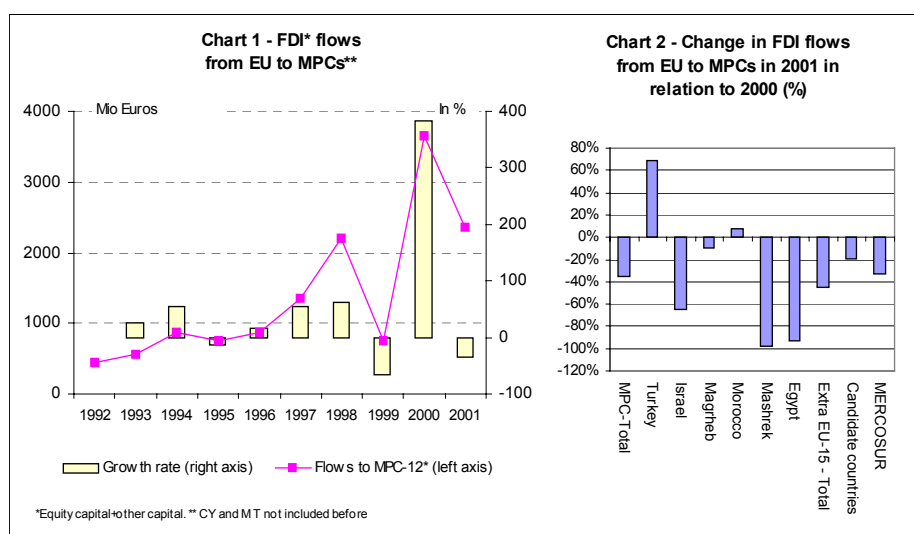


European direct investment in the Mediterranean countries

Stéphane QUEFELEC

Statistics on foreign direct investment (FDI) provide information about one of the main aspects of globalisation. Unlike traditional trade in goods and services, FDI reflects readiness to make a lasting commitment to a specific market. The balance-of-payments unit at Eurostat maintains a data base containing harmonised data on FDI inward and outward flows, incomes and positions, for the European Union, the Member States and their main partners. This report uses the figures from the FDI data base which the Member States have reported in relation to the 12 Mediterranean partner countries (MPCs) who signed the Barcelona Convention¹.



2001: reduction in FDI flows from EU-15 to the MPCs

Record FDI flows from Europe to the MPC countries were the feature of 2000. There was a sharp drop² in 2001, however, in line with the overall trend in outward FDI flows from the EU (down by approximately 45%) or to a lesser extent with the trend in FDI going to the candidate countries (-19%) and the Mercosur countries (-33%). The main reason for the drop in European FDI to the MPC countries was the reduced level of investment in Egypt and Israel. The trend was mitigated, however, by investment in Turkey and to a lesser extent in Morocco (Charts 1 and 2).

FDI flows to the MPC countries vary greatly from year to year, depending on the country or region (Table 1). They are influenced by investment opportunities which, in many countries, are linked to privatisation plans. In addition, 2001 has to be seen in a context which was generally less conducive to investment. Like the economy of Europe and the world economy in general in 2001, growth in a number of MPC countries experienced a downturn to varying degrees.

¹ **The 12 Mediterranean partner countries (MPC-12)** in the partnership are: Algeria (DZ), Morocco (MA), Tunisia (TN), Egypt (EG), Jordan (JO), Lebanon (LB), Syria (SY), Israel(IL), the Palestinian Authority (PS), Cyprus (CY), Malta (MT) and Turkey (TR). The MPC countries are involved in the regional programme for Euro-Mediterranean statistical cooperation (MEDSTAT), with financing under MEDA and technical supervision provided by Eurostat. This report was compiled as part of the MEDSTAT subprogramme entitled MED-IS (Information System), which is intended to strengthen the information and dissemination systems of the Mediterranean partners' national statistical institutes.

² According to UNCTAD, total FDI flows from the whole world declined in 2001 in every MPC country apart from Turkey, Morocco, Algeria and Jordan.

Statistics in focus

ECONOMY AND FINANCE

THEME 2 – 13/2003

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European FDI in the MPCs up but still relatively low

The European Union's FDI positions in the MPC countries more than trebled between 1996 and 2000 (Chart 3 and Table 2). In the latter year, Turkey, Egypt and Morocco alone accounted for nearly 60% of European FDI in the MPC countries. In absolute terms, the FDI positions in the Maghreb and Mashrek countries and Turkey were almost identical in 2000. But when the size of each country's economy is taken into account (as a percentage of GDP), the presence of European firms is much more noticeable in Cyprus, Malta and the Maghreb countries, especially Morocco, than in the Mashrek countries and Turkey (Table 2).

In 2001 the MPC countries took only 1.2% of extra-Community FDI flows (Chart 4). By way of comparison, the candidate countries and the Mercosur countries attracted 7% and 8% respectively. Investment in the Asian NICs has been down since 1997 but earlier investment had laid the foundation for solid FDI positions which in 2000 accounted for more than 4% of all extra-Community FDI, compared with a figure of 1.5% in the same year for the MPC countries (Chart 5). In the case of the MPC countries, these low rates contrast with their relative importance as EU trading partners. In 2000, in fact, 8% of EU trade was with the MPCs, compared with 2% with the Mercosur countries.

Netherlands, France and Germany: main investors.

Among the Member States, the Netherlands, France and Germany were the main providers of FDI in the region in 2000. French firms tended to invest in the Maghreb countries, while German firms favoured Turkey and Dutch and British firms were more likely to invest in the Mashrek countries (Table 3).

At around EUR 23 billion, the European Union accounted for more than twice as much FDI in the MPC countries as the United States in 2000. As in the case of the EU, American FDI positions have risen sharply since 1994 but they are still low when compared with other parts of the world, especially South America or Asia. The main destinations for American FDI in the MPC countries were Israel and the Mashrek countries, especially Egypt (Charts 6 and 7).

The EU has traditionally run a large FDI surplus with regard to the MPC countries. However, some of these countries - mainly Cyprus, Turkey and Israel - invest in Europe. Direct investment by the MPC countries in Europe in 2000 amounted to EUR 7 237 million. Israel stands out from the other MPC countries by having an FDI surplus with the EU, and it is also a major investor in the United States (Tables 3 and 4).

Table 1 - FDI flows from EU to MPCs (registered capital and other transactions)

	Million of Euro									
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Maghreb countries	32	157	264	119	218	614	496	-103	540	490
Morocco	74	150	229	25	176	442	108	8	196	212
Mashrek countries	22	90	164	203	57	129	595	332	1550	35
Egypt	-17	32	53	113	52	66	354	365	1157	88
Israel	23	35	46	108	181	146	225	-199	805	285
Cyprus	:	:	:	:	:	:	:	:	:	250
Malta	:	:	:	:	:	:	:	:	:	18
Turkey	367	279	389	320	416	469	879	725	754	1271
12-PPM*	444	561	863	750	872	1358	2195	755	3649	2350

* (CY and MT not included before 2001).

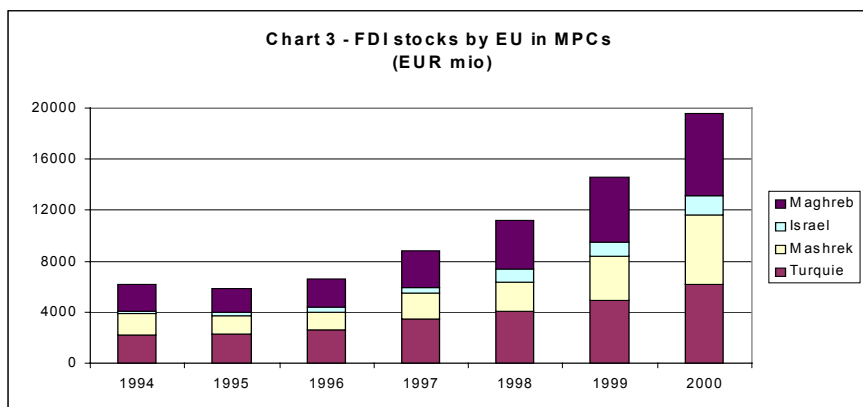


Table 2 - European FDI stocks in MPCs as % of their GDP

		Maghreb	Morocco	Mashrek	Egypt	Israel	Cyprus	Malta	Turkey	MPC-12**	PC-13
GDP at current prices in EUR bn*	1996	81.3	28.9	120.5	53.3	77.8	7.0	2.6	143.1	422.7	427.4
	2000	115.8	36.1	218.1	98.7	123.3	9.6	3.9	216.7	687.4	628.0
EUR bn	1996	2.2	1.3	1.3	0.5	0.4	:	:	2.6	6.6	19.8
	2000	6.4	3.3	5.4	3.7	1.5	2.5	0.9	6.2	22.9	75.3
EU FDI stocks as % of countries' GDP	1996	3	4	1	1	1	:	:	2	2	5
	2000	6	9	2	4	1	26	23	3	3	12

*Maghreb and Mashrek: sum of countries' GDP at current prices. **CY and MT not included in 1996.

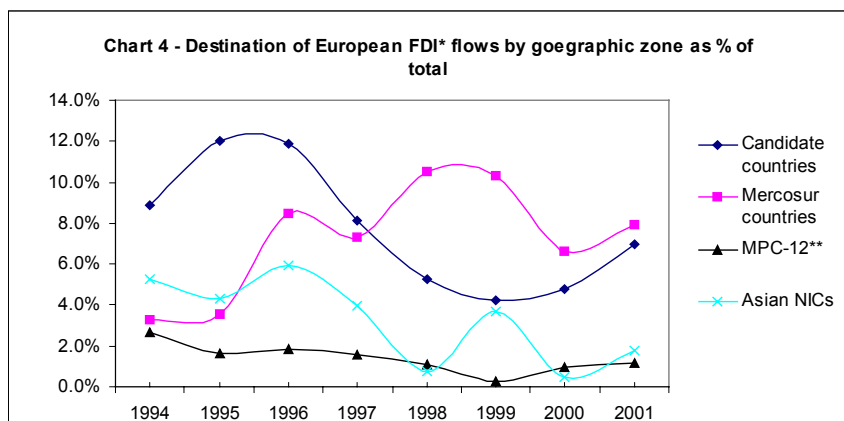


Chart 5 - Geographical breakdown of EU FDI stocks in 2000 (as % of total extra-EU FDI stocks)

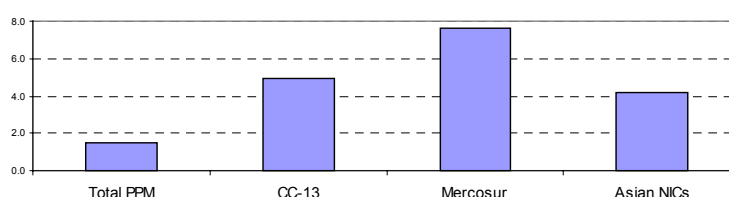


Table 3 - EU FDI stocks in MPCs in 2000 (EUR mio)

	Extra-EU	CC-13	MPC-12	Maghreb	Mashrek	MA	EG	IL	CY	MT	TR
EU-15	1517186	75326	22936	6420	5353	3285	3697	1541	2520	871	6228
Germany	249647	24095	3138	437	364	212	293	197	255	170	1716
France	232815	7607	3626	1711	654	1252	293	157	62	8	1034
Italy	67958	4923	2609	903	264	281	228	67	18	158	1196
Netherlands	161993	10353	3731	310	1671	81	:	502	109	102	1037
Portugal	12064	247	1259	754	504	316	504	0	0	0	0
United Kingdom	442860	3967	c	260	1476	74	1226	455	64	130	c
Other*	349849	24134	:	2045	420	1069	:	163	2012	303	:
Switzerland	127289	:	:	222	485	193	400	:	:	:	683
United States	737771	:	10734	2574	2622	39	2519	3639	52	390	1457

Différence entre

Table 4 - FDI stocks of MPCs in EU and USA in 2000 (EUR mio)

	EU-15	D	F	I	NL	UK	USA
MPC-12	7237	1090	1040	441	838	942	:
Maghreb	1051	:	547	59	2	:	-25
Mashrek	784	12	272	193	12	128	-5
Morocco	539	0	356	38	:	:	-25
Egypt	245	:	16	61	:	:	-4
Israel	1666	502	102	15	:	386	2891
Cyprus	1951	105	26	8	22	195	14
Malta	465	:	1	158	:	27	:
Turkey	1321	467	93	5	328	:	205

Declining returns

A rough indicator of FDI profitability for 2000 comes from looking at income for 2001 in comparison with the situation of FDI stocks at the end of 2000. The indicator shows that a European firm which invested EUR 100 million in the MPC countries could expect a return on its investment of EUR 5.5 million in 2001. This is well below the 2000 figure of 13.4 million but fairly close to the extra-EU average for 2001. The primary cause of this downturn was the fall in returns from investment in the Mashrek countries and Israel. In the latter country, the rate of return on investment actually became negative (Chart 8). At the other extreme, the highest return on European FDI occurred in Malta.

FDI activity can be a factor which enables the MPC countries to attain GDP growth rates that are high enough to reduce unemployment and improve the social situation. The success of this process is one of the objectives which the 27 Euro-Mediterranean partners - the 15 Member States of the EU and the 12 MPC countries - have set out as part of the Euro-Mediterranean partnership.

Chart 6 - American FDI stocks in MPCs (EUR mio)

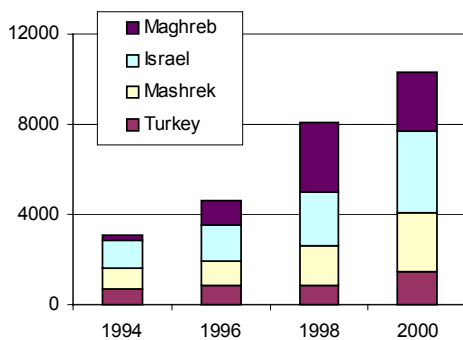


Chart 7 - American FDI stocks in world in 2000 (as % of total US investment)

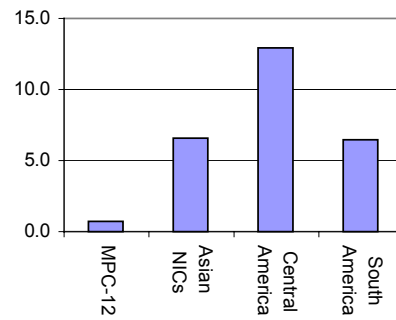
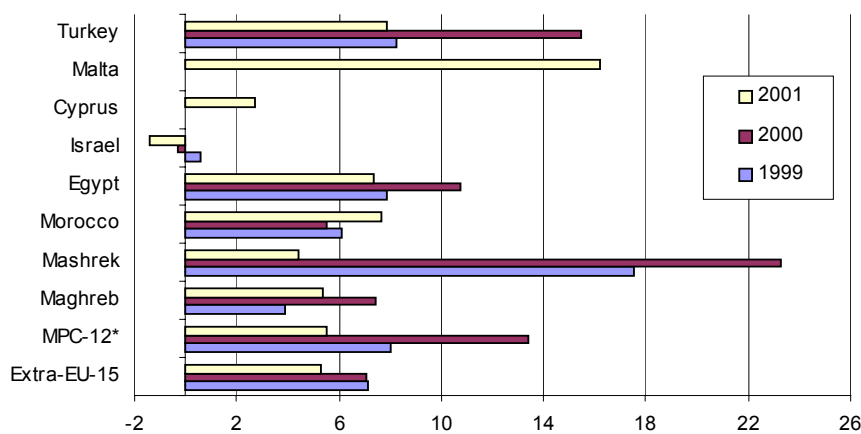


Chart 8 - Return on EU FDI investment (%) 1999-2001



* CY and MT not included before 2001.

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

Aggregates:

13 candidate countries: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia and Turkey.

Mercosur countries: Argentina, Brazil, Paraguay and Uruguay.

Newly industrialising countries (NICs) in Asia: Hong Kong, Singapore, South Korea, Taiwan, Malaysia, Philippines, Thailand.

Maghreb countries: Morocco, Algeria and Tunisia.

Mashrek countries: Egypt, Jordan, Lebanon, Syria and Palestinian Authority.

Source of data:

The data presented here are compiled by the

Balance of Payments Unit at Eurostat. The balance of payments is calculated as the sum of the harmonised accounts of the balance of payments of the 15 Member States. The methodological framework is that of the fifth edition of the International Monetary Fund Balance of Payments Manual.

Foreign direct investment (FDI) is the category of international investment that reflects the objective by an investor in one country to obtain a lasting interest in an enterprise in another country. A lasting interest implies there is a long-term relationship between the 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 incorporated or unincorporated enterprise in which a direct investor owns 10% or more of the ordinary shares or voting power (in the case of an incorporated enterprise) or equivalent (in the case of 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).

Further information:

➤ Databases

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