds of these service located DIA-FDI stocks of EU27 at the end of 2009 belonged to the *financial* and *insurance* sub-sectors, as in detail. Both of them were significantly increasing in 2009, whereas in facts all the services sub-sectors were more or less positively evolving and pushing up *international investment* growth for the region, but the services for traded goods (e.g. maintenance-repairs for road vehicles), information and telecommunications that were DIA-FDI stocks reducing.

In the *manufacturing* sector, the year 2009 brought decline on both: DIA (-4%) and FDI (-5%), and this sector went down to 20% of the total international investment stocks. This was pretty similar for the *constructions* sector, where the investment stocks declined by about one quarter in 2009, as actually their ever highest decline, as obvious in Figure 4.

**Fig.4. EU27 : FDI stocks, on activities in 2009 year end  
(Billions of EUR)**



Calculated on the UNCTAD's data

### 7. The net revenue recovered in 2010

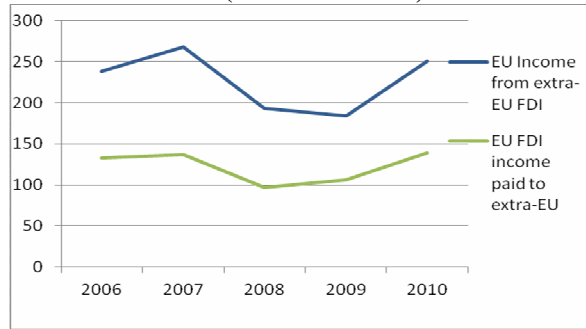
Following the successive 2008 and 2009 downturns, the FDI-related *net revenue* in EU27 roughly recovered in the next 2010, as associated to returns on DIA and FDI stocks performing at 6.9% and 5.2%, as respectively.

The *net revenue on investments* of EU27 increased by 36% in 2010 and so balanced nearly the whole cumulated deficit of the previous years. The FDI-related amounts paid to ex-EU27 States went up to EUR 139.5 billion in 2010, as higher than the old 2007 record level. As for the opposite, the net DIA-related revenue of EU27 from the rest of the world was EUR 111.6 billion the same year, namely 43% more than in the previous 2009. There was so resulting a positive external



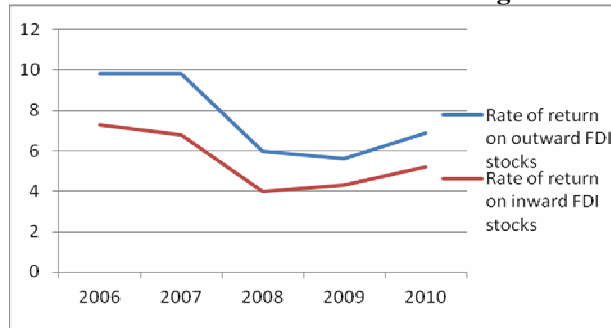
balance of international investments related revenue as high as 0.91% of the 2010 region's GDP, and this positively evolving as compared to the previous 2009 (0.61% / Figure 5).

**Fig 5. EU 27: FDI related revenues during the 2006-2010 interval (Billions of EUR)**



Calculated on the UNCTAD's data

**Fig 6. EU27: Returns on international investments during the 2006-2010 (%)**



Calculated on the UNCTAD's data

### 8. Finally, about foreign companies<sup>8</sup> and their performing

The European Union (EU27) is certainly a top international investor entity world-wide – so is the role played by the European foreign companies. However, the *inside the Union* scale of activities controlled by the EU27 companies was larger than the one of *outside the region* in 2004. The part of the *employment* in

EU27, as *by EU27 foreign companies* within the same EU27 area, was as high as 57.7% on average that year – although the average related to a list including both a minimum of 34.5% of the total employment in Portugal and an opposite maximum of 81.2% in Austria.

So was the story of the EU27 companies within the region on *business turnover*: a 54.5% average part that relates to an interval between 50.9% in Germany and 89.9% in the Czech Republic. Portugal is an exception on such a scale: foreign companies of outside EU27 were controlling as much as 65.5% of the country's home employment [ECB/Eurostat 2011 & 2012].

As another basic rule and pretty similarly to international trade, foreign companies get more active in host countries neighbouring the home (original) country – see companies from France in the neighbouring Belgium; from Spain in Portugal; from Czech Republic in Slovakia; from Germany in Austria; from Greece in Cyprus; from Sweden in Finland and so on. Despite all these, the major destination of German international investments (DIA) and firms is the US, as for both employment and business turnover – this is for understanding the truth of the highest activity of European foreign firms as on the Northern American soil, namely 38% for employment and 57% for business turnover, as respectively; plus, the US was holding about 91% of these percentages.

In the terms of business turnover, once more, the services sector was mainly targeted by EU27 foreign companies within the region – see 54.7% of the one of total activities, followed by manufacturing industries with 40.9% of the total

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<sup>8</sup> Eurostat (EBC 2012 [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php)) defines foreign companies as *working on other countries' territory, than the home country of the company, but the same home country seems to keep some institutional control on them*. Shortly, such a company (firm) accounts jobs and business turnover (and other performings, as well) related to the specific foreign investment in the host country. As the result, statistics provide data on investments themselves, the foreign companies detail on these for outlining the local impact of the foreign investments. These last data serve both the host and home countries for both faces of the same impact and performance. So EU27 knows, at least, its international investment (DIA) impact, as well as the one perceived from the rest of the world.

activities. Of which, Finland is the exception of reversing this simple order in favour of manufacturing, as targeted by the EU27 foreign companies. As in terms of employment, the EU27 foreign companies within the region had (conversely) 54.8% on manufacturing and 41.0% on services.

As on the services' structure, *trade-related services* keep the highest rates of both employment (47.6%) and business turnover (67.2%) – with another important differentiation as between 10.4% in Greece and 62.7% in Finland, as for employment, whereas for business turnover the same stretches between 12.9% in the same Greece and 88.3% in the Czech Republic. *Transports and telecommunications* come on the second position as services' component for employment, whereas *business intermediaries* do the same for the business turnover.

There is also to be mentioned an obvious by country differentiation of the two above analysed impacts – there equally exist negligible and substantial impacts throughout the region. As for instance, German foreign companies are the most generous employers abroad, as compared to foreign companies from the other EU27 member countries, whereas Finland is the top EU27 country for perceiving employment performed by European foreign companies – see 13.9% of the total employment in this country; and Finland is here followed by Austria and Germany, both with about 11% of employment related to foreign EU27 companies, whereas at the other end of the same scale, the Czech Republic's employment in EU27 foreign companies was only 0.3% of total and the same for Portugal with 0.6 [ECB/Eurostat 2011 & 2012].

### **9. Concluding remarks**

The EU27 region is both an important international investor and complying with the international rules and aspects of investment and capital transfer. FDI and DIA are linked together – a link all over provided by multinationals, rather than by government policies. The top international investor countries providers and recipients – US, Canada, Japan and so on – are the same for EU27. However, some changes in the international investment flows are resented in the last period – e.g. in favour of newly performing countries like China and Brazil --, but the most important change tries to indicate a slight recovery vis-à-vis the recent world-wide economic and financial crisis – e.g. returns and revenues on both FDI and DIA; employment and business turnover performed by foreign companies.

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