FOREIGN DIRECT INVESTMENTS AND THE COUNTRIES OF THE EUROPEAN UNION

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INTRODUCTION

Between 1990 and 2000 the inflow of foreign direct investments extended dynamically in the world economy with the exception of a few unfavourable years. In 1997, 1998 and 1999 the average growth varied between 25 and 50 percent. In the year 2000 it reached 1,300 billion dollars, more than six times larger than in 1990. The vast majority of FDI inflows (79% of world inflows in 2000) went to advanced industrialized economies.

In 2001 this spectacular growth stopped and a dramatic fall could be observed in the context of the global FDI inflows especially in the developed countries while a moderate decline was reported in the developing and CEEC countries. There has been a less active presence of the European Union on global FDI markets since 2001. While the EU invested more than 400 billion euros in other countries in 2000, this figure was reduced to less than 150 billion in 2002.

One could reasonably ask if it was a definite crisis but it is more legitimate to say that it was the result of several factors such as correction of the previous growth, an overall economic recession at the time, the downfall of the international enterprise fusion and expansion activity (Kalotay, 2003).

In this paper I would like to get a closer view of FDI inflows and outflows concerning the European Union's countries. First of all I will investigate the composition of the extra-EU FDI outflows and inflows of the European Union's countries since the middle of the nineties. This will be followed by a review of the internal FDI outflow and inflow which will give a picture of the positions of the Central and Eastern European countries.

In spite of the generally stagnating situation experts expect increasing FDI inflows in the next few years because of an estimated higher growth in the developed countries and a more intensive cross-border activity of the multinational companies (Kalotay, 2003).

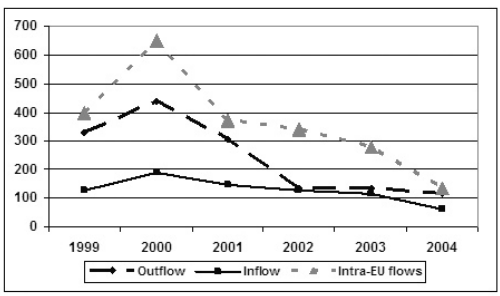
GLOBAL POSITION OF THE EU ON THE FDI MARKET

In 2000 EU FDI outflows reached their maximum with EUR 437 billion but two years later only EUR 133.9 billion was recorded on the global market. It meant a significant, 69% decrease. After a relative stability observed in 2003, outward FDI fell again in 2004, to EUR 115 billion, i.e. 15% less than the year before.

FDI inflows from outside the EU have run on a similar path. A steady decline has been noticed since 2001. Proportionally the drop of 46% in 2004 was more remarkable when the FDI inflows from outside the EU reached the relatively low EUR 62.3 billion.

A massive positive balance could be observed during the whole period regarding the EU FDI activity with the exception of 2002 and 2003 when EU outflows and inflows were almost balanced (EU Foreign Direct Investments).

Figure 1. EU outward and inward FDI flows and intra-EU FDI flows (EUR billion)

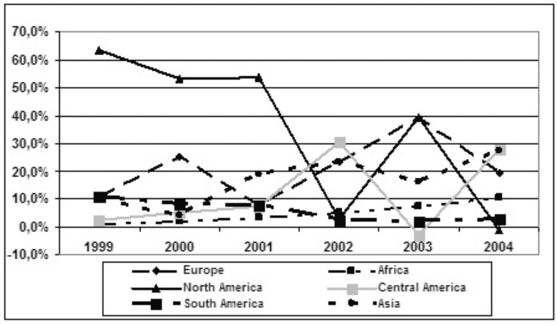


Source: UNCTAD

The reduction of the total amount invested abroad was combined with a modification in the main destinations of EU outward flows.

During the period analysed here the significance of North America fell dramatically while Central America gained a stronger position with its EUR 31.7 billion thanks to the EUR 9.2 billion invested in Mexico. In 2004 the United States suffered a disinvestment while the country was the most important destination (EU Foreign Direct Investments).

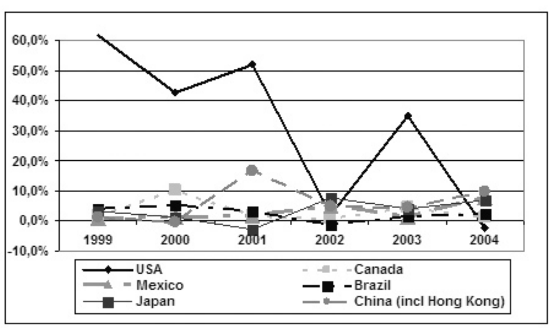
Figure 2. EU outward FDI flows % (Total=100%)



Source: UNCTAD

The relative presence of outward FDI flows from the EU on the Asian market became proportionally stronger. The share of Asian investments reached 27.3% in 2004. In spite of the overall decline in FDI activity in 2001, investments in Asia grew from EUR 17.6 billion to EUR 58.2 billion by 2002, in a period of just one year. The figures make it quite clear that the role of non-EU OECD countries decreased significantly regarding the EU outward FDI flows, while the developing areas maintained their positions. The single developed market which reported improvement was Japan with its EUR 8.1 billion in 2004.

Figure 3. EU outward FDI flows % in selected countries (Total=100%)

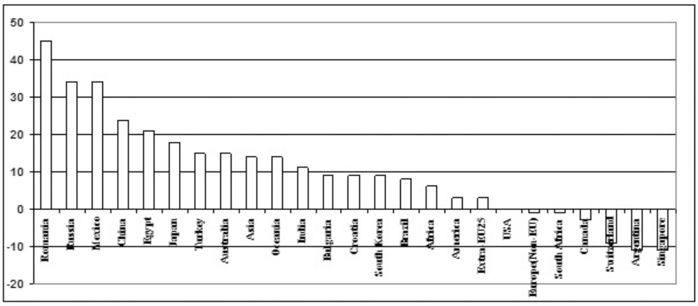


Source: UNCTAD

In 2004 several non-EU countries reached their highest share of EU FDI outward flows during the examined 6 years' period while Switzerland, a former important investment destination recorded a significant disinvestment of EUR 10 billion. Russia, Norway and the candidate countries imported 5.6%, 4.3% and

4.3% respectively of the total extra-EU FDI outward flows, the highest level since 1999. Romania and Bulgaria, the accession countries and the fast growing eastern European economies have also attracted EU investors.

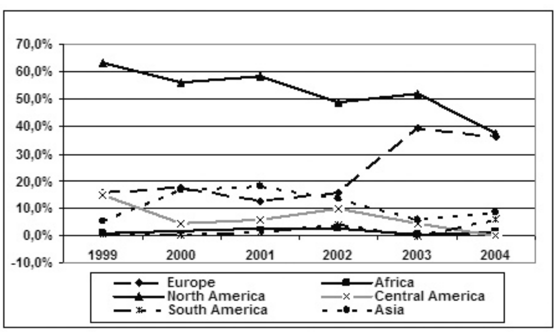
Figure 4. EU FDI rate of growth for outward stocks in 2004/2003 (%)



Source: UNCTAD

The data in Figure 4 show the rate of growth for outward stocks in 2004 as compared to 2003. The growth rate of EU outward stocks was the highest in the case of Romania (45%), followed by Russia, Mexico and China, whereas Argentina and Singapore registered the highest negative rates (-11%).

Figure 5. Inward FDI flows to the EU (%)



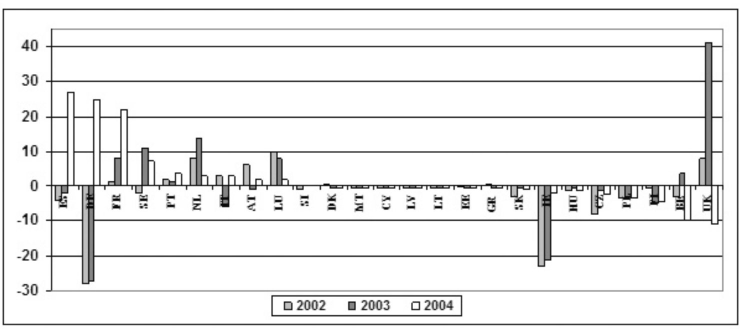
Source: UNCTAD

The FDI inflows form outside the EU amounted to EUR 188.5 billion in 2000 then dropped by 39 billion in 2001. The downfall continued till 2004 when it reached 33% of its 2000 value thanks to EUR 62.3 billion invested. The relative presence of the United States showed a constant decrease during the 6 year period.

While in 1999 an investment of EUR 75.9 billion was reported, in 2004 only EUR 23.4 billion arrived in the EU. FDI inflows from Canada also decreased strongly, from EUR 12.2 billion in 2003 to a disinvestment of EUR—4.1 billion (EU Foreign Direct Investments).

The share of (non-EU) Europe became more significant; the importance of Switzerland was remarkable in 2004 with more than 23% of the total inward FDI flows to the EU arriving from the country. A relative improvement could be observed on the part of a few developing countries such as Brazil and China in terms of their investment activity in the EU. In 2004 China was the third most important investor with its 7.7% share of the total FDI inflow. The overall performance of the (non-EU) OECD dropped dramatically since 2000 and in 2004 only EUR 44.4 billion were reported.

Figure 6. NET FDI outflows by Member State in the rest of the world (EUR billion)



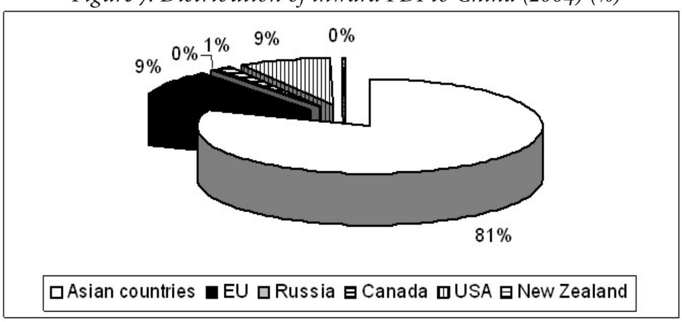
Source: EUROSTAT

When EU achievements on the global FDI market are examined it is done in overall terms but we must not forget that the EU is a heterogeneous composition of 25 different states. The 10 new Member States were net recipients of FDI funds in all the three years. They were very rarely able to invest on the international markets. Figure 6. shows the NET FDI outflows by Member State in the rest of the world. Member States with positive values are net investors in the rest of the world, while a negative value indicates that the Member State is a net recipient of FDI funds. Only France, Portugal, the Netherlands and Luxemburg could show a positive FDI flow balance during this three-year period.

While the United Kingdom, the Netherlands and Sweden were the most significant net investors in 2003, in 2004 Spain became the largest net investor followed by Germany and France. The United Kingdom, the main net investor in 2003, became the largest net recipient of FDI in 2004.

It should be mentioned here that Figure 6. shows absolute values which are influenced by the different sizes of the countries. Extra-EU FDI flows as percentage of GDP are the highest in Luxembourg (Eurostat said the role of Luxembourg in EU FDI is mainly explained by the importance of its financial intermediation activity) with 6% of its GDP compared to 3% for Spain and 1% for Germany while the net inflows of the 10 new Member States were 4.9% in 2002, 1.9% in 2003 and 2.9% in 2004.

Figure 7. Distribution of inward FDI to China (2004) (%)



Source: http://www.china.org.cn

Another interesting point is to examine the presence of the EU in China. In 2004 China was the most significant FDI destination in the world. The inward FDI exceeded 60 billion US dollars while China remained a relatively insignificant FDI exporter on the Global market. In 2004 FDI stocks exceeded 245 billion US dollars which is equivalent to 14.9 percent of the country's GDP.

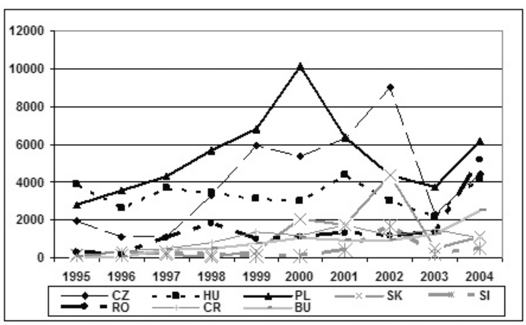
42% of the investments arrived from or through Hong Kong; the second most important investor was the Republic of Korea with its 13.8%; and the third was Japan with 12.1%. More than 80 percent of the inward FDI to China arrived form Asian countries. The role of the 'western' countries remained minor as compared to their Asian competitors. The EU countries had slightly more than 8.5% of the total FDI invested to China, which is commensurable with the United States' 8.7%. The most active European country was Germany with 2.3%, followed by the United Kingdom and the Netherlands both having 1.8% and France took the forth place with 1.5% while Italy had only a 0.6% share.

It is clear that China is one of the most weighty investment destinations for the EU countries (in 2004 9.8% of the EU outward FDI flows arrived in China) and has preserved its importance since the 2001 drop, but comparing it to the performance of the closer Asian counties we have to conclude that a more intensive presence is needed considering that China is one of the most attractive developing markets.

INVESTMENTS IN THE CEEC-8 COUNTRIES

In 2004 10 new member states enlarged the economic space of the EU. After 1990, when an equivalent of EUR 2 billion arrived into all the CEEC-8 countries, investment activity appreciably grew in 2004, when it reached EUR 40 billion (World Investment Report).

Figure 8. Aggregate FDI flow into the CEEC-8 (Euro m)



Source: UNCTAD database

Poland was the most important investment destination during the 10 year period shown in Figure 8, mainly due to its size. Besides Poland, Hungary and the Czech Republic were the main targets of FDI inflows in the second part of the nineties. Considering the per capita values of the FDI, indicator Hungary had the first position till 1998. From 1999 to 2004 (except for 2003) the Czech Republic took the leading role. It can also be seen that the positions of Romania and Bulgaria are getting stronger thanks to their EU accession in the near future.

Since 2000 the positions of Slovakia, Slovenia and Croatia have become remarkable; in 2003 Croatia was the first in terms of per capita FDI in the CEEC-8 countries.

The source of FDI flowing into the CEEC-8 countries is an interesting point as well. Apart from Bulgaria more than 50% of FDI inflows arrived from the six selected EU investors; in the Czech Republic this figure was more than 76%. The investment activity of the United Sates was significant in Croatia, Poland and Bulgaria but in the other CEEC-8 countries it was only around 5% or less than 5% (World Investment Report).

Table 2. shows a surprising fact, namely that the Netherlands has a leading role in the area besides the very strong presence of Austria. Germany, compared to its size in the EU, has only a moderate investment activity. Hungary is the only one where it has a leading investment role.

There is a definitely weaker German and Austrian presence in Bulgaria and Slovakia seems that distance means lower activity. The Netherlands is in a different position. The country does not have common borders with any of the CEEC-8 countries, therefore distance is less important in the investment decision making process. France and Italy have relatively small FDI activity in the area. France has a stronger presence in Poland and Romania while Italy has quite a significant activity in Croatia, Slovakia and Romania. All these facts lead us to conclude that cultural connections and cultural vicinity are the most important factors governing FDI activities of investors.

SUMMARY

2001 was a turning-point in outward and inward FDI flows of global FDI. The EU reported a similar process in the global trends. The EU FDI activity, especially in the non-EU OECD countries, fell dramatically. The decrease was not as significant regarding the developing, the candidate countries and the new member states thanks to their more attractive business environment. The United States (realizing 61.8% of the FDI in 1999) has lost its dominant role since 1999 and the investment activities of developing countries into the EU have become proportionally more and more important (Kalotay, 2003).

In 2004 Spain, Germany and France were the main NET FDI investors and, at the same time, the United Kingdom became NET recipient of FDI. The 10 new

Member States were net recipients of FDI funds in 2002, 2003 and 2004. The EU has an important but not leading role on the global FDI markets. Only 8,5% of the FDI arrived from the EU countries to China in 2004.

The analysis of the investment activities of the EU-15 countries shows that Germany has a leading position, but it is not strong enough compared to the country's economic potential because FDI outflows represent only 1% of the GDP. Surprisingly, the Netherlands has quite a significant role on the global market while big EU countries like Italy, France and Spain have no really significant investment activities in the CEEC-8 countries.

It seems that physical and cultural distances are the main barriers for the EU countries. More intensive presence is needed on the global FDI markets otherwise the EU won't be able to secure strong positions on the developing markets. After the analysis of the performance of the EU countries, our conclusion is that the Netherlands could be set as a model with its relatively strong global and regional positions.

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Table 1. FDI per capita in the CEEC-8 countries (EUR) (1995-2004)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Czech Republic	192	111	111	323					223	
Hungary					307	296	435	298	216	412
Poland	73	93	113	149	179	265	167	114	98	161
Slovakia	37	54	38	12	75	387	329	810	94	209
Slovenia	58	69	146	97	50	74	206	849	80	258
Romania	15	10	49	84	45	52	60	56	64	239
Croatia	20	91	106	187	310	265	393	268		242
Bulgaria	9	11	57	62	99	139	117	123	161	320

Source: UNCTAD database

Table 2. Origin of FDI in the CEEC-8 countries (%) (2003)

	AUT	GER	FR	IT	NL	UK	Total	US
Bulgaria		8,29	2,23	6,33	9,89	5,7	43,39	8,52
Croatia			0,93	8,62	8,37	2,49	64,12	10,79
Czech Republic	11,82		7,92	1,07		4,25	76,55	5,16
Hungary	11,22		4,34	1,85	19,54	0,86	67,01	5,21
Poland	4,02		14,47	3,9		3,66	66,64	9,47
Slovakia	14,01		2,39	8,13		7,48	77,22	4,05
Slovenia			7,45	6,44	5,41	2,76	53,05	1,63
Romania	6,23	7,16		7,77		1,95	52,13	3,36

Source: UNCTAD database