The Recent Trend in EU Foreign Direct Investment and Intra-EU Investment

Noboru SASAKI*

Professor of Fukuoka University

Contents:

Introduction

1. The Recent Trend in World and EU FDI
2. Characteristics of EU FDI and intra-EU investment
3. Cross-border M&As in the EU

Conclusion

Introduction* *

World foreign direct investment increased rapidly in the 1980's and throughout the 1990's, though it has entered into temporary stagnation since the year 2000. This investment was carried mainly by the European Union. The EU is the principal outflow area and also the principal inflow area of FDI along with the United States. Considering the constitution of this EU FDI, we find that internal EU investment i.e. mutual investment between EU member countries, has occupied large relative importance. This fact is an important feature of EU FDI, and it is also the primary factor contributing to the increased relative importance of EU FDI in the world. Observing EU FDI by industry, the relative importance of the service industry has increased due to the active development of cross-border M&As in the EU which occurred in the context of the deregulation and liberalization of the financial services and telecommunication industries towards the end of the 1990's. The globalization of the world economy and the deepening of European integration through such measures as the introduction of the Euro have stimulated the expansion of M&As in the EU. Various aspects of the increase in EU FDI are considered in the following through observation of the actual situation and examination of the characteristics of European FDI and cross-border M&As.

* I was a visiting scholar at the Economics Department, Freie Universität Berlin during the study year 2004/2005 and thank Professor Dr. Horst Tomann and Olivia Birchall.

* * This paper was written by updating and improving my previous article (in Japanese), "The Recent Trend of the EU Foreign Direct Investment", *Fukuoka University Shogaku Ronso (Review of Commercial Sciences)*, Vol.47 No.2 (Sept.2002). The number of EU members was 15 before the 2004 enlargement as considered in this paper.

1. The Recent Trend in World and EU FDI

World FDI flows increased rapidly in the last few years of the 1990's but then started to decrease after peaking in the year 2000. According to the UNCTAD "*World Investment Report 2004*", world FDI inflows declined by 18% against the previous year to $560 billion in 2003, the third consecutive year of decrease since 2001. But FDI outflows rose by 3% to $612 billion in 2003, which was the first sign of recovery in world FDI(1). As a result of this FDI flow, world FDI inward stocks in 2003 increased to $8,245 billion, and outward stocks to $8,197 billion, though the tempo of increase was slower.

As for the decrease in investment since 2001, the two main contributing factors were the slowing down of economic activity in the major developed countries and a sharp decrease in their stock market activity. These combined to cause a rapid slow down in cross-border M&As, and this led to a decrease in FDI because M&As had been the main driving force behind the increase in FDI up to that point. Observing the long term trend of world FDI, there was a repeated pattern of a downward cycle in FDI in 1982-1983, and again during the late 1980s and the early 1990s. These two cycles, and the recent downward swing in investment since 2001, can be thought of as temporary interruptions to long term FDI growth(2).

Excluding the recent temporary discontinuance of investment growth, world FDI in the long term has grown more rapidly than international trade. The annual growth rates of international trade were 12.7%, 8.7% and 3.6% in each period of 1986-90, 1991-95 and 1996-2000, while world FDI inflows grew at an annual average of 22.9%, 21.5% and 39.7% in the same periods. The growth rate of FDI not only exceeded the growth rate of international trade but also of world gross investment and real GDP(3). It can be said that such rapid growth in FDI was a primary factor in strengthening the international relationship of the world economy and expanding globalization.

Table 1 shows the regional structure of world FDI. Developed countries account for about 90% of world FDI outward stocks and about 70% of inward stocks. This indicates that the principal part of world FDI consists of the mutual investment between developed countries. Of these, the US is not only the largest country of outflow

investment but also the largest country of inflow investment. Considering the EU as a country, it accounts for about 50% of world FDI outward stocks and about 40% of inward stocks, making it a principal outflow investment country and also a principal inflow investment country along with the US. Developing countries account for only 30% of world FDI inward stocks and 10% of outward stocks. As they have suffered relatively little from the recent downturn in FDI, their share in world FDI has become relatively larger. The share in investment of the Central and Eastern European countries has also been increasing steadily.

Table 2 shows the country structure of EU FDI. Four countries, France, Germany, the Netherlands and the UK, have a large share in EU FDI, accounting for about 70% of EU FDI outward stocks and about 60% of inward stocks. But the share of these four countries has been decreasing, in inward stocks from 67% in 1980 to 60% in 2003 and in outward stocks from 88% to 69% in the same period. Belgium and Luxembourg's share of EU FDI has been increasing rapidly and has recently become quite large. As for Luxembourg in particular, it became the largest FDI inflow country and also the largest outflow country in the world in 2002 due to transshipped investment. In Luxembourg, capital flowing in from within the EU flows out again to other EU member countries through holding companies that are stationed in Luxembourg because of the favorable conditions for holding companies there(4).

EU FDI contains internal EU investment, which is the mutual investment of EU member countries in each other. EU FDI outflows contain not only investment flows to countries external to the EU, but also internal investment to other EU members. And EU FDI inflows contain external investment from countries outside the EU and also internal investment from other EU member countries. If the EU were a nation, of course this internal investment to other members or from them would be classified as domestic investment. But internal EU investment is calculated as EU FDI because the EU is not yet at the stage where it could be called nation. For this reason, the EU cannot be easily compared with other countries such as the US. When the EU is considered as a nation, EU internal investment should be excluded from EU FDI. When observing EU FDI, it is necessary to consider this point sufficiently.

Dividing up EU FDI into internal EU investment and external EU investment, internal EU investment exceeded external EU investment in both outflows and inflows. Figure 2 shows internal EU investment, external EU investment and investment flows from outside the EU since 1995. Internal EU investment always significantly exceeded external EU investment in this period except for in 1997 and 1998. This indicates the fact that the increase in EU FDI has rather been due to internal EU investment than

to external EU investment. F. Chesnais & R. Simonetti also show that internal EU FDI significantly exceeded external EU FDI in the period from the second half of the 1980s to the first half of the 1990s, and that the expansion of external investment outflows in this period fell below those of the US and Japan(5).

The worldwide flows of FDI will probably be made clear by examining the regional inflow and outflow structure of world FDI with a focus on the EU. Figure 3 shows the regional structure of inward and outward world FDI stocks at the end of 1998. The relationship between the EU and the US is the principal relationship in world FDI transactions. EU investment in the US accounted for 12% of world FDI stocks and that of the US into the EU, 10%. But it is remarkable that EU internal investment reached 22% of world FDI stocks and occupied the largest relative importance in transactions of principal regions. In terms of external investment, the US is predominant over the EU. Table 3 shows the regional structure of external EU FDI stocks. The US accounts for more than 50% of external EU FDI inward stocks and about 40% of their outward stocks, while the EU's share of US FDI was 46% of outward stocks and 64% of inward stocks in 2002(6). It is clear that the EU and the US are each others most important investment partners. The second most important FDI trade partner with the EU behind the US is the EFTA. The importance of the CEE as an FDI investment area has recently become significant and investment to Asia has also increased.

Additionally, we examine the industry structure of external EU FDI. As Table 4 shows, manufacturing accounts for about 20% of external EU FDI inward stocks and services account for about 75%. Of outward stocks, manufacturing accounted for one fourth and services for about two thirds in 2002. The trend for the manufacturing share to fall and the services share to rise has continued. The relative importance of manufacturing in external EU investment is still larger than in internal EU investment, which we will see later. This reflects the fact that manufacturing is a comparatively important element of transactions with the US. Financial intermediation and business service activities have a large share in services, accounting for about 70% or 80% of total services investment. The structure of services shows that these two sectors of services are important in both EU investment to the US and US investment to the EU(7).

2. Characteristics of EU FDI and intra EU investment

FDI has recently played an increasingly important role in the EU economy. The ratio of FDI to GDP, which is shown in Table 5, can be used as an index for making

international comparisons of the importance of FDI for the economy. The ratio of EU FDI inward stocks to GDP expanded significantly from 6.1% to 32.8% between 1980 and 2003, and that of outward stocks increased from 6.1% to 39.6% in the same period. The same tendency can also be seen in the US, although the increase is less significant than in the EU, and the ratio of Japanese FDI outflows to GDP has also become large. It can be verified that the principal areas of the world economy have experienced a common increase in the importance of FDI in the economy, although the ratio of the EU is large in comparison with the US and Japan. Taking the EU as a nation, total EU FDI is overestimated because EU FDI includes internal EU investment. But considering the EU by country, the ratio of each EU member's FDI to GDP is also larger than that of the US and Japan. This indicates the fact that EU member countries are connected with each other through internal mutual investment. Within the EU, the ratios of the Netherlands and the UK are especially large. FDI outward stocks of both countries reached 75.0% and 62.7% of GDP in 2003, and their FDI inward stocks were 65.6% and 37.4% of GDP respectively. These ratios significantly exceed the average ratio of the EU. And the ratios of France and Germany also exceed that of the US.

European multinational enterprises are considered more concretely here. The world's 100 largest enterprises appeared in the UNCTAD "*World Investment Report*" which is cited above. When we look at the top 20 of these 100 MNEs, the enterprise possessing the most assets abroad in the world in 2002 was the US electrical machinery enterprise, *General Electric*, with assets abroad of $229 billion. Coming after this was *Vodafone Group* of the UK, which possessed $207 billon, and has grown to be the largest enterprise in Europe through repeated M&As. *Ford* and *GM,* which are both US automobile enterprises, were ranked third and fifth respectively. The European enterprise coming after this was the UK petroleum enterprise, *British Petroleum,* ranked fourth, with assets abroad of $126 billion, and ranked 6th was the petroleum enterprise *Royal Dutch/Shell Group*, a UK/Netherlands joint venture with $94 billion in assets abroad. Ranked 8th and 9th were the French firm *Total Fina Elf* (with assets abroad of $79 billion) and *France Telecom* (with $73 billion). Of the top 20 MNEs, 5 were US enterprises, 12 European and 2 Japanese. All 12 of the European enterprises were EU enterprises(8).

Table 6 shows the TNI (Transnational Index) of the world's 100 largest enterprises by nationality and its share of asset abroad. The TNI of the EU was 67.1 in 2000, which exceeded that of US. Observing this by country, the TNI was especially large in the UK and the Netherlands. The TNI also shows that the multinationalisation of EU

enterprises has advanced quickly. The assets abroad of EU enterprises account for 53% of the total assets abroad of the top 100 enterprises, which means that it has reached twice the US figure of 27%. The EU country where assets abroad were particularly significant was the UK, which shows very advanced multinationalisation of enterprises. Both Germany and France also tend to have big enterprises. These 3 countries had many enterprises which were ranked in the top 100, as of the 49 EU enterprises ranked in the top 100 enterprises in 2000, 37 were French, German or British.

As mentioned above, it can be said that the importance of FDI in the EU economy and the advanced multinationalisation of EU enterprises have developed through mutual internal EU investment. This fact will probably be made clear by observing the regional structure of EU FDI flows. Table 7 shows the FDI inward stocks origin and outward stocks destination structure of four major EU member countries for 2002. In terms of the structure of inward FDI, 70%- 80% of investment to the continental European countries France, Germany and the Netherlands was from Europe and also a major part of this was specifically from the EU. Furthermore, the major EU countries played a very important role in this investment from the EU. For example, FDI flows from Germany, the Netherlands and the UK accounted for 63% of French FDI inward stocks from the EU, and investment from France, the Netherlands and the UK accounted for 54% of German FDI from the EU. In the UK however, investment from Europe accounted for only 50% (and from the EU, only 47%) of FDI. Compared with the importance of European investment in the continental European countries, European FDI is relatively unimportant for the UK. As investment from the US accounted for 37% of UK FDI, the relationship with the US is more important for the UK than it is for the continental European countries. In terms of the outward structure of FDI, there is not the same investment difference between the UK and continental Europe that there is in the inward structure. Investment to Europe accounted for more than 60% and investment to the EU accounted for more than 50% of FDI for the UK as well as for France, Germany and the Netherlands. But this data is from 2002, when world FDI to the US decreased rapidly due to the events of 11 September 2001. It is conceivable that UK investment to the US significantly decreased in this year and more investment flowed from the UK to Europe. In 1998, in which world FDI grew rapidly, the difference between the UK and the continental European countries can be seen clearly in both the inward and the outward structure(9).

The high geographical centralization of internal EU investment was also clarified in the study by F. Chesnais & R. Simonetti mentioned above. They gave three primary factors which characterized this centralization. The first was intensive mutual

investment between the UK, Germany, France and the Netherlands, as examined above. The second, that a few countries have become the investment targets of investors. The third, that importance is attached to geographical and cultural factors in selecting neighboring countries as investment targets. In applying the numerical formula with which B. Balassa measured EU intra-industry trade against EU FDI flows between 1971 and 1997, they have clarified certain features of each EU member's FDI. One feature made clear in this way was that the Netherlands and Germany, especially Germany, had the role of a large investment outflow country. This data proved the fact that Germany, up until recently, was a country into which foreign capital entry was difficult because of the special relationship between enterprises and banks, and because of high production costs. They also showed that the UK changed from an investment inflow country in the 1970s to large investment outflow country in the 1980s. Italy and France are at an intermediate standpoint. Italy was an investment outflow country and France was an investment inflow country. Though each EU member country has different features, this study also made clear that intra EU investment has developed through mutual internal EU investment in the major EU member countries(10).

The industry structure of internal EU investment is considered further, as can be seen with the help of Table 8. Manufacturing is of even less importance for internal EU investment than for external EU FDI and only accounts for 16% of internal EU inward and outward stocks respectively, while the share of services reaches about 80%. Financial intermediation, business service activities such as computing and consulting, and telecommunications make a significant contribution to the services share of internal EU investment just as they do for external EU investment. The trend for the manufacturing share to fall and the services share to rise is also the same as for external EU investment. As we will see in the next section, this all reflects the fact that a large proportion of M&As in the EU were advanced by service enterprises(11).

3. Cross-border M&As in the EU

Table 4 demonstrates the fact that world FDI flows and cross-border M&As have increased almost in parallel. This indicates that the increase in world FDI has been led by international cross-border M&As. The reason is that developed countries, which have a large share of world FDI, have invested almost entirely through M&As, rather than by carrying out Greenfield investment. World cross-border M&As increased from $75 billion in 1987 to $1,144 billion in 2000, after which there was a decrease to $297

billion in 2003. The fact that two booms, one in the latter half of the 1980s and the second in the late 1990s, can be seen in the progress of cross-border M&As since 1987, shows that this followed almost exactly the same progress as world FDI. The rapid increase in world FDI in the late 1990s and the rapid decrease since 2001 were affected primarily by the movements of these cross-border M&As.

Cross-border M&As increased from 52% of world FDI flows in 1987 to 83% in 1999. Furthermore, two thirds of world FDI flows since the second half of the 1980s took the form of M&As and three quarters of world FDI flows since the mid 1990s were invested in the form of M&As. This ratio increased for developed countries from 62% in 1987 to more than 100% in 1999. While the ratio was smaller for developing countries, it also had an upwards trend(12). As cross-border M&As are based on different data to FDI and the data collection method is also different, it is difficult to measure exactly what share cross-border M&As have of FDI. But the increase in this share indicates that the extent to which cross-border M&As contribute to the increase in FDI has become large(13).

Table 9 shows the regional structure of world cross-border M&As. At the peak of cross-border M&As in 2000, developed countries had a share of world M&As of 94%, and of that, the EU contributed more than 50% at sales values and 70% at purchase values. The contribution of the EU to the increase in world cross-border M&As from the second half of the 1990s was remarkable. But world cross-border M&As almost halved in 2001 and continued to decrease after that point. As the EU share decreased to 30% or 40% of world cross-border M&As, it is said that the decline in world cross-border M&As was caused by this movement in EU M&As.

Table 10 shows the top 20 cross-border M&A deals in the world in the period 1987-2003. At the head of the list was the acquisition of German *Mannesmann AG* by UK *Vodafone Air Touch PLC* in 2000. At an amount of $202 billion it was by far the largest acquisition. Coming after this was the acquisition of US *Air Touch Communications* by the UK *Vodafone Group PLC* in 1999, and the acquisition of US *Amoco Corp* by *British Petroleum* in 1998, and furthermore the acquisition of UK *Orange PLC* (which had already been acquired by *Mannesmann* in 1999) by *France Telecom SA* in 2000 and also that of *Chrysler Corp* by *Daimler Benz AG* and so on. The acquisition of US companies by British companies is a striking feature of the top 20 cross-border M&A deals. All of the top 20 deals were acquisitions by European companies, while the acquired companies include 9 US companies and 9 European companies. European companies were prominent on both sides of the equation, acquiring other companies as well as being acquired by other companies, as 17 of the top 20 M&A deals between 1998

and 2000 concern European companies. This indicates the fact that the rapid increase in cross-border M&As in the late 1990s was advanced by active acquisitions of European companies. The scale of M&As also became large in this period. As mentioned above, the scale of the acquisition of *Mannesmann* by *Vodafone* in 2000 reached more than $200 billion, and all acquisitions right down the 6th placed acquisition of *Seagram Co* by *Vivendi SA* were of an amount of more than $40 billion. But both the total number and the total value of cross-border M&As decreased after 2001. Table 11 shows the number and value of cross-border M&As with values over $1 billion since 1987. The number of cross-border M&As with values of over $1 billion exceeded 100 in the period between 1999 and 2001, including a peak in 2000 of 175 M&As at a total value of $866 billion. After this point there was a decrease to 56 in number and $141 billion in value in 2003. The largest acquisition in 2003 was of *Household International Inc* by *HSBC holding PLC* at only $15 billion in value.

One cause of the decrease in M&As since 2001 was the decline in the stock market. It can be said that the downturn in the business cycle was exacerbated by the events of 11 September 2001 and led to a worldwide fall in stock prices. Another cause was the slowdown or end to privatization. The total sale of state owned assets fell from about $50 billion in 2000 to less than $20 billion in 2003(14).

Observing these M&As by industry, many M&As took place within the telecommunications sector, including the acquisition of *Mannesmann* by *Vodafone* and the acquisitions by *France Telecom* and by *Deutsche Telekom*. M&As of financial and insurance companies were also common, such as the acquisition of UK *BAT Industries PLC-Financial* by Swiss *Zurich Versicherungs*, that of US *Paine Webber Group Inc* by Swiss *UBS AG*, that of US *Household International* by UK *HSBC Holdings PLC* and so on. Eleven of these top 20 M&As were acquisitions by services companies such as in the telecommunication and financial services sectors. These recent trends demonstrate the increased importance of services in cross-border M&As and world FDI.

Furthermore, seven of these top 20 M&As were acquisitions of EU companies by EU companies, namely intra-EU investment. Six of these M&As were made by companies related to the telecommunication sector, while large scale acquisition also occurred in the chemical and pharmaceutical industries, such as that of German *Hoechst* by French *Rhone-Poulenc*. This clearly indicates that internal EU investment through cross-border M&As has mainly been advanced by services companies. Figure 5 shows the importance to cross-border M&As of mutual acquisitions by EU companies of EU companies with values of over $1 billion. For example, acquisitions by EU companies made up 30% of cross-border M&As dealt by EU companies in 2000 and this reached

60% in 2002, while the number of acquired EU companies made up 80% of cross-border M&A deals in 1999 and more than 70% in 2001 and 2002. The reason why the rate in acquiring is smaller than in companies acquired is that UK companies actively acquired US companies. Considering this, it can be said that mutual acquisitions by EU companies were relatively important for European cross-border M&A deals.

Observing the progress of European M&A deals, the first boom occurred between the second half of the 1980s and the beginning of the 1990s with the project of completion of the internal market by the end of 1992 providing a valuable opportunity. It can be said that the rapid increase in cross-border M&As in the second half of the 1990s was the second boom(15). The background to this second boom was, firstly, globalization of the world economy. With the end of the cold war, the wave of worldwide globalization surged, liberalization and deregulation of European markets advanced quickly, and international competition between enterprises more became intense. Liberalization and deregulation in the EU extended to telephone and gas services where public companies had had monopolistic power over the market up until that point. Rapid restructuring of these industries was inevitable with more intensified competition. As a result of rapid liberalization and deregulation of the telecommunication industry in the EU, long distance telephone fees decreased by about 40% in a few years due to the fact that *Deutsche Telekom*, which had had a monopoly over Germany's telephone industry, was privatized. This is only one example of the changes that occurred. Deregulation also advanced in the electricity supply industry, and competition between companies in this industry intensified. Corresponding to this structural change in the industry, big business attempted to restructure their business in order to secure competitiveness. This mostly occurred through mergers such as between *Daimler Benz* and *Chrysler*, and the Swiss company *Brawn* with the Swedish company *Percy Barnevik*. Additionally, many European enterprises implemented the reduction of personnel and the rationalization of business.

The second factor in the background to the increase in European M&As was the development of European integration and the introduction of the Euro. The single EU market was almost completed with the 1992 project. The Economic and Monetary Union advanced with this as a foundation and the borders between EU member countries furthermore lost their meaning with the introduction of a single currency, the Euro. The Europeanization of the internal market continued to advance. The liberalization and deregulation of the European monetary and capital markets advanced especially rapidly with introduction of the Euro. With this the single European capital market was created and the bond market grew rapidly.

There is also another factor to such change being promoted. This is namely the competitive pressure from US enterprises. The first to enjoy the benefits of there being a single European market were the US enterprises which advanced into Europe. This stimulated the activity of European enterprises in correspondence with the single market. Active M&A deals by European enterprises are thought to have occurred in reaction to the rapid structural change of the European market and the increase in external competitive pressure. The reason why M&A deals were carried out especially actively in the financial and telecommunications sector in particular was the rapid liberalization and deregulation of these sectors(16).

Furthermore, a new feature was that hostile acquisitions increased rapidly in European M&As in this period. Hostile acquisitions were rare in Europe until 1998. But these increased rapidly in 1999 when they accounted for more than a half of European M&As. The acquisition of *Mannesmann* by *Vodafone* in 2000 was representative of this. This acquisition was very well-known in the world and became an example of the kind of hostile acquisition that first succeeded in Germany. As the British magazine "The Economist" said, the acquisition of *Mannesmann* by *Vodafone* could be considered as a turning point for European capitalism. The development of EU M&As could be said to have reached a new stage because hostile acquisitions, rare until this time, increased rapidly(17).

Hostile acquisitions had been hard to perform in Europe hitherto owing to strong trade unions, the enterprise system with the bank at the center, the political environment which makes much of consensus and legal difficulties; these characteristics describe so-called "Rhenish capitalism". The acquisition of *Mannesmann* by *Vodafone* was facilitated by the fact that 60% of Mannesmann's shares were already held by foreign companies. And furthermore, by the fact that the German and French governments had weakened regulations against hostile acquisitions(18). There is an engaging debate as to whether or not continental European "Rhenish capitalism" is approaching "Anglo Saxon capitalism".

The rapid increase in cross-border M&As and hostile acquisitions in Europe indicates that the European market structure and its enterprise system was at a time of large restructuring in the context of worldwide globalization and the introduction of a single currency, the Euro. But after that time, the number of M&As decreased rapidly and declined until 2003, and the trend mentioned above has remained on pause up until the present time.

Conclusion

World foreign direct investment, as measured by outward stocks, increased by nearly three times in the 1990s and its growth rate exceeded that of world trade. There is no doubt that this expansion in FDI was a large driving force in making relationships between countries closer and developing the globalization of the world economy. The EU has played a large role in the increase in world FDI, since EU FDI accounts for 50% of world FDI outward stocks, and about 40% of inward stocks. The EU has moreover increased its share of world FDI and led its development in recent years.

Four EU member countries in particular, the UK, Germany, France and the Netherlands, make up a particularly large share of EU FDI. Although their share is decreasing, they still accounted for about 70% of EU FDI outward stocks and also 60% of inward stocks in recent years. The investment activity of the UK is remarkable in the recent EU FDI, but the content of UK investment is different from that of the other three continental European countries. Mutual investment between principal member countries plays an important role in continental European investment, while the EU is by comparison relatively unimportant for the UK since it relates more closely with the US. The relative importance of mutual investment for the principal continental European countries except for the UK implies that internal investment in the EU has a large share of EU FDI. This fact is demonstrated by the regional structure of world FDI. Although the EU's principal trade relationship is with the US, internal EU investment significantly exceeded both EU investment to the US and US investment to the EU. It is a major feature of EU FDI that the mutual investment between the principal continental European countries has advanced.

The increase in internal EU investment has advanced through cross-border M&As. One cause of the rapid increase in cross-border M&As in the EU was the globalization of the economy. Deregulation and liberalization of markets advanced rapidly in the EU, especially in the telecommunications and financial services sectors and in insurance. EU cross-border M&As were very active in these service sectors in correspondence to the change in the market structure. The scale of EU cross-border M&As not only became larger in the late 1990s, but also hostile M&As, that were rare until this time, increased rapidly. The acquisition of *Mannesmann* by *Vodafone* was a typical instance of this. This all implies that the development of M&As in Europe reached a new stage. In relation to this, two points should be considered. Firstly, the rapid growth of capital markets and the rapid increase of hostile M&As can be said to have changed the European business system, which has been called "Rhenish capitalism" up until now. To what extent will it be possible to advance this change? This is the key problem in

the discussion of European capitalism. Secondly, the increase in M&As is a reflection of intensified competition between enterprises. After all, the competitive acquisition of enterprises in the EU area restructures the enterprise system and develops the concentration of capital on a European scale, providing the possibility that the EU enterprise system will reach a higher degree of concentration than at this time(19).

Finally, we refer to the relationship between the introduction of the Euro and FDI flows. The deepening of European integration led to the introduction of the Euro, and this has become the second most important cause of the increase in cross-border M&As in the EU. When the project of completion of the internal market by the end of 1992 was revealed, FDI inflows into the EU boomed. EU FDI reached a peak of 50% of world FDI inflows in 1991. The influence of this project on FDI inflows up to 1992 became smaller after 1993. The introduction of the Euro was expected to have an even larger effect on FDI inflows than the 1992 project. But although it revitalized the capital market and led to the rapid expansion of this market, and furthermore became a factor which led to the restructuring of the European market by prompting an increase in M&As, its quantitative effect on FDI did not necessarily become clear. FDI inflows into the Euro area were at a high level in 1998-1999 but decreased a little quantitatively in this period, while FDI inflows into the non-Euro area of the EU increased by as much as 66% in the same period(20). It is not clear that cross-border M&As in the Euro area increased more than in the non-Euro area of EU member countries in the late 1990s(21). Considering that cross-border M&As in the EU remain in decline until now, more time is necessary to examine the effects of this relationship sufficiently.

Notes

(1) UNCTAD, *World Investment Report 2004*, p.3.

(2) UNCTAD, *World Investment Report 2002*, p.4, and the impact of the events of 11 September 2001 on world FDI was modest, but it exacerbated downward trend.

(3) UNCTAD, *World Investment Report 2004*, p.9, and annual average of GDP growth rate in the same period were each 10.1%, 5.1% and 1.3%, that of gross investment growth were 13.4%, 4.2% and 2.4%.

(4) UNCTAD, *World Investment Report 2003*, p.69.

(5) F. Chesnais & R. Simonetti, "Globalization, Foreign Direct Investment and Innovation", G. Ietto-Gillies & Simonetti (ed.), *European Integration and Global Cporporate Strategies*, Routlege 2000, p.7.

(6) US Dept. of Commerce, *Survey of Current Business*, July 2003, pp.30-31.

(7) P. Passerrini, *EU-15 FDI in 2002*, Eurostat 2004, p.4.

(8) UNCTAD, *World Investment Report 2004*, Annex table A.I.3.

(9)See my previous article;"The Recent Trend of the EU Foreign Direct Investment", *Fukuoka University Shogaku Ronso (Review of Commercial Sciences)*, Vol.47 No.2 (Sept. 2002)

(10) F. Chesnais & R. Simonetti, *op. cit.*, p.9.

(11) P. Passerrini, *op. cit.*, p.6, and it is thought that increase of services in EU FDI relate with the fact that a change in EU enterprises strategies from traditional market orientation one to asset-seeking (See R. Jungnickel & D. Keller, *German FDI and Integration of Production in the EU*, HWWA Discussion Paper 232, 2003)

(12) UNCTAD, *World Investment Report 2000*, pp.11-14 & pp.109-114.

(13) *Ibid*, pp.11-14, and this ratio exceed 100% because it is impossible to measure exactly the ratio.

(14) UNCTAD, *World Investment Report 2004*, p.6.

(15)Y. Tanaka, *Economic Integration of EU*, (in Japanese) Chuo-keizaisha 2001, pp.136-137.

(16) "A Survey of European Business", *The Economist*, Apr. 29th 2000, pp.4-6.

(17) *Ibid*, p.3, and recent European M&A refer to K. Kishi, "M&A in Europe - The New Wave of M&A", K.Uchida & S. Shimizu(ed.), *The EU Economy*,(in Japanese) Minerva 2001.

(18) *Ibid*, p.4.

(19) The Economist indicated that European retails, automobile and mobile phone industries will be controlled by a few enterprises soon. (*Ibid*, p.8)

(20) UNCTAD, *World Investment Report 1999*, p.38 & *World Investment Report 2000*, p.37.

(21)M. Manchin, *Determinants of European cross-border mergers and acquisitions*, European Commission Economic Papers, Sept. 2004, p.20.

Table 1. Regional structure of world FDI stocks 1980-2003 (%)

	inward				outward			
	1980	1990	2000	2003	1980	1990	2000	2003
Developed countries	56.4	71.8	65.9	69.2	89.2	92.7	86.3	88.7
Western Europe	33.4	40.8	39.1	42.9	42.5	49.7	54.1	53.9
European Union(15)	31.2	38.4	37.1	40.5	38.5	45.3	49.7	49.2
Other Western Europe	2.2	2.4	2.0	2.5	4.0	4.4	4.5	4.7
United States	12.0	20.2	19.9	18.8	38.5	24.5	21.6	25.2
Japan	0.5	0.5	0.8	1.1	3.5	11.5	4.7	4.1
Developing economies	43.6	28.1	31.9	27.7	10.8	7.3	13.3	10.5
Africa	4.6	2.6	2.3	2.0	1.2	1.2	0.8	0.5
Latin America and the Caribbean	7.3	6.0	8.4	7.9	8.4	3.3	2.6	2.2
Asia and the Pacific	31.7	19.5	21.1	17.8	1.2	2.8	9.9	7.8
South, East and South-East Asia	30.5	17.3	19.6	16.4	0.8	2.3	9.7	7.4
Central and Eastern Europe	0.0	0.1	2.3	3.2	0.0	0.0	0.4	0.8
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD, *World Investment Report 2004*, Annex Tables B3, B4.

Table 2. Structure of EU FDI stocks by country (%)

	inward				outward			
	1980	1990	2000	2003	1980	1990	2000	2003
Belgium and Luxembourg	3.4	7.8	8.6	10.7	2.8	5.1	6.1	8.3
France	12.0	11.6	11.5	13.0	11.3	13.8	15.0	15.9
Germany	16.9	16.0	20.9	16.3	20.0	18.6	16.3	15.4
Italy	4.1	7.7	5.0	5.2	3.4	7.2	6.1	5.9
Netherlands	8.9	9.2	10.7	10.1	19.5	13.4	10.2	9.5
Spain	2.4	8.8	6.4	6.9	0.9	2.0	5.4	5.1
United Kingdom	29.1	27.2	19.4	20.1	37.3	28.8	30.2	28.0
European Union	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD, *World Investment Report 2004*, Annex Tables B3, B4.

Table 3. Regional structure of extra EU FDI stocks (%)

	inward			outward		
	1995	2000	2002	1995	2000	2002
Developed Countries	87.8	75.9	82.7	66.4	58.8	60.2
EFTA	22.6	14.7	15.7	11.3	8.2	13.5
US	51.3	50.7	54.1	43.9	42.4	37.8
Japan	7.7	4.6	5.1	2.3	1.7	2.7
other developed	6.2	6.0	7.8	8.9	6.5	6.2
Developing Countries	5.2	4.6	7.6	21.0	19.7	18.1
Africa	0.9	0.6	1.1	3.5	2.8	2.9
Latin America	1.1	0.9	1.4	8.5	10.6	6.2
Asia, Oceania	3.1	3.0	5.1	8.9	6.2	9.1
Central East Europe	0.4	0.3	0.4	3.1	8.8	12.9
Extra EU	100.0	100.0	100.0	100.0	100.0	100.0

Source: Eurostat data of European Union direct investments

Table 4. Industry structure of extra EU FDI stocks (%)

	inward			outward		
	1995	2000	2002	1995	2000	2002
Agriculture, fishing, Mining	9.0	2.2	1.6	10.1	4.6	3.8
Manufacturing	37.0	22.0	21.0	44.2	29.7	24.5
Food products	5.9	2.4	2.2	9.2	5.0	4.2
Textiles and wood activities	4.1	3.2	2.7	3.4	2.3	2.0
Petroleum,chemical,rubber,plastic products	11.9	6.9	6.4	16.7	9.8	8.0
Metal and mechanical products	4.7	2.8	2.3	4.5	2.5	2.4
Office machinery, computer quipment	3.8	2.0	2.1	3.2	2.6	2.2
Transport equipment	2.8	2.6	3.1	2.5	3.5	3.1
Total services	52.5	72.1	74.9	43.6	57.8	67.8
Trade and repairs	13.8	7.4	6.9	7.5	4.9	5.8
Transport	0.3	0.2	0.3	0.8	0.8	0.8
Telecommunications	0.4	3.1	2.5	-0.2	3.8	4.7
Financial intermediation	19.7	36.6	37.3	20.3	31.3	36.9
Business activities	15.8	19.4	22.1	11.4	12.2	12.9
Other services	-0.4	1.5	1.7	0.5	1.8	1.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Eurostat data of European Union direct investments

Table 5. FDI stocks as a percentage of gross domestic product by country (% of GDP)

	inward				outward			
	1980	1990	2000	2003	1980	1990	2000	2003
European Union	6.1	10.9	28.5	32.8	6.1	11.6	37.5	39.6
France	3.8	7.1	19.8	24.7	3.6	9.1	33.9	36.7
Germany	3.9	7.1	25.1	22.6	4.6	8.8	25.8	25.8
Italy	2.0	5.3	10.5	11.8	1.6	5.2	16.7	16.2
Netherlands	10.8	23.3	64.9	65.6	23.7	36.3	81.4	75.0
United Kingdom	11.8	20.6	30.4	37.4	15.0	23.2	62.3	62.7
United States	3.0	6.9	12.4	14.1	7.8	7.5	13.2	18.8
Japan	0.3	0.3	1.1	2.1	1.8	6.6	5.9	7.8

Source: UNCTAD, *World Investment Report 2004*, Annex Tables B.6.

Table 6. TNI of World's 100 enterprises by nationality and its share of asset abroad

	Average TNI a(Pct)			Share in total of foreign assets of top 100 (Pct)			Number of entries		
	1990	1995	2000	1990	1995	2000	1990	1995	2000
European Union	56.7	66.0	67.1	45.5	43.8	53.0	48	39	49
France	50.9	57.6	63.2	10.4	8.9	12.0	14	11	13
Germany	44.4	56.0	45.9	8.9	12.2	9.3	9	9	10
United Kingdom b	68.5	64.8	76.9	8.9	12.2	21.0	12	10	14
Netherlands b	68.5	79.0	84.4	8.9	8.2	2.0	4	4	3
Italy	38.7	35.8	48.6	3.5	2.3	2.9	4	2	2
Sweden	71.7	80.6	75.7	2.7	1.7	1.3	5	3	3
Belgium	60.4	70.4	90.2	1.0	0.9	0.4	1	2	1
United States	38.5	41.9	43.0	31.5	33.3	27.2	28	30	23
Japan	35.5	31.9	35.9	12.0	15.1	10.7	12	17	16
Switzerland	84.3	83.6	89.7	7.5	6.6	3.4	6	5	3

Source: UNCTAD, *World Investment Report 2002*,Table IV.6.

a The transnationality index (TNI) is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

b Due to dual nationality, Royal Dutch Shell and Unilever are counted as an entry for both the United Kingdom and The Netherlands. In the aggregate for the European Union and the total of all listed TNCs, they are counted once. Rio Tinto Plc is counted as an entry for both the United Kingdom and Australia. In the aggregate for the total of all 100 listed TNCs, it is counted once.

Table 7. Regional structure of major EU member's FDI stocks in 2002 (%)

	inward				outward			
	Germany	France	Nederlands	UK	Germany	France	Nederlands	UK
Europe	81.6	79.9	67.9	51.1	62.1	61.9	61.8	64.8
EU(15)	74.2	73.2	62.1	46.8	53.4	54.8	50.1	56.9
Germany	-	12.9	13.4	10.7	-	6.3	3.9	2.3
France	8.4	-	4.6	10.6	7.4	-	8.4	5.5
Nederlands	22.8	16.3	-	17.2	12.8	7.7	-	26.8
UK	8.5	16.9	16.0	-	10.7	13.6	7.8	-
US	14.6	14.2	23.3	37.2	26.6	24.7	22.2	20.7
Asia	2.7	4.2	3.7	5.6	6.0	4.5	6.3	4.9
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Eurostat data of European Union direct investments

Table 8. Industry structure of intra EU FDI stocks（%）

	inward			outward		
	1995	2000	2002	1995	2000	2002
Agriculture, fishing, Mining	6.9	1.5	2.2	3.0	2.0	1.0
Manufacturing	28.3	16.7	16.0	34.7	17.3	15.9
Food products	4.0	1.6	1.6	7.2	2.1	1.7
Textiles and wood activities	3.5	1.4	1.4	3.7	1.4	3.0
Petroleum,chemical,rubber,plastic products	8.2	6.7	6.6	9.5	6.0	4.4
Metal and mechanical products	3.7	1.8	1.5	3.7	2.0	1.8
Office machinery, computer quipment	4.1	2.0	1.5	3.0	1.5	1.5
Transport equipment	2.2	1.5	1.3	3.0	2.1	1.8
Total services	63.3	78.5	78.7	60.8	79.3	81.7
Trade and repairs	11.8	6.2	5.4	9.3	4.8	4.9
Transport	0.7	0.8	0.6	0.8	0.4	0.4
Telecommunications	0.5	4.3	4.2	0.4	12.6	8.2
Financial intermediation	17.9	39.2	42.5	27.9	40.9	43.6
Business activities	22.5	23.0	19.6	10.3	16.7	18.3
Other services	5.3	1.4	1.7	6.5	1.2	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Eurostat data of European Union direct investments

Table 9. Regional structure of world cross-border M&As ($billion)

	Sales					Purchases				
	1998	2000	2001	2002	2003	1998	2000	2001	2002	2003
Developed countries	443.2	1056.1	496.2	307.8	240.4	508.9	1087.6	534.2	341.1	255.3
European Union	187.9	586.5	213.0	193.9	122.0	284.4	801.7	327.3	213.9	119.6
United States	209.5	324.4	184.9	73.2	69.7	137.4	159.3	96.0	78.4	82.4
Japan	4.0	15.5	15.2	5.7	10.9	1.3	20.9	16.1	8.7	8.4
Developing countries	82.7	70.6	85.8	44.5	42.1	21.7	48.5	55.7	27.6	31.2
Latin America and the Caribbean	63.9	45.2	35.8	22.4	12.1	12.6	18.6	27.4	11.7	11.5
Asia	16.1	22.2	34.5	17.4	23.5	6.4	22.9	25.3	13.9	18.7
Central and Eastern Europe	5.1	17.1	12.0	17.5	14.4	1.0	1.7	2.2	1.1	10.5
World	531.6	1143.8	594.0	369.8	297.0	531.6	1143.8	594.0	369.8	297.0

Source: UNCTAD, *World Investment Report 2004*, Annex Tables B.7, B.8.

Table 10. World's 20 largest cross- border M&As 1987-2003

Rank		$ bill.	Acquiring company	Host	Industry	Acquired company	Home	Industry
1	2000	202.8	Vodafone AirTouch PLC	UK	Radiotelephone communications	Mannesmann AG	Germany	Radiotelephone communications
2	1999	60.3	Vodafone Group PLC	UK	Telecommunications	AirTouch Communications	US	Telecommunications
3	1998	48.2	British Petroleum Co	UK	Oil and Gas; Petroleum Refining	Amoco Corp	US	Oil and Gas; Petroleum Refining
4	2000	46.0	France Telecom SA	France	Telephone communications, except radiotelephone	Orange PLC (Mannesmann)	UK	Telephone communications, except radiotelephone
5	1998	40.5	Daimler-Benz AG	Germany	Transportation Equipment	Chrysler Corp	US	Transportation Equipment
6	2000	40.4	Vivendi SA	France	Water supply	Seagram Co Ltd	Canada	Motion picture and video tape production
7	1999	34.6	Zeneca Group PLC	UK	Drugs	Astra AB	Sweden	Drugs
8	1999	32.6	Mannesmann AG	Germany	Metal and Metal Products	Orange PLC	UK	Telecommunications
9	2001	29.4	Deutsche Telekom AG	Germany	Radiotelephone communications	VoiceStream Wireless Corp	US	Radiotelephone communications
10	2000	27.2	BP Amoco PLC	UK	Petroleum refining	ARCO	US	Petroleum refining

Table 10. (continued) World's 20 largest cross- border M&As 1987-2003

Rank		$ bill.	Acquiring company	Host	Industry	Acquired company	Home	Industry
11	2000	25.1	Unilever PLC	UK	Creamery butter	Bestfoods	US	Dried fruits, vegetables and soup mixes
12	1999	21.9	Rhone-Poulenc SA	France	Chemicals and Allied Products	Hoechst AG	Germany	Chemicals and Allied Products
13	1998	18.4	Zurich Versicherungs	Switz.land	Insurance	BAT Industries PLC-Financial	UK	Insurance
14	2000	16.5	UBS AG	Switz.land	Banks, non-US chartered	PaineWebber Group Inc	US	Security brokers, dealers and flotation companies
15	2003	15.3	HSBC Holdings PLC	UK	Banks, non-US chartered	Household International	US	Personal credit institutions
16	2000	14.4	Vodafone AirTouch PLC	UK	Radiotelephone communications	Airtel SA	Spain	Radiotelephone communications
17	2001	13.8	British Telecommunications	UK	Telephone communications, except radiotelephone	Viag Interkom GmbH & Co	Germany	Telephone communications, except radiotelephone
18	1999	13.6	Deutsche Telekom AG	Germany	Telecommunications	One 2 One	UK	Telecommunications
19	2000	13.5	Credit Suisse First Boston	Switz.land	Security brokers, dealers and flotation companies	Donaldson Lufkin & Jenrette	US	Commodity contracts brokers and dealers
20	1999	13.2	Repsol SA	Spain	Oil and Gas; Petroleum Refining	YPF SA	Argent.	Oil and Gas; Petroleum Refining

Source: UNCTAD, Key Data from World Investment Report, Annex Tables.

Table 11. World cross-border M&As with values of over 1 $billion 1987-2003

	Numbe of deals	Percentage of total	Value ($ billion)	Percentage of total
1987	14	1.6	30.0	40.3
1988	22	1.5	49.6	42.9
1989	26	1.2	59.5	42.4
1990	33	1.3	60.9	40.4
1991	7	0.2	20.4	25.2
1992	10	0.4	21.3	26.8
1993	14	0.5	23.5	28.3
1994	24	0.7	50.9	40.1
1995	36	0.8	80.4	43.1
1996	43	0.9	94.0	41.4
1997	64	1.3	129.2	42.4
1998	86	1.5	329.7	62.0
1999	114	1.6	522.0	68.1
2000	175	2.2	866.2	75.7
2001	113	1.9	378.1	63.7
2002	81	1.8	213.9	57.8
2003	56	1.2	141.1	47.5

Source: UNCTAD, *World Investment Report 2004*, Table I.1.