The EU Effect

The impact of the EU on foreign direct investment in the UK from 1970 to 2011

Michael Burrage

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Civitas: Institute for the Study of Civil Society

Author

Michael Burrage is a director of Cimigo which is based in Ho Chi Minh City, Vietnam, and conducts market and corporate strategy research in China, India and 12 countries in the Asia Pacific region. He is also a founder director of a start-up specialist telecom company which among other things provides the free telephone interpreter service for aid workers and others in Afghanistan at: www.afghaninterpreters.org.

He is a sociologist by training, was a Fulbright scholar at the University of Pennsylvania, and lectured at the London School of Economics for many years, specialising in cross-national analysis of industrial enterprise and professional institutions. His years there were, however, interrupted by spells as a research fellow at Harvard, at the Swedish Collegium of Advanced Study, Uppsala, at the Free University of Berlin and at the Center for Higher Education Studies and the Institute of Government of the University of California Berkeley. He has been British Council lecturer at the University of Pernambuco, Recife, Brazil, and also a visiting professor at Kyoto, Hokkaido, Kansai and Hosei universities in Japan.

He has written articles in a number of American, European and Japanese sociological journals, conducted a comparative study of telephone usage in Tokyo, Manhattan, Paris and London for NTT, and a study of British entrepreneurs for Ernst & Young. His recent publications include *Revolution and the Making of the Contemporary Legal Profession: England, France and the United States* (OUP) 2006 and *Class Formation, Civil Society and the State: A comparative analysis of Russia, France, the United States and England* (Palgrave Macmillan) 2008. He edited *Martin Trow: Twentieth-century higher education: from elite to mass to universal* (Johns Hopkins) 2010. He recently contributed to *Professionen, Eigentum und Staat: Europäische Entwicklungen im Vergleich -19. und 20. Jahrhundert,* (Wallstein Verlag) 2014.

CIVITAS
55 Tufton Street, London SW1P 3QL
T: 020 7799 6677
E: info@civitas.org.uk

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Table of Abbreviations

CBI	Confederation of British Industry
EC	European Commission or European Community
ECM	European Common Market
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EMU	European Monetary Union
EU	European Union
EU 11 (12)	EU members before 1995: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, (UK)
EU 13	EU members before 2004 less Belgium and Luxembourg, i.e. Austria, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, UK
EU 14 (15)	EU members before 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, (UK)
Eurozone 11	The first EU members to use the Euro currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain
FDI	Foreign Direct Investment
FTA	Free Trade Agreement/Area
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
OFC	Offshore Financial Centre
ONS	Office for National Statistics
SPE	Special Purpose Entity (financial instrument)
UIC	Ultimate Investment Country
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

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Introduction

This paper seeks to answer three questions:

- Did entry to the Common Market in 1973 boost foreign direct investment (FDI) in the UK?
- Did the UK decision not to join the euro adversely affect FDI in the UK?
- Has the Single Market attracted FDI to the UK?

After briefly reviewing how FDI has featured in the debate about UK membership of the European Union (EU), it will try to answer these three questions by examining and reporting the available evidence in the databases of the United Nations Conference on Trade and Development (UNCTAD), and to a lesser extent the Organisation for Economic Co-operation and Development (OECD), which thus far have not been used in discussions about FDI.

However, before examining this evidence, it is necessary to discuss some methodological issues. The UNCTAD and OECD databases we will be using may be the best available evidence on FDI cross-national flows and stocks, but they both have flaws and limitations, as well as disagreements. While these cannot all be resolved or settled, it seems sensible, if we wish to draw conclusions from the evidence, that they should at least be recognised. Problems also arise when making the comparisons between the EU, as its membership has increased over the years, and independent countries. Such comparisons are essential if we hope to identify what the impact of the EU on FDI in the UK might have been, but opinions differ on which comparisons are the most appropriate and legitimate. It again seems sensible to explain the reasons for making comparisons with certain countries whilst ignoring others before presenting and examining the evidence.

The minor matter of the name of the EU may also be resolved before we begin. It has, of course, changed over the period under examination. However, to use its correct name at the time, when referring to changes that span more than four decades, makes for a cluttered and confusing text. Unless one of the earlier names − the European Common Market, the European Economic Community or the European Community − can be used unambiguously, it is therefore described as the EU throughout, even though that name was only formally assumed in 1993.

Some of these preliminary issues, important as they may be, will not be of interest to all readers. Those who are already familiar with the UNCTAD and OECD databases,

are not interested in methodological problems and have no wish to know why certain countries have been omitted from some analyses, should jump to page 24, where the search proper begins. Those who do not wish to follow every step of the search, and only wish to know its main findings and the answers to the three questions they suggest, should jump directly to page 63.

FDI: a suspicion becomes a fact

Foreign direct investment (FDI) is one of the most persistent themes in debates about the merits of UK membership of the EU, of the euro and of the Single Market. The official document, drafted by the then Prime Minister and sent to every home in Britain before the referendum in 1975, tentatively suggested that 'if we gave up membership of the Common Market… foreign firms might hesitate to continue investment in Britain.'

Over time this suggestion has hardened into a confident claim. In 2002, a pamphlet published by the Britain in Europe, a PR group financed by British and foreign multinationals pushing for Britain to adopt the euro, claimed that, after declining to join the new currency from its start, 'Britain's record for attracting foreign investment has declined fairly dramatically', while 'official EC figures show a dramatic 384 per cent increase in the value of foreign investment in the eurozone'. They went on to warn that: 'this situation would worsen further if Britain were to stay out in the long term.'[1]

The issue surfaced again in December 2011, when Mr Cameron declined to agree to a new EU treaty to rescue the stricken currency. BBC news reports, correspondents and invited guests greeted the decision with dismay and horror on the grounds that it would leave the UK' isolated' and 'marginalised' within the EU, and therefore put at risk the inward flow of foreign direct investment and the jobs that flow from it. Referring to conversations with unnamed 'business leaders', Robert Peston, BBC TV's Business Editor, explained to his national audience that if multinationals 'begin to see the UK as an isolated island, they will not wish to stay. So it would really matter if the UK's place in the world's biggest market… were somehow in doubt. Which is why… businesses are now desperate to hear a positive statement from Mr Cameron about how the UK's position in the Single Market can somehow be buttressed.'[2]

One year later, in early 2013, in response to press and public pressure for a referendum on continued membership of the EU and to Mr. Cameron's attempt to relieve that pressure by promising one five years hence, if he were re-elected, various members of the political elite rushed to support continued membership. First,

the former Prime Minister Tony Blair, then the leader of the opposition, Ed Miliband, and then another former Prime Minister, Sir John Major, all made speeches stressing the importance of EU membership. In his speech at Chatham House in February 2013, Sir John asked whether foreign car manufacturers presently manufacturing in the UK would remain 'or would they relocate and place future investment inside the European Union with no tariff on their cars?' And would 'companies from around the world who invest over £30 billion a year in the United Kingdom be more – or less – likely to do so without unfettered access to the European market? To me, the answer is self-evident.'[3]

Newspapers sympathetic to the EU chimed in with news coverage and editorials by pointing out how leaving the EU would threaten FDI in the UK. The *Financial Times* went further than most. A long-time fervent supporter of the EU project, it managed to insert into a news report of a visit by the Irish Prime Minister to London the following sentence: 'Ireland, which holds the rotating presidency of the EU, is well placed to win foreign investment projects discouraged from locating in the UK because of uncertainty caused by Mr Cameron's referendum pledge.'[4]

The report then went on to quote other Irish notables who all helpfully made remarks supporting the FT position. Peter Sutherland, a former director-general of the World Trade Organisation and European Commissioner, for instance, observed that: 'the prolonged period of uncertainty about the UK's EU membership could damage British interests… This will contribute to its marginalisation and could pose some threat to inward investment.' John Bruton, a former Irish Prime Minister, obliged the FT by saying: 'Ireland could capitalise on uncertainty caused by the UK's referendum pledge as investors questioned whether a UK operation would remain compliant with EU regulations. In the long term, if you are in doubt about whether the UK is in or out of the EU, then it could be much harder to attract investment to Britain'. At the cost of a few phone calls, one guesses, an FT headline 'news' story was born, which happily coincided with its editorial stance.[5]

It would not be difficult to find other examples of political leaders and media who support EU membership using this FDI argument. It has been a favourite standby over the years, though the remarkable fact is that few of those who have made use of it have ever felt that they needed any evidence to support it, and none at all, as far as I can discover, have ever referred to the two primary and readily accessible sources of cross-national evidence about FDI, the databases of UNCTAD and OECD.

Once the referendum of 1975 was won, the Labour government of the day obviously had no reason to give any more thought to what might have happened to FDI had

it been lost, and in any case, at the time, cross-national data about FDI was rather limited. Over the subsequent 38 years, however, it is a little odd that while every government has acknowledged the importance of FDI, and the evidence about it has accumulated, none has made any attempt to collect and analyse it in order to see whether and how it might have been affected by EU membership. The big business pressure group Britain in Europe and its successor Business for New Europe have both commissioned some research to make their case, but neither of them thought they needed to go so far as to refer to the primary sources available after a couple of clicks in the UNCTAD or OECD databases. The BBC's Business Editor preferred his conversations with unnamed 'business leaders', while Sir John Major, though having ample opportunity over his seven years in office to ask for some research on FDI, evidently decided his own intuitions were an adequate guide for public policy.

Why should this be? Why should hearsay, intuition and inference be preferred to readily accessible evidence? Why should people who are well able to initiate research on FDI, like the editor of the FT or Sir John Major, never do so? The answer seems to be that their intuitions and inferences about how foreign investors will, or must, behave seem so utterly reasonable and commonsensical that they feel no need to spend or, as it no doubt seems to them, waste time confirming them.

Isn't it obvious, after all, that investors would prefer to invest in 'the world's largest single market', rather than a relatively small one like the UK? And isn't it entirely reasonable to assume that 'foreign investors want to serve a European market free of the risk of exchange rate fluctuations'? And that they would prefer not to face tariff barriers? What sane and sober investor would prefer a small market, with a fluctuating exchange rate, facing tariff barriers to export to the 'the world's largest single market'? Almost without noticing it, however, all those making such arguments slip beyond reasonable inference and common sense, and assume that they have identified the primary, and even the sole, determinant of foreign investors' decisions. This assumption is far from reasonable and leads to conclusions that are not at all obvious or commonsensical.

Inference and evidence about FDI

UNCTAD researchers, who probably know more than most about investors' decisions since they have been recording them systematically and analysing them since 1970, are always extremely cautious when commenting on their determinants. They repeatedly observe that investment decisions are influenced by a 'host of nearly unquantifiable social, political and institutional factors'. In 1993, they nonetheless sought to quantify 'the nearly quantifiable' and, after identifying eight key factors

that they thought made a country attractive to foreign investors, constructed an FDI Potential Index.[6] The eight factors were: the rate of GDP growth; per capita income; the share of exports in GDP; the number of telephone lines per 1000 inhabitants; the energy use per capita; the share of R&D expenditure in gross national income; the proportion of tertiary students in the population; and a final, vague factor, which long remained unquantifiable, 'political and commercial risk'. They said nothing directly about the size of the market or exchange rate risks or even tariffs.

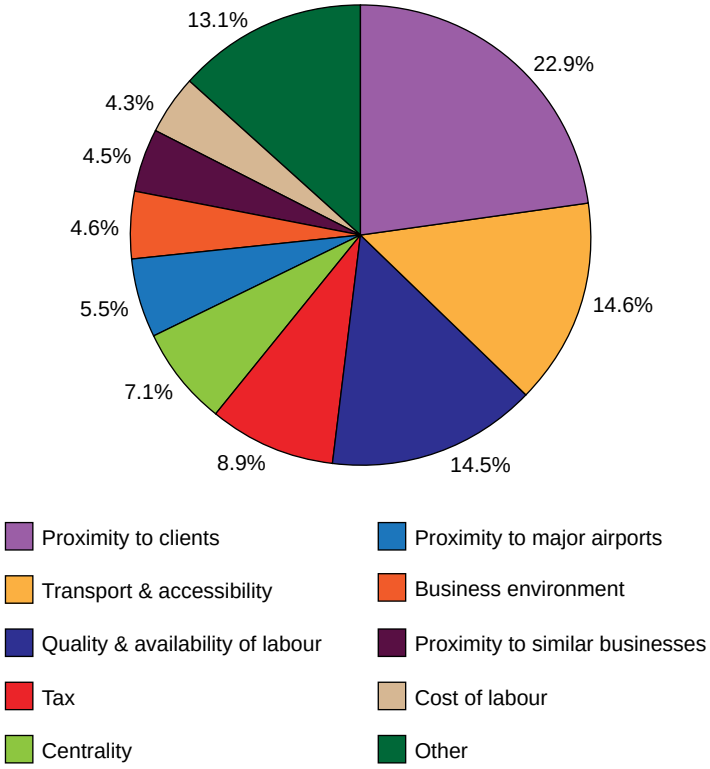
UNCTAD has been improving and amending its index ever since, while periodically admitting that: 'it is not possible, with the available data, to capture the host of factors that can affect FDI'.[7] In 2003 they added four more variables: a country's share of 'world exports of natural resources and services, of world imports of parts and components of electronic and automobile products, and of the world stock of inward FDI'. These came a little closer perhaps to the factors that the EU supporters in the UK thought were the all-important determinants of FDI, but not that close.

In 2009, three Spanish economists made an interesting attempt to improve and refine UNCTAD's inward FDI Potential Index.[8] After searching through 'the vast empirical literature regarding location determinants', they decided that they should incorporate 70 variables, many of which they recognised would shift over time. In amongst these 70 variables, they at last included exchange rate stability, tariff rates and market size and growth.

For these, and many other specialist analysts, the task of identifying the determinants of FDI is evidently an arduous, intellectually challenging task, and still very much a work in progress, and not quite the doddle the EU-supporters in the UK quoted above seem to think it is.

A few researchers have preferred to ask investors directly about their decisions. An Ernst & Young survey in 2005, for instance, included follow-up interviews with key decision-makers in 98 of the 787 multinational firms which had invested in six European countries over the years 1997–2003.[9] The interviews were non-directive and open-ended, the informants being asked to identify any of the things that might have affected their company's decision to invest in a particular country. The proportions of items mentioned in their answers are presented in the pie chart below.

Figure 1
Factors that influenced the decision of 98 multinational enterprises to invest in Europe, 1997–2003.



Source: European headquarters: Location decisions and establishing sequential company activities, Final report, Ernst & Young, Utrecht, 2005: http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/european-competitiveness-report/index_en.htm

As may be seen, ‘proximity to clients’ rated number one, and several of the other answers also have a geographical dimension such as ‘centrality’ or ‘proximity to major airports’, and even perhaps ‘proximity to similar businesses’. Although these company decision-makers could say whatever they wished, none of them ever mentioned either ‘the world’s largest single market’, or the euro, or the absence of tariff barriers. These things did not even rate a word in the ‘other’ category, details of which were given in an appendix of the report.

One day, perhaps, there will be a theory which, having been tested against and corroborated by the ever-growing body of evidence about past FDI decisions, will enable us to speak with some confidence about the motives of foreign investors and their probable responses when evaluating the comparative advantages of individual countries in which they might invest. For the moment we cannot do so. All that we can do now is to look back over the historical evidence of FDI flows and stocks to

see just how well the inferences, intuitions and private conversations of politicians and journalists help us to understand the decisions of foreign investors with regard to investment in the UK.

This is what we will do in this paper, focusing on three events which we have often been told have a positive or negative impact on FDI in the UK. However, we must first say something about the limitations of the best available evidence.

UNCTAD *vs* OECD: discrepancies and disagreements of the two authoritative sources

The FDI databases of UNCTAD and OECD have different strengths and limitations. UNCTAD provides the more complete and comprehensive historical sequence from 1970 in the case of FDI flows, and from 1980 for FDI stocks, for most, though not all, developed countries. The missing countries have been brought into the dataset at later dates, as and when data became available. Because of its longer coverage over time, the UNCTAD database is the primary source in this search. If one hopes to identify the impact of UK entry to the EEC, one must have data before 1973, and likewise, if one hopes to identify the impact of the euro, or of the Single Market, we need evidence from the years before the euro became a traded currency in 1999, and before the Single Market was launched in 1993.

The OECD's basic, aggregate FDI data for the majority of member countries starts from 1990. Its data, with breakdowns of the origin and destination of inward and outward FDI flows and stocks, by partner countries and type of industry in which the investment was made, starts only from 2001. The present investigation, however, makes only passing use of industry breakdowns and none of 'partner' countries. Being an exploratory investigation, it sticks for the most part to aggregate national flows and stocks. The OECD database is therefore used mainly as a complementary source to cross-check UNCTAD entries whenever it seemed helpful to do so because the return for one country was particularly important or unusual.

At times, the inward FDI flows for individual countries from the two sources differ. All the figures from both of them for the years 1990–2011 are shown in Appendix A, Table 11 (and for FDI stock in Table 12) with the years where the difference exceed $US100m highlighted. There are 99 such cells out of the 384 cells which have matching figures for 18 countries from both agencies in the table as a whole. As far as I am aware, the two agencies have never publicly explained their discrepancies, and my attempts to discover whether there was a consistent, systematic disagreement, and to trace the reason for it, failed. One source is not consistently higher than the other. Inflows reported by one were higher than the other in roughly half of the years,

though when the mean annual differences over the 22 years were calculated, as in the right-hand column of Table 11 of Appendix A, the OECD records a higher figure for 6 countries, and a lower figure for the other 11 (with one equal).

The differences appear to be haphazard, as distinct from random, so if there is a consistent bias in one or the other, its source is unknown. However, it is immediately apparent that there are more differences in the more recent years. Approaching half (40) of the 99 cells, where the two agencies have differed, extracted in April 2012, are for the years 2008–2011, and the remainder are spread over the earlier 18 years. This is not because they increasingly disagree, but because both agencies regularly update and amend their figures for recent past years (without advising researchers they have done so). The figures for UNCTAD for, say, 2010, available on-line in 2011, are not the same as those for 2010 available on-line in 2012 or 2013, and the 2010 discrepancies between the two agencies decline in the version available in 2012, and again in 2013.

The other immediately noticeable difference is that a few countries consistently provoke more disagreements than others. The striking case is the UK, where the two agencies have differed, by more than $100m, in 20 of the 22 years of FDI flows, and there is no indication therefore of discrepancies declining in the updating process in this case. The OECD has reported FDI annual inflows to the UK which are, on average, nearly $2bn, or eight per cent, higher than those reported by UNCTAD. No other country has such large discrepancies over so long a period. Norway's FDI inflow, as recorded by OECD, is substantially higher than that given by UNCTAD, though only over four years, the last of which, 2011, largely accounts for the mean annual difference over the entire period. In Ireland's case, the mean annual difference is largely due to the discrepancy in just one year, 2010. The discrepancy in the case of Italy is large, but in the other direction. OECD thinks that FDI was substantially less than that reported by UNCTAD, though the disagreement is fairly evenly distributed over the six years 2002–2007.

There are analogous differences in the figures of FDI stocks over the years 1990–2011, given in Table 12 of Appendix A. It shows still more disagreements between the two databases. Once again, OECD pretty consistently gives a higher figure for the UK than UNCTAD, on average $18bn per annum since 1990. The UK is, however, in this respect, surpassed by Germany whose FDI stock recorded by OECD has, on average for every year since 1997, exceeded the figure given by UNCTAD by $116bn, while that of France has been lower by an almost similar amount, $114bn.[10]

For any outside observer, it will be surprising that the agencies themselves have not sought to reconcile their differences, and that governments with a pro-active FDI policy have not decided to find out which is the more reliable.[11] For researchers, it is more than surprising to find that the world's two most authoritative sources on FDI differ by such margins. It is disconcerting and troublesome.

What is to be done? Not much. Given their different timespans, it is not possible to double up every analysis and present alternative versions. Sample graphs doing just that, and comparing *groups* of countries with post-1990 data drawn from one source against the other, showed that they would not lead to radically different conclusions, since they were often indistinguishable from one another, or the differences were too small to be of major concern. On two occasions, Figure 8/8a and Table 10, it was possible to prepare reasonably complete rival versions, and they are presented in Appendix B. Although there are a few striking differences between individual countries in both, they did not lead to any significantly different conclusions, since the argument in both hinged on the contrast between *groups* of countries, and the majority of the comparisons in this paper are of this kind.

The major problem, therefore, is for comparisons of *individual* countries of which we also have a fair number. Since UNCTAD is the primary source, about all we can do, for the moment, is to remember that, if OECD turns out to be nearer the truth, then some countries may have received more FDI than reported below, and some may have received less.[12] This means, in the case of the UK, that its FDI flows may have been up to eight per cent higher than is reported below, and its FDI stock up to six per cent higher. The same is true, though only over the years 2008–2011, of FDI flows to Switzerland, Norway, Germany and Ireland, and perhaps also to Luxembourg and Belgium, though other doubts about these two countries, which will be aired in a moment, mean that it is less important in their case. And correspondingly, if OECD is nearer the truth, Italy would have received significantly lower FDI inflows, along with Austria and Finland. Analogous adjustments would have to be made for FDI stocks, with Germany's being much higher and France's much lower.

The moral for researchers is that FDI research should be regularly updated to keep pace with the updates of these two basic sources. Hopefully, the reliability of the data will then increase as their disagreements decline. The chances are, however, that research will be out of date before it is completed.

The problem of Special Purpose Entities

More important than these disagreements, however, is one serious flaw from which both UNCTAD and OECD suffer. Put simply, it is that neither of them currently state

with certainty how the FDI is used by the recipient countries, or even whether the country named as the recipient was the ultimate destination of the investment.

Most policy-oriented discussions of FDI assume that it refers to investors who have a long-term interest in the country in which the investment is made and, whether or not it involves a greenfield development, will create new manufacturing or service employment in the host country. Some, and no doubt the greater part of the inward FDI recorded by both UNCTAD and OECD, is exactly of this kind, but some unknown proportion of it is not. It is no more than a financial or accounting transaction, often made through a special purpose entity (SPE) which is used to park capital in one country, actually intended for later onward investment in some third unnamed country. It therefore has little or no impact on employment in the recipient country identified as the destination in FDI statistics. It is the FDI equivalent of 'the Rotterdam effect' that long confused the study of trade with the EU, because transhipments in Rotterdam to or from other destinations were identified as exports to, or imports from, the Netherlands. As it happens, the Netherlands is also the home of many SPEs, and the statistical distortion they cause is therefore sometimes referred to as 'the Netherlands effect'.

Over the many years that the OECD has been concerned about this problem, it has organised meetings amongst central banks and other responsible agencies to agree common global standards for FDI reporting. The definitive results of these deliberations appeared in the fourth edition of the OECD's *Benchmark Definition of Foreign Direct Investment* of 2008 which recommended procedures to ensure analysts consistently identify the two ends of the investment chain, the investing country and ultimate investment country (UIC), omitting any SPEs in between.[13] Currently, most countries still do not do this, though Austria and the Netherlands have begun reporting their FDI free of SPEs, apparently since 2007, and others are expected to do so by 2014.[14]

In recent years, national banks have begun to distinguish between FDI in the authentic sense and these financial transactions which may be recorded as such. In 2008, De Nederlandsche Bank disclosed that only 27 per cent of foreign inward investment remained invested in the Netherlands, and extrapolating from their outward direct investment data, Williams estimated that the proportion of SPEs in the Netherlands' inward FDI varied between 68 per cent and 73 per cent over the years 2004–2010. Drawing on information published by the Luxembourg Central Bank, he went on to estimate that SPEs constituted between 92 per cent and 93 per cent of FDI in Luxembourg over the same years.[15]

There is similar evidence from other countries. In 2011, for instance, the Central Bank of Ireland began to report the assets of 'Financial Vehicle Corporations' (or SPEs) resident in Ireland. At the end of that year they had assets of €491.9bn, which is just over a fifth of the total FVC assets in the entire eurozone.[16] It is also more than two-and-a-half times the €189.5bn of inward FDI stock held by Ireland itself as reported by UNCTAD for 2011. Evidently, therefore, many SPEs in Ireland are *not* reported in the UNCTAD figures, though exactly how many are included is not known.

Switzerland is commonly seen as the haven of secret bank accounts, and might be thought to be similarly hospitable to SPEs. Its National Bank now identifies the destination of FDI by industry and this shows that, over the years 2005–2010, 47 per cent went to manufacturing and service enterprise and the remainder to banks and 'financial intermediaries', which is a step towards identifying SPEs perhaps, though it is still not clear what proportion of the remaining 53 per cent may have been long-term job-producing, service-industry investments in its substantial financial sector, and what proportion may have been to SPEs.[17] In one of its special, more detailed reports, supplemented with data from the Swiss National Bank, UNCTAD suggested that the significance of purely financial transactions had been vastly exaggerated. 'Switzerland', it declared, 'is a major host country for FDI on a global scale… [the] banking industry, including private banking, represents 7.8 per cent of the inward flow of FDI.'[18] Hmm. No word of SPEs.

The UK Office of National Statistics started distinguishing financial derivatives from various other kinds of international investment in 2004, since when the proportion of financial derivatives in its reported 'International Investment Position' has varied between 15 per cent and 32 per cent (in 2011) of the total.[19] It is therefore possible to do a check by comparing the FDI stock reported by UNCTAD with the direct investment minus the financial derivatives reported by ONS. There was little difference, apart from 2008, when the UNCTAD figure was 24.6 per cent *below* that of ONS, which suggests that the UK FDI stock figures of UNCTAD include few SPEs. A further check of the same ONS direct investment entries back to 1991 found the discrepancy ran in the same direction, i.e. the UNCTAD FDI stock was consistently *lower* than ONS, the mean difference being six per cent over the 21 years.[20]

One can perform exactly the same exercise comparing UNCTAD FDI flows to the UK with the 'Investment in the UK, Financial Account Transactions' recorded by the ONS over the 21 years. The result is much the same as for FDI stocks. UNCTAD consistently reports a *lower* FDI inflow than the ONS Pink Books, on average, over the 21 years, four per cent lower, though this average hides rather large discrepancies

from 1991 to 1997, hitting 17 per cent in 1994. After 1997, they remain within a percentage point of one another for most years until 2011 when the ONS was five per cent higher. The conclusion I draw from these checks is that the UNCTAD data of UK FDI flows and stock is not inflated by large flows to or from SPEs.

There is, I might add, nothing distinctive about the UK data recording. On the contrary, the ONS proudly announces that it is following European and international standards.[21] If there is anything distinctive, it is the accessibility of the details of UK public finances. If the same exercise were conducted with the other 22 countries discussed, we might of course be able to eliminate all SPEs, and therefore have that much more confidence in our final results.

Pending such an exercise, we will have to wait for central banks and other reporting agencies to respond to the long campaign of the OECD, joined by the IMF, to persuade them to distinguish clearly between FDI indicating a permanent or long-term interest in the recipient country and purely financial transactions. Since 2009 the IMF has conducted a Coordinated Direct Investment Survey (CDIS) in which this distinction is embedded. However, this is still a pilot survey, in which countries voluntarily participate, and few of those countries thought to have a high proportion of SPEs have been ready to supply the data.[22] The Netherlands, for instance, has no entries at all under the CDIS heading ‘Resident Financial Intermediaries’.

For the moment, we may fairly say that FDI reporting is in a state of transition, but even if, as hoped, all countries follow the OECD *Benchmark* fourth edition rules after 2014, the kind of retrospective, cross-national analyses of the kind we wish to conduct will still not be free of SPEs, unless one or other agency attempts the daunting task of reconstructing past returns.[23]

Since that is unlikely, we have little choice but to continue with the UNCTAD and OECD databases and annual reports as they stand, while recognising that though they currently provide the best evidence for cross-national, retrospective analyses, they are both flawed. However, as anyone who has worked with them will know, the entries for some countries appear to be rather more flawed than others. But which ones?

A search for hidden SPEs

One clue to the presence of SPEs is abnormally high, or abnormally volatile, FDI inflows, with precipitous falls leading to net disinvestment over one or two years, which is more consistent with a sudden withdrawal of funds from SPEs than with a long-term investment. Further clues are provided by the total annual FDI inflow as a

proportion both of the gross fixed capital formation (GFCF) in the recipient country and of its GDP. If the annual FDI inflows exceed one or other, as they invariably do in offshore financial centres (OFCs), we may infer that they do not reflect a long-term interest by investors in the recipient country and include inflows other than authentic FDI.

Table 1 below presents this data for all 23 countries that appear at some point in the following search. Columns 3 and 4 give the number of years included in the means in columns 1 and 2. Some countries could not be measured over the 19 years 1993–2011, having recorded net FDI disinvestment in one or more of them, while Luxembourg's data was available only for ten years, with a single year of net disinvestment.

If we consider Luxembourg first, it will be seen that over the nine years it has routinely received an inward flow of FDI getting on towards double its GFCF, and we may reasonably infer that much the greater part of its recorded FDI is not authentic FDI at all. Luxembourg may be the seat of a great many EU institutions, including the Court of Auditors, but it duplicates the pattern found in OFCs, with FDI inflows far greater than GFCF. As it happens, most OFCs have in fact provided rather more details of their nominal FDI, whereas Luxembourg was unable or unwilling to do so until 2002. On both counts − the implausibility and the incompleteness of its data − Luxembourg is therefore excluded from all the analyses that follow.

But what of Belgium? One is naturally reluctant to exclude the home country of the European Commission and, for part of the year at least, also of its Parliament. But is it plausible to suppose that foreign investors have been providing, on average over the 18 years, more than 80 per cent of Belgium's GFCF, and, for several of these years, very much more? In 1999, its FDI inflow was more than double its GFCF, so it was well into OFC territory, as it has been in 2000, 2001 and 2008. The inward FDI flow to Belgium in 2008 recorded by UNCTAD was $193.95bn (and by OECD as $193.57bn), a total which makes its FDI over $50bn greater for that year than the total inward flow of FDI to all the other ten eurozone countries combined, which was $141.46bn. Moreover, this FDI inward flow was just over half of Belgium's entire GDP in the same year. It therefore seems highly unlikely that much of this was long-term, employment-creating FDI, and therefore it too has been omitted from many calculations that follow.[24]

But not from all. It goes against the grain to eliminate countries from small samples without a clear, defensible rule applied consistently in every case, and this evidence

Table 1
Search for SPE Suspects: Mean annual FDI inflows of 23 countries over 19 years of the Single Market as percentages of GFCF & GDP

	1. As per cent of gross fixed capital formation	2. As per cent of GDP	3. Actual number of years measured GFCF	4. Actual number of years measured GDP
Luxembourg	175.8	33.9	9	9
Belgium	80.1	17.6	18	19
Singapore	59.9	16.0	19	19
Ireland	57.2	10.8	15	15
Sweden	31.8	5.6	18	18
Netherlands	28.7	6.0	18	18
Iceland	25.9	6.9	17	16
Denmark	21.4	4.2	17	17
UK	21.9	3.7	19	19
Switzerland	17.4	3.8	17	17
Israel	16.9	3.1	19	19
Finland	15.5	3.0	18	18
Canada	15.4	3.3	18	17
New Zealnd	14.6	2.8	17	18
France	12.7	2.3	18	19
Norway	11.6	2.4	19	19
Spain	11.5	2.9	19	19
Australia	11.2	2.9	18	18
Portugal	10.1	2.4	19	19
Austria	9.6	2.2	18	19
Germany	8.8	1.7	18	18
Italy	4.8	1.0	18	18
Greece	3.5	0.7	19	19

Source: UNCTADstat Inward and outward foreign direct investment flows, annual, 1970–2012 Inward/measure/ Percentage of Gross Fixed Capital Formation/Percentage of Gross Domestic Product

does not allow us to define any such rule. However, to avoid the risk of tilting the analysis one way or the other, or of being thought to do so, a non-EU and non-euro country, Iceland, was also eliminated from the same calculations from which Belgium was excluded, even though it was not in the same league as Belgium, as the table indicates. Indeed, its FDI reporting is a good example of what the OECD is aiming for. Nevertheless, in 2007 its FDI inflow peaked at 117 per cent of its GFCF, and was an exceptionally high 33 per cent of its 2008 GDP. Furthermore, its FDI inward flow amounted, by its Central Bank figures, to an implausible 40 per cent of the combined total of the three independent European countries in that year.[25]

Singapore, the third country on the list, shows how difficult it is to determine the proportion of GFCF that FDI should constitute to be considered plausible. Singapore's FDI inflows have been on average nearly 60 per cent of its GFCF, a very high proportion, but given that its declared strategy, over the half-century since independence, has been to create a modern economy on the basis of FDI from diverse sources, it seems entirely plausible that its FDI includes no SPEs at all, especially as FDI as a proportion of its GDP has grown by steady increments since 1970 and has only exceeded 100 per cent twice, and then by small margins. Over the 19 years it has never once recorded a net disinvestment.

Singapore has not therefore been eliminated from any calculations, nor have any other countries, even though some may be suspected of camouflaging payments to SPEs as FDI. Ireland is such a case, since it has plummeted to net disinvestment in four of the nineteen years, which is more than any other country. However, since it has also adopted a Singaporean strategy of economic development, this may simply reflect the sudden repatriation of profits to American-owned multinationals or have some other entirely legitimate explanation.

The remaining countries on the list simply allow us to assess, or guess, the likelihood that the recorded FDI contains substantial payments to SPEs. One may say, with some confidence I suppose, that foreign investors have not set up SPEs in the two countries at the bottom of it, Italy or Greece, or for that matter in the half-dozen or so above them.

Perhaps the biggest surprise on the list is the relatively low ranking of Switzerland. Despite its reputation for secret bank accounts, it emerges from this list as about as likely to have SPEs in its FDI as the UK, though, unlike the UK, it has had two years of sudden, precipitous net disinvestment.

The unpalatable conclusion of this little DIY foray on SPEs is that the best FDI data in the world is flawed, and we, like everyone else, will have to work with it. There are, however, a few grounds for consoling or reassuring ourselves. To begin with, most of the calculations in this search, or the more important ones at least, are comparisons of the weighted means of groups, non-EU *vs* EU, non-euro *vs* eurozone etc, and since, as it happens, most of the countries suspected of having high SPE transfers are small, their distorted data can have only a minor impact on a weighted mean. Even if, for instance, Luxembourg had been included in these comparisons, along with its large FDI inflows, it could, given its tiny population, have only a marginal effect on a weighted mean of the EU or eurozone collectively. And even if we were

wrong about Singapore, and it should have been excluded, it cannot have a big impact as part of a group of independent countries.

There is also a certain safeguard in being able to use, for most of the comparisons in more recent years, two kinds of FDI data, that of inflows and of stocks. As will be clear, whenever graphs of the two kinds of data are juxtaposed, inflows are far more volatile than stocks. FDI inflows record transient annual movements of capital, whereas FDI stock records the accumulation of investments, and re-investments stretching back to unknown dates in a country's past, and therefore seem more likely to be recording authentic FDI investments with a long-term interest in the country, rather than SPEs. There is, however, no hard evidence, as far as I am aware, to show whether this is the case, though there can surely be little doubt that annual returns of the growth of FDI inward stock are a more secure basis for drawing conclusions about the attractiveness of particular countries to foreign investors than volatile annual returns of FDI inflows.

At the end of the day, however, one must keep one's fingers crossed and hope that the hidden distortions on either side of the comparisons of groups more or less even themselves out. But that is no more than a hope. If we accept Table 1 as a rough guide to the presence of SPEs, then it seems that FDI inflows to EU countries are somewhat more likely to be exaggerated, simply because there are rather more of them at the top of the list.

The ever-shrinking control group

The second methodological problem in the analyses that follow is that which faces any attempt to analyse any part of the EU project: finding countries with which its members may be appropriately compared.

Any inquiry, whether in natural or social science, that hopes to demonstrate a causal link between two phenomena, cannot advance far without making comparisons of some kind. Laboratory sciences surmount this problem relatively easily by reproducing multiple experimental groups that are subjected to the same external agent, experience or stimulus, whose effect it is hoped to understand, alongside multiple, otherwise identical, control groups that are not subjected to the same agent, experience or stimulus. Other sciences, including the social sciences, have to find equivalents as best they can. Social sciences usually do so by large random samples of individuals or cases in which certain factors may be held constant. In this investigation, however, since the number of FDI recipient countries for which we have evidence over the period during which the EU project has been under way

is small, random samples are not possible. The social scientist's equivalent of an experiment is not available, and finding satisfactory control groups is therefore a difficult problem.

The main experimental groups in this investigation are clear enough: those countries that became members of the EU, or members of the euro, or members of the Single Market. Ideally, we would like a control group of European countries, similar in size, number, GDP and geographical location to EU members, indeed similar in every respect, except that they have not been subject to these three experiences whose impact we wish to identify and demonstrate, i.e. they did not join the EU, or the euro, or the Single Market.

In pre-1980 analyses, we can make use of European countries that had not yet entered the EU, but as the analyses continue through the '80s and '90s, the number of comparative cases continuously falls, as members of the control group join the experimental group. By 1995 we are left with a control group of just three: Iceland, Norway and Switzerland.

These three societies are, however, usually dismissed by EU enthusiasts as being individually and collectively too small (in 2010 their populations totalled just 13 million), or for one reason or another are deemed 'special cases' which cannot provide a fair comparison or form a suitable control. The European Commission, for instance, never, ever mentions them to support its claims about the benefits of EU membership, even though a comparison with the three European societies that are not members of the EU would appear to be the obvious, and even the only way of doing so.

Whether or not, and in what respects, these countries are 'special cases', and incomparable with any other country is seldom made clear, and never documented. The Prime Minister sometimes conveys the impression that the UK is distinctive because it is a trading nation, rather implying that these three are not – almost as if they were not far removed from subsistence farming. A fair measure of how far a country depends on international trade is provided by OECD data on international exports in goods and services as a proportion of GDP. In 2010 the proportions were 54.2 per cent of Switzerland's GDP, 56 per cent of Iceland's, and 42 per cent of Norway's, and a mere 29 per cent of the UK's.[26] Currently, therefore, the UK is rather less of a trading nation than any of them.

The only occasion when the reason for thinking these countries are not comparable with the UK has been made explicit is an internal report of HM Treasury, 'EU

Membership and FDI', apparently written in 2004, in which the anonymous author declares that 'whilst comparison with Norway and Switzerland as examples of EEA and EFTA members are interesting and potentially useful, they have significant limitations, given the fundamental economic differences between the UK and each of these countries – e.g. Norway's economy benefits heavily from oil and Switzerland from pharmaceuticals and financial services, distorting any comparison'.[27]

It is a lazy and tendentious comment. All trading nations have distinct advantages, which is why they trade in the first place, and as they discover the comparative advantages that enable them to trade profitably with others, they are likely to become more distinct. Do they therefore become progressively less comparable? What countries would remain to compare with the UK? In any event, oil, pharmaceuticals and financial services were three of the UK's leading industries over the period he or she was discussing, so the author expects the reader to believe, without any word of explanation, that Norway's oil or Switzerland's pharmaceuticals and financial services were 'fundamentally different' from those of the UK. It is tendentious because it soon becomes clear that the author intends to snatch at every prediction, or scrap of evidence, that appears to make a case for continued membership of the EU, and has no intention of stopping to make any comparison that might require some thought before the paper reaches its preferred conclusion.

Are these countries, along with Iceland, the other remaining independent country in Europe, too small individually and collectively to serve as a control group of non-members? Comparisons between the US and the UK are routinely made by the standard method of making fair comparisons between countries of different sizes, converting gross to per capita data, without anyone complaining that the UK is too small to make meaningful comparisons, or that it is inappropriate or unacceptable. Why the same method should not be used in Europe is not clear.

In the end, however, whatever the case for excluding them might be, and however well it might be argued, it will remain unpersuasive, since if we exclude these three countries there would be no control group at all. This is tantamount to saying that the impact of EU membership, or of membership of the eurozone, or of the Single Market, and other aspects of the EU project, are forever beyond the normal canons of empirical inquiry and analysis. This would be an odd way to start an empirical investigation, and I have no intention, and no reason, to start this one in this bizarre manner. These three countries will therefore be used as one comparative control group.

In an attempt to construct a more satisfactory control group, we will add to these three economies all the others remaining in UNCTAD's database that are roughly comparable in size to some EU countries, are as economically developed as the older EU members, and do not have large internal markets which might make them less dependent both on international trade and on FDI. Only five seem to qualify: Australia, New Zealand, Canada, Israel and Singapore. When added to the three non-EU European countries, these five give us a control group of eight independent countries, with a total population in 2011 of about 87 million. For those who think overall size is important, this group of independent countries might be rather more acceptable.

They still fall, it need hardly be said, far short of an ideal control group. Indeed, in one respect these five additional countries are entirely unsuited for this role. The overwhelming importance of geographical proximity in determining trade relationships has been established beyond any doubt, but these five are scattered around the globe and, apart from Canada, rather removed from any large markets.[28] In the context of FDI decisions, while it is possible to imagine an investor deliberating between Switzerland and surrounding EU countries, or between Norway and Sweden, it is hardly likely that they would be finding it difficult to choose between, say, France and Israel, or New Zealand and Italy, as possible alternative destinations of their investment. However, unsuitable or not, we can only work with the countries that planet Earth, and the UNCTAD database, provide, so they are occasionally used to add what perspective they may on FDI in Europe.

Who knows? At the end of the day, it is just possible that EU enthusiasts might come to recognize that these five, plus the three permanent European non-members, have some advantages as a control group. Since they often warn that the UK standing alone, with just 62 million inhabitants, is too small to survive and thrive in the modern world without the support and insider advantages that EU membership provides, a control group of eight smaller, generally more isolated and lonely societies, might enable them to prove their case, and demonstrate the vulnerabilities and risks to which the UK would be exposed were it to leave the EU.

1. Did entry to the Common Market in 1973 boost FDI in the UK?

The first step in this investigation is to see whether there is any indication in the UNCTAD databases that joining the EU in 1973 had a beneficial impact on FDI flows to the UK, though in doing so one has to recognize that we are at the edge of the available data. UNCTAD data on inward FDI flows only begins in 1970. It therefore only permits a limited three-year 'before' period in before/after comparisons, and since FDI flows are highly volatile, this is scarcely adequate. Furthermore, since UNCTAD only started to publish those figures on FDI stocks in 1980, it is not possible to corroborate evidence about FDI flows with evidence about the growth of FDI stocks till after that date.[1] For these reasons, the evidence this first stage of the investigation should be considered indicative rather than conclusive.

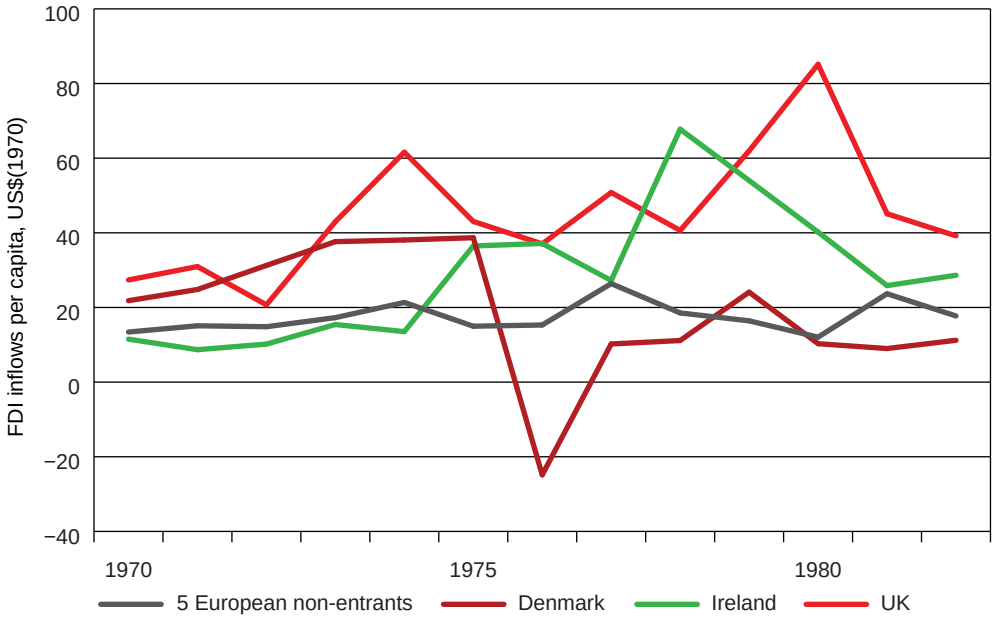
Although the data over these years is limited, we happen to have a reasonably satisfactory control group of five European countries, since along with the two of the permanent non-members, Iceland and Norway, we can also include Austria, Finland and Sweden whose EU membership was still in the distant future. Switzerland must be omitted for lack of data over these years.

In Figure 2 the weighted mean of the inward flow of FDI to these five non-members over the years before and after the UK entered the EEC is shown with that of the UK and the two countries which joined at the same time as the UK, Denmark and Ireland.

The first thing it demonstrates, I suppose, is that FDI flows are volatile, and that the number of entries on a graph should be strictly limited. However, the main facts in this one are reasonably clear. First, that UK performance was consistently better, in most post-entry years much better, than that of the five countries that did not join. Second, that Ireland, having had lower flows than the five non-entrants until 1974, had higher flows over seven of the subsequent eight post-entry years. Together therefore, the UK and Ireland lend support to the argument that entry to the Common Market boosted FDI inflows.

Denmark does not. It had higher inflows until 1975, dropped into net foreign disinvestment in 1976 and, apart from 1979, had lower inflows than non-entrants for the next three years than it had had during the three pre-entry years. The first question arising from this initial glance at the evidence, therefore, is to determine which was the more normal and representative post-entry experience of entrants to the EU: that of the UK and Ireland or that of Denmark?

Figure 2
FDI flows per capita pre- and post-entry to the ECM 1970–1982 of three 1973 entrants in US$(1970) compared with five European non-entrants per capita



The five European non-entrants are Austria, Finland, Iceland, Norway and Sweden.
Source: UNCTADstat Foreign direct investment stocks and flows, annual, 1970–2012: http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/Tables&Indicators.html

One way of deciding is to compare these three new entrants with six later new entrants: with Greece which joined in 1981, with Portugal and Spain which joined in 1986, and with Austria, Finland and Sweden which joined in 1995. In the case of these six later entrants, we can compare a full pre-entry decade with the post-entry one.

Table 2 below presents the evidence for all nine countries. It shows the mean annual per capita value of FDI in the 1973 entrants for the three years preceding their entry, and for the later six over their pre-entry decade, alongside the mean annual per capita value of FDI inflows over the post-entry decades of all nine. Post entry FDI growth is measured by the difference between these two means.

Beneath the pre-and post-entry FDI inflows of the nine countries, the inflows to other sets of other countries over the same period are given, so that we have several bases by which we may decide whether the growth was exceptional or normal. The first set consists of the same five non-entrant European countries already used as a control in the presentation of the 1973 results above. However, they can only serve as a control until the end of the second decade, since Austria, Finland and Sweden

Table 2
Real growth of total inward FDI flows per capita to nine late EU entrants: pre-entry *vs* post-entry years

	Mean annual FDI per capita over (3)10 years pre-ENTRY in US$(1970)	Mean annual FDI per capita over 10 years post-ENTRY in US$(1970)	Per cent growth post-ENTRY
	1970–72	**1973–1982**	
Denmark	(25)	16	−37
Ireland	(9)	34	*260
UK	(26)	50	*95
5 European non-members	14	18	28
5 world-wide non-members	76	71	−8
5 founding EU members	16	18	7
	1971–1980	**1981–1990**	
Greece	17	21	28
5 European non-members	18	28	56
5 world-wide non-members	79	72	−8
5 founding EU members	19	24	30
3 1973 entrants	44	66	50
	1976–1985	**1986–1995**	
Portugal	6	43	*570
Spain	17	67	*299
5 European non-members	15	55	270
5 world-wide non-members	59	99	68
5 founding EU members	14	42	217
3 1973 entrants	39	90	130
	1985–1994	**1995–2004**	
Austria	28	114	*313
Finland	30	209	*601
Sweden	81	458	*468
3 European non-members	75	230	208
5 world-wide non-members	86	186	116
5 founding EU members	39	163	323
3 1973 entrants	83	232	180

The five European non-members are Austria, Finland, Iceland, Norway and Sweden.
The three European non-members are Iceland, Norway and Switzerland.
The five world-wide non-members are Australia, Canada, Israel, Singapore and New Zealand.
The five founding EU members are Germany, France, the Netherlands, Belgium and Italy. Luxembourg is omitted due to lack of data.
The three 1973 entrants are UK, Ireland and Denmark.
Source: UNCTADstat Foreign direct investment stocks and flows, annual, 1970–2012
http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/Tables&Indicators.html

themselves joined the EC in 1995. Post-1995, therefore, Iceland and Norway are joined by Switzerland, for whom data became available from 1983. As discussed earlier, the five-country control group therefore shrinks to three. The additional control group of five countries scattered around the world − Australia, Canada, Israel, Singapore and New Zealand − is also given, primarily in the hope that they might indicate whether any post-entry increase in FDI recorded among the new entrants is no more than a normal, regional manifestation of worldwide FDI growth, or of a kind that might reasonably be attributed to EU entry. Finally, the FDI inflows to five of the founding EU members are given, five and not six because Luxembourg has to be omitted for lack of data, along with the growth of the three 1973 entrants over the same years, so that these later new entrants may be compared with the three earlier new entrants.

Seven of the nine new entrants have been starred to indicate that they experienced a marked jump in FDI inflows over the post-entry decade, which can reasonably, and with some confidence, be attributed to entry to the EC. The confidence is based on the fact that post-entry growth of all seven exceeded, and usually far exceeded, the growth of the European countries that remained independent. In four of the seven − the UK, Portugal, Finland and Sweden − post-entry growth was more than twice as great as that in the five independent countries. Their growth also exceeded, by even greater margins, the growth of the five world-wide non-members, so there is no reason to suppose that their growth has anything to do the periodic swings in world FDI to developed countries. They also exceeded by a substantial margin the growth of five of the founding members of the EU, Austria being the exception in this respect, with a growth of 313 per cent *vs* the 323 per cent increase of the five founding members.

Many other factors, which we cannot examine, no doubt contributed to the FDI growth of each of these countries. However, since all seven record marked increases after joining the EU, and since it is difficult to think of any other factor that they had in common, and which coincided with the varying dates at which they joined, it seems highly improbable that these other factors could have had a similar beneficial impact on FDI in all seven countries. These seven countries therefore provide strong *prima facie* evidence that entry to the EU has a beneficial impact on FDI inflows of new entrants.

Two later entrants, Denmark and Greece, do not provide any such evidence. Denmark, as we have already seen, recorded a decline in FDI after joining the Common Market, and while FDI in Greece increased post-entry, it did not increase

as much as that of the five countries that did not join. There is therefore little reason for thinking that entry to the EC helped FDI inflows to Greece, though it is, of course, possible that it did so, and prevented even lower inflows.

Denmark's experience calls for an analysis of the economic conditions in that country during its post-entry decade, and of the disincentives for foreign investors over these years, especially in the light of its subsequent FDI record.

Greece may have been a little unlucky. Comparison with the five world-wide non-members indicates its post-entry decade coincided with a downturn in global FDI. However, its FDI also compares unfavourably with the five European non-entrants, with the three 1973 entrants and with the five founding members.

These two cases do not, however, seem sufficient to contradict the conclusion drawn from the seven preceding cases, even though they oblige us to qualify it. In most cases, we may say, it is highly probable that entry to the EU had a beneficial impact on FDI flows, but entry did not have an equally beneficial impact on all new entrants.

One other contrast that appears repeatedly in Table 2 deserves attention. It is that between the new entrants and the founding members. Of the nine new entrants considered, six experienced larger increases in FDI over their post-entry decades than the five founding members over these same years. And two of the three whose FDI did not keep pace with the founding members, as we have already noticed, grew only slightly less – Austria by 10 per cent, and the back marker, Greece, by just two per cent less. New members, this suggests, may have benefited more from joining the EC than existing members did from belonging to it, and the beneficial impact of joining the EU may be just that, a response to entry rather than a permanent advantage.

This suspicion is reinforced by the similar contrast between the three 1973 entrants and the six later entrants. Five of these six recorded a greater post-entry jump in FDI than the 1973 entrants collectively did over these same years. Why, one wonders, should the FDI of later entrants not only grow more than that of the founding members, but also more than that of those who joined shortly before them? In any event, it seems that an answer to the question about the FDI impact of joining the EU is not simultaneously an answer to the question about the enduring FDI benefits of membership of the EU.

To shed some light on the benefits of membership over time, we will review all four decades of UK membership alongside Denmark and Ireland, which joined at the same time.

Has membership been of lasting benefit?

When trying to identify the impact of EU membership on FDI over time, and measure the duration of its benefits, one tempting shortcut deserves a first shot: the correlation between the duration of a country's membership and its accumulated FDI stock. If membership of the EU had a significant, enduring, long-term impact on the FDI inflows of its members, then one might expect to see a positive correlation between the two. This correlation will, of course, overlook the fact that countries may have entered the EU with different FDI stock levels, and these may vary considerably.[2] It also of course ignores the many ways in which member countries differ that have nothing to do with EU membership.

Nonetheless, if membership has had a lasting impact on the FDI in member countries, then those that have benefited from them over a long period should now have higher stock than those who have enjoyed these benefits over a shorter period. In the event, the correlation between years of membership of 14 countries and the value of FDI stock in 2012 is low, $r = 0.216$, and without one founding member who is also the prime SPE suspect, Belgium, it drops to $r = 0.12$. Long-standing members who have enjoyed the benefits over a longer period have not, we may reasonably conclude, accumulated larger FDI stocks. It is worth adding, however, that the correlation is not negative, so we have no reason to think that FDI stock actually declines with the length of membership, though that does not disprove the idea that there is an initial surge in FDI flows after entry, since that might still be true, even without decisively affecting the total value of a country's FDI stock.

Table 3 reports the FDI inflows of the three 1973 entrants in their three pre-entry years followed by the four decades of their membership. The first half of the fourth decade is shown separately in the column on the right, so that we can judge, superficially at least, how the results of the fourth decade might have looked had they not been interrupted by the financial crisis starting in 2008. The record of the five independent countries over the first two decades is also given, but we are obliged, as before, to switch to just three independent countries over the third and fourth decades. Two of the countries dropped, Austria and Finland, generally had low levels of FDI prior to joining the EU, while the country added, Switzerland, had rather high inflows from the first year of its published data.[3] Otherwise, the format is the same as in Table 2 above, and the first post-entry decade therefore repeats the figures given there.

This table demonstrates, first of all, just how varied the experiences of the EU countries have been. There is no common or shared EU narrative, which only underlines the fact that FDI of member countries is affected by many factors other

Table 3
FDI inflows pre- and post-entry to the EU 1970–2012: Three 1973 entrants *vs* non-entrants in US$(1970)

	3 years pre-entry 1970–72	1st post-entry decade 1973–82		2nd post-entry decade 1983–92		3rd post-entry decade 1993–02		4th post-entry decade 2003–12		5 yrs pre-crisis 2003–7
	mean $ per cap p.a.	mean $ per cap p.a.	*per cent growth*	mean $ per cap p.a.	*per cent growth*	mean $ per cap p.a.	*per cent growth*	mean $ per cap p.a.	*per cent growth*	*per cent growth*
DK	25	16	−37	33	117	396	1188	98	−75	−66
Ire	9	34	260	45	32	593	1224	357	−40	−99
UK	26	50	95	83	65	184	123	292	59	115
5 or (3) in-deps	14	18	28	32	84	(205)	239	(364)	78	(84)

The five independent countries in the first two decades are Austria, Finland, Iceland, Norway and Sweden.
The three independent countries over the third and fourth decades are Iceland, Norway and Switzerland.
Source: UNCTADstat Foreign direct investment stocks and flows, annual, 1970–2012 http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/Tables&Indicators.html

than membership, and that a full understanding of their varying fortunes will only be possible alongside an analysis of the economic conditions in each country and of the specific incentives and attractions they have offered foreign investors at particular times. It also suggests, incidentally, that the EU-wide analyses of FDI, which scale down *pro rata* from the EU as a whole to make claims about individual countries, a common EC practice both on FDI and other variables, is both dangerous and foolish. The varying fortunes of the three countries vary so greatly that they have to be analysed individually, though here we only briefly indicate some of the points that seem worth further investigation.

Denmark

Whatever Denmark's disadvantages for foreign investors may have been in the first post-entry decade, they were evidently removed by the second, when the mean per capita inflows were more than double those of the first decade, and in the third were more than ten times the value of the second decade, in constant value US$(1970). Denmark, it will be recalled, contradicted the proposition that there is an initial surge of FDI for new entrants entry, and it is no more supportive of the suggestion that after the initial surge, the growth of FDI declines, unless we take the view that, for some reason, it experienced a belated post-entry surge in its second and third decades. The fourth, however, is another story. It experienced net disinvestment over two of these years, hence the low mean rate, and we may infer that foreign investments in Denmark were peculiarly sensitive to the financial crisis. It therefore cries out for further investigation by partner country and the industrial location of foreign investments, though in the present context we will turn deaf ears.

Ireland

Seen as a whole, Ireland's record is remarkable. In the pre-entry years it had by far the lowest per capita inflows, but by the fourth decade had the highest − of the EU members at least. However, it was not all plain sailing. The reason for the dip in the second decade is worthy of further investigation, alongside the spectacular increase in the third, when the per cent growth FDI in Ireland over the decade was more than five times that of the three independent countries and about ten times that of the UK. In the fourth decade there were four years of net disinvestment, three of them before the crisis (2004–6), hence the negative growth before the financial crisis, and the fourth in 2008. Even so, the mean rate remained above that of the UK, and since 2008 FDI has continued at a high rate. From 2009–2012, FDI flows per capita were not far short of six times those to the UK, indicating that FDI in Ireland was not of a kind, and not from countries, that were deeply affected by the crisis. FDI was largely responsible for its economic success over earlier decades, and may well rescue it from its present problems.

The key question is whether its FDI success story has anything whatever to do with its EU membership. Irish spokesmen usually say that it does, often enthusiastically, even fulsomely, but then it would hardly be politic to say publicly it is due to their rate of corporation tax, or other incentives Ireland offers, since other countries might imitate them, or compete with them, or worse still claim that this is not 'fair competition' or 'a level playing field' according to the principles of the Single Market. Other EU members might then seek, via the Council of Ministers or the European Court, to 'harmonise' the incentives offered to foreign investors, citing powers granted to the EC under Article 188 C of the Lisbon Treaty, which made FDI a part of 'the common commercial policy' of the Union.[4] Ireland's comparative advantage in FDI, the foundation of its recent economic development, might then come under serious threat.

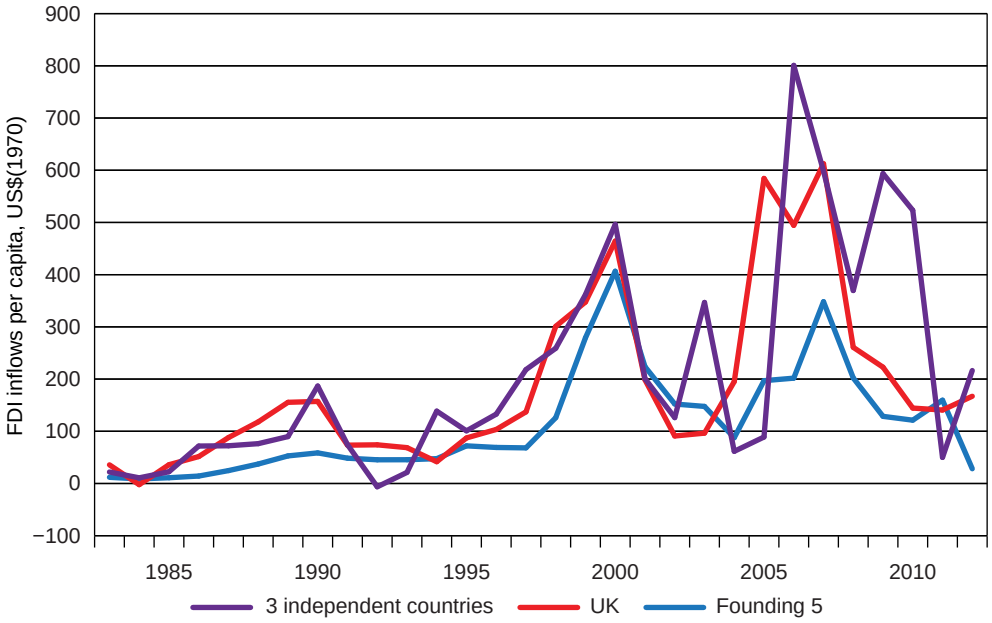
They have good reason, therefore, to give all the credit for their success to EU membership. The most, and perhaps the only thing, that can be said for this idea, is that the massive surge of FDI inflows did indeed come after EU entry. However, Ireland's subsequent FDI record differs so markedly from other EU members, as we will see in a moment, that it seems likely that national decisions affecting the incentives to foreign investment, especially in the second and third decades of membership, were much more important than EU membership *per se*.

UK

In the pre-entry years the UK had the highest mean per capita per annum rate of FDI inflow, which over the first post-entry decade increased more than that of the five independent countries. However over the next three decades, FDI inward flows to the UK increased by less than those of the independent countries, though not in the pre-crisis quinquennium.

Figure 3 below presents the raw data of FDI inflows, in 1970 US$, though the volatility, as well as the sharp increase in the overall value of FDI, rather obscures the trend.

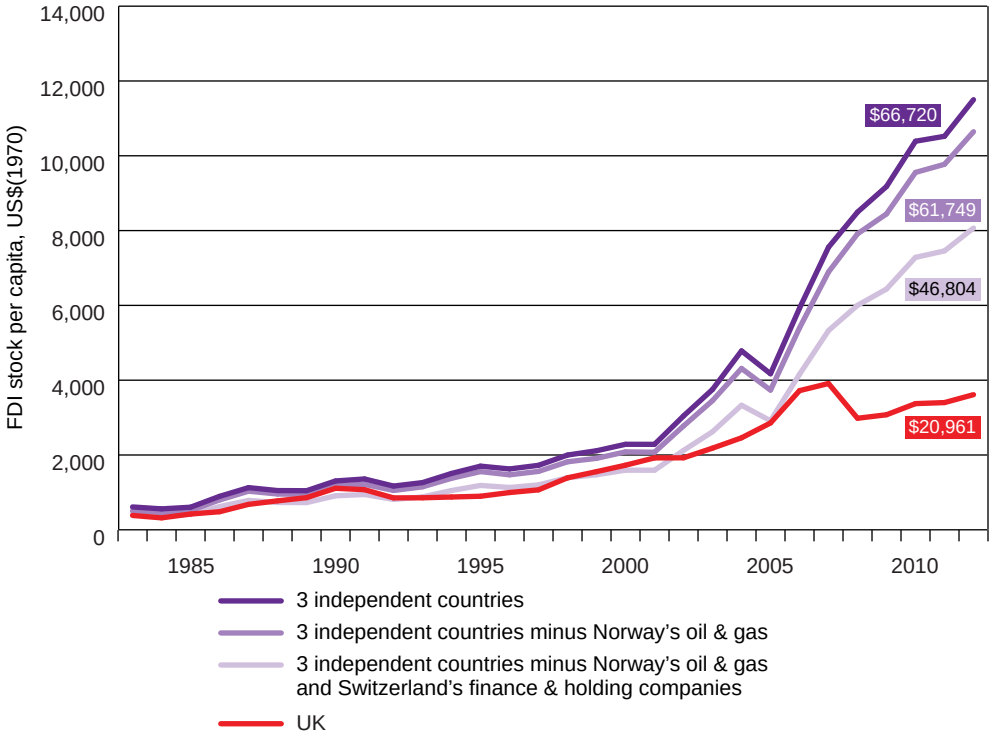
Figure 3
FDI inflows per capita 1983–2012 UK *vs* three independent European countries and five founder members of the EU in US$(1970)



The three independent countries are Norway, Switzerland and Iceland.
The five founding members are Belgium, France, Germany, Italy and the Netherlands. Luxembourg had to be omitted due to the lack of data.
Source: UNCTADstat Foreign direct investment stocks and flows, annual, 1970–2012: http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/Tables&Indicators.html

A pattern does, however, appear in the data on FDI stock, which UNCTAD began to publish in 1980, and for all three independent countries from 1983. Figure 4 below compares the per capita growth of FDI stock of the UK and of the three independent countries from that year, still in 1970 US$. The weighted mean of the three independent countries, in deep purple, shows they were growing marginally faster from 1983, but drew markedly ahead after 2001, and thereafter their FDI stock increased at a much more rapid rate, and continued to do so even through the financial crisis.

Figure 4
Growth of per capita FDI stock 1983–2012 UK compared with three independent European countries in US$(1970) with 2012 amount in current $



The three independent countries are Norway, Switzerland and Iceland.
Sources: UNCTADstat Foreign direct investment stocks and flows, annual, 1970–2012: http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/Tables&Indicators.html
OECDstat Dataset: Foreign direct investment: positions by industry, Reporting country Norway; WTO, Trade Policy Review: Switzerland and Liechtenstein, Table 1.4 Foreign direct investment, 2008–11, 23 April 2013: http://www.wto.org/english/thewto_e/countries_e/switzerland_e.htm
Iceland 1989–2012 Central Bank of Iceland's website: http://statistics.cb.is/en/data/set/

The second and third purple lines were added in response to the objection that the UK cannot fairly be compared with these three independent countries because of the 'fundamental economic differences between the UK and each of these countries', as the anonymous Treasury author quoted above put it, and in particular because Norway's large oil and gas industry, and Switzerland's financial services and pharmaceutical industries, would distort any comparison.

A brief word on how they were calculated is necessary. UNCTAD does not give an industry breakdown of the recipient industries of inward FDI flows or stock, but the OECD does identify industrial sectors into which the foreign investors put their money, from 1986 onwards. This shows that the mean percentage of all FDI inflows to Norway over the years 1986–2011 going to the oil and gas sector was 34.5 per

cent. This same proportion has therefore been subtracted from the mean of the FDI flows going to the three independent countries over all the years 1983–2012, and the lighter purple line shows the result when Norway's oil and gas is eliminated from the weighted mean of the three countries.[5]

The lightest purple line beneath it was calculated from WTO data. The OECD return is unfortunately not detailed enough to distinguish Switzerland's financial and pharmaceutical sectors. However, in its *Trade Policy Review for Switzerland* in April 2013, one of those it periodically publishes for every member country, the WTO happened to include a clear breakdown by industry of FDI inflows and stocks over the years 2008–2011. Over those years, 'Finance and Holding Companies' consistently constituted 29 per cent of all Swiss FDI inward stock.[6] Inflows to pharmaceuticals were too small to merit a separate category. However, if 29 per cent is subtracted from the growth of Swiss FDI stock over all the years 1983–2012, we can come close to eliminating the supposed distorting effects of Swiss financial services, and in all probability we are simultaneously eliminating all SPEs.

The lightest purple line on Figure 4 shows the weighted mean growth of FDI stock of the three countries without both Norway's oil and gas and Switzerland's financial services. The UK meanwhile is shown with FDI to both its oil and gas industries, and to its finance and holding companies, including any SPEs it may have. Some observers may, perhaps, find this a 'fair' comparison, but the difference is still substantial. The FDI stock of these three non-members has grown much faster than that of the UK over the life of the Single Market. In total value in 2012 it was more than double that of the UK: $46,804 versus $20,961.

Evidence of FDI in the UK over the first post-entry decade lent support to the view that it had been helped by entry to the EU because FDI inflows were higher than those to independent European countries over the same years. By the same reasoning, UK performance over the second, third and fourth post-entry decades indicates that whatever support EU membership may have given to FDI in the UK had declined or disappeared. While there is, therefore, evidence that entry to the EU may have helped FDI over its first post-entry decade, there is no evidence at all, either from FDI flows or from the growth of FDI stock, that membership of the EU has brought lasting benefits to FDI in the UK.

There are hints in the UNCTAD data of flows and stocks that this phenomenon of an initial post-entry surge of FDI followed by a decline to rates lower than those of independent countries is not peculiar to the UK. Table 4 extends the evidence on flows presented in Table 2 up to 2012.

Table 4
Growth of inward flows per capita to nine later entrants compared with five independent countries and five founding members; and comparing the most recent decade 2003–2012 with their first decades in US$(1970)

Increase in mean amount of annual inward flows			
	1. Post-entry decade *vs* pre-entry	2. Pre-crisis 2003–2007 *vs* 1993–2002	3. The decade 2003–2012 *vs* 1993–2002
Denmark	−37	−66	−75
Ireland	**260	−99	−40
UK	**95	**115	*59
3 Independents	64	84	78
Founding 5	7	32	9
Greece	*28	**112	**104
3 Independents	25	84	78
Founding 5	30	32	9
Portugal	**570	−14	*67
Spain	**299	−28	*39
3 Independents	66	84	78
Founding 5	217	32	9
Austria	*313	**147	**110
Finland	**601	−1	−29
Sweden	**468	−30	−29
3 Independents	208	84	78
Founding 5	323	32	9

The three independent countries are Norway, Iceland and Switzerland.
The five founding members are Belgium, France, Germany, Italy and the Netherlands. Luxembourg had to be omitted due to the lack of data.
Pre-entry years for Denmark, Ireland and the UK was based on 1970–1972 only, since UNCTAD data is only available from 1970. In all the others other six countries compare a decade pre and post entry.
The missing Swiss data 1970–1982 was estimated by assuming it was the same proportion of the three independent countries total as it was in following thirteen years i.e. nearly two thirds.
Source: UNCTADstat Foreign direct investment stocks and flows, annual, 1970–2012 http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/Tables&Indicators.html

It compares changes in the mean annual per capita amounts of inward FDI of nine later entrants with those of three independent countries and with five founding members over the same years. Column 1 gives the percentage difference between the pre-entry mean annual amount and that over the immediate post-entry decade. Column 2 compares the mean annual amount over the decade 1993–2002 with the quinquennium 2004–2007, stopping in that year so that we may see what was happening before the financial crisis which is widely thought to have disrupted FDI

flows. Column 3 shows the percentage difference between the decade 1993–2002 and the latest full decade for which we have data, 2003–2012.

In their first post-entry decade, eight of the nine later entrants recorded a larger increase in inward flows of FDI than the three independent countries. They are starred in red. In Column 2, comparing the mean annual amounts over the decade 1993–2002 with the five years before the financial crisis, only three are starred to show that their mean level of their inward FDI flows increased more than that of the independent countries. In Column 3, only two later entrants, Austria and Greece, are starred to indicate that its FDI flows increased more than independent countries. Hence it would appear that, immediately following EU entry, inward FDI flows to most later entrants increased sharply, but in more recent years, both before and after the financial crisis, FDI flows to most of them have grown more slowly. It seems unlikely therefore that the financial crisis could have been responsible for the slow down.

The FDI inward flows of later entrants also declined relative to the founding five members. Immediately after their EU entry, six of the later entrants, starred in green, recorded a larger increase in their mean annual inward FDI flows than founder members. Only three continued to do so over the five years before the financial crisis began. However, over the decade 2003–2012 as a whole, FDI flows to five of later entrants increased more than those to the five founder members, and since the inflows to the founder members are among the lowest across Europe, it would appear that they were amongst those most affected by the crisis.

This evidence is hardly conclusive, though it strongly suggests that that joining the EU brings immediate benefits for inward FDI but that these do not continue with membership of it. The benefits on joining can be demonstrated fairly convincingly, even if not every new member shared them. The benefits of continued membership have yet to be identified.

Measuring and comparing shifts in the means of highly volatile FDI flows over varying periods of time is, however, a tricky and high-risk undertaking, especially when one has to work with a control group whose membership changes over time. Comparing the growth of FDI stock is an altogether simpler task, and probably gives more reliable results. We can do this post-1980. Table 5 compares the FDI stock of the new entrants in the tenth year of their membership when some of them had reaped the benefits of joining, with their stock in 2012, as a proportion of that held by the group of three independent European countries. In eight out of nine cases that proportion has fallen, in most cases quite significantly.[7] Denmark is the only one of the nine where the proportion has increased, and therefore the only one starred.

Table 5
Value of FDI stock of nine EU later entrants after first ten years of EU membership *vs* 2012 as a proportion of weighted mean of three independent European countries measured in current value US$

Country and tenth year after entry	Per cent of stock of independent countries in tenth year	Per cent of stock of independent countries in 2012
Denmark 1982	36	*39
Ireland 1982	677	97
UK 1982	63	31
Greece 1990	14	5
Portugal 1995	29	16
Spain 1995	43	20
Austria 2004	38	28
Finland 2004	48	25
Sweden 2004	97	59

The three independent countries are Iceland, Switzerland, Norway.
Source: UNCTADstat Foreign direct investment stocks and flows, annual, 1970–2012 http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/Tables&Indicators.html

If FDI in independent countries consistently increases at a faster rate than in EU member countries, one has to wonder where the benefits of membership might be found. However, we will be looking again, and in more detail, at these years, alongside other EU members, when we examine the UK decision not to join the euro, and at the impact of the Single Market, and therefore have a second chance to find the enduring benefits of EU membership for FDI in the UK, if there are any.

2. Did declining to join the euro adversely affect FDI in the UK?

The euro was launched as a trading currency on 1 January 1999, though notes and coins did not come into circulation until 2002. As they did so, a cross-party political elite of the UK, including the then Prime Minister Tony Blair, launched a campaign for the UK to join the currency. The media gave the campaign, or at least the start of it, considerable coverage, though there was little indication of any popular enthusiasm for the idea. In the spring of 2002, according to Eurobarometer, the polling arm of the European Commission, 52 per cent of the UK population were against joining the euro and 32 per cent thought it 'a very bad thing', while 31 per cent were in favour.[1]

Journalists of the pro-EU press did their best to discredit those who questioned the wisdom of the proposal. Andrew Rawnsley in *The Observer* described them as a 'menagerie of has-beens, never-have-beens and loony tunes'. David Aaaronovitch in *The Independent* referred to the 'assorted maniacs, buffoons, empire-nostalgists, colonial press tycoons, Save The Groat anoraks and Yorkshire separatists of the Europhobe movement'. Hugo Young in *The Guardian* had a seemingly endless string of bizarre terms to describe those who spoke out against the euro. They were 'men of intellectual violence', consumed by 'last-ditch extremism'. They stoked 'the phobic fire and sceptic propaganda', and their anti-Europeanism had an 'insidious potency', even though they 'were weighed down by the baggage of phobia, sentiment and illusion'.[2]

Unfortunately, these columnists were rather short of evidence either about the people or about the issue. In any event, the 'loony tunes' and 'buffoons' and 'last ditch extremists' etc. seem to have had little to do with the failure of the campaign. It is usually thought to have been scuppered by the Chancellor, Gordon Brown, who did not share the enthusiasm of the Prime Minister for the euro. In 1997 he had devised five tests which the convergence of the UK economy with that of the eurozone had to pass before he would contemplate agreeing to UK entry. The very idea that the euro cause would henceforth have to withstand close and continuous scrutiny and empirical verification, and could no longer rest on faith, bright hopes and promises, seems to have dampened the enthusiasm of its supporters. In the thorough reassessment of 2003, the five tests were still not passed, and thereafter the campaign to join fizzled out and lapsed from public awareness.[3]

This search is solely concerned with discovering whether, as many euro enthusiasts warned, the decision not to join the new currency had adverse effect on FDI in the UK. It does not try to discover whether that decision was right or wrong. Some of the

evidence we will consider was available at the time to those who favoured joining the new currency, but most was not, so we will, of course, have the advantage of hindsight.

The warning from the big business lobby

Britain in Europe, a pressure group financed by a number of large UK and foreign multi-national corporations, did at least commission some research to support their case for joining, for which we should be grateful. Huhne and Canning, the authors of their report, claimed, as mentioned earlier, that 'foreign investors want to serve the European market free of the risk of exchange rate movements', and that by failing to join the euro when it began, the amount of 'foreign investment (in the UK) has declined fairly dramatically' and is 'destined to decline still further'.[4]

They added a number of quotes and anecdotes to convey the impression of official and multinational consensus on the issue. The Invest in Britain Bureau, a government agency, had, they said, warned that further investment in the UK carries an unnecessary risk of 'meltdown', a view that Huhne and Canning thought their research has 'proved justified'. They cited the UK ambassador to Japan who had referred to 'a generalised perception' that he had from his informants that 'until the UK is clearly on track to join the single currency further investment in the UK carries unnecessary risk'. They mentioned that Massey Ferguson, a Canadian multinational, had switched production from Coventry to Beauvais, and identified Komatsu and BASF as examples of foreign multinationals that had held back on new investment in the UK, and were even contemplating moving out of the UK, because Britain had not joined the euro.

The statistical evidence which they mustered to support their argument was reproduced in a second publication by Britain in Europe, under the names of several well-known British and American economists and commentators. However, this bears all the signs of an intellectual celebrity endorsement, intended to convey the impression that informed people are pretty much agreed that entering the euro is a good thing rather than of independent research which arrived at the same conclusions. It adds nothing by way of insight, evidence or argument to Huhne and Canning, so we will confine our attention to their work.[5]

They presented two kinds of evidence. The first referred to a fall in the UK *share* of FDI in the EU, which they claimed had declined since the launch of the euro, and the second to a decline in *value* of the inward flow of FDI in the UK up to 2001, both of which they claimed were a consequence of Britain's refusal to join the new currency.

The post-euro fall in the UK share of FDI flows to the EU

To support their argument that 'Britain's share of foreign investment has fallen sharply while we have stayed out of the euro', they cited four sources, making the same point with slightly different percentages, slightly different years and slightly different sets of countries.[6] Ernst & Young's *European Investment Monitor* had, they said, reported that 'Britain's share of new European foreign investment projects has fallen from 28 per cent in 1998 to 19 per cent in 2001', and of 'new EU projects' from 36 per cent to 25 per cent in 2001, while the Economist Intelligence Unit found that the UK's 28 per cent share of FDI in Europe in 1997 had fallen by percentage points in each of the following years, and had predicted that it would continue to decline to 21 per cent in 2001.[7] They also quoted an OECD press release stating that the UK share had fallen from 28 per cent in 1998 to 17 per cent in 2001, and the *UN World Investment Report* to the effect that it had fallen from 27 per cent in 1998 to 16 per cent in 2000.

Of necessity, at the time they were writing, which was apparently in 2001–2, Huhne and Canning had to depend on such miscellaneous up-to-the-minute sources, and could base their argument on only two years of post-euro data. They were perhaps a little unlucky, since when UNCTAD and OECD figures finally appeared, they both supported their argument rather more strongly than those they were able to cite, and agreed that the UK share of FDI inflows in Europe fell from 31 per cent in 1998 to 19 per cent in 2001. However, we now have nine years pre- and of post-euro evidence from OECD, and thirteen years from UNCTAD, and these can be compared with thirteen pre-euro years. Hence we can see how well the Britain in Europe argument stands up over these longer timespans.

In so doing, we will be comparing the *means* over the years before and after the euro launch in contrast to the Britain in Europe team who compared only the first and last years of the periods they were discussing. Since FDI flows are highly volatile, comparing the FDI flows only the first and last year of a period of FDI flows is a high risk, rather reckless, method of analysis.

In the first instance, we will look back at nine pre-euro years, using the OECD database which allows us to go back only to 1990. Over the nine pre-euro years, 1990–1998, the mean UK share of all FDI to the EU 13 was 26.18 per cent.[8] Over the nine post-euro years 1999–2011, it was 26.41 per cent. Hence, over the nine years after it declined to join the euro, the UK share edged slightly *higher* than it had been in the pre-euro years. UNCTAD reports a slightly larger fractional increase over these same years, from a mean UK share of 24.49 per cent over the nine years

before the launch 1990–1998, to 25.34 per cent over the nine years following it. Anyone who wanted to make the case that the euro had no effect on the UK share of FDI in the EU would be best advised to stop after nine years' experience of the new currency.

But we won't, because the UNCTAD database allows us to compare thirteen pre-euro years with the thirteen post-euro years. When we do this, the mean UK share falls from 29 per cent over the thirteen pre-euro years to 26 per cent over the thirteen post-euro years, as shown by UNCTAD 2 in the last row of Table 6, which gives all the measures mentioned thus far.

Table 6
UK share of inward FDI flows into EU countries before & and after launch of the euro in 1999

Citations	Pre/post time span	Pre-euro	Post-euro
Percentages quoted by Britain in Europe 2001[a]			
Ernst & Young, all FDI projects in Europe	1998 *vs* 2001	28	19
Ernst & Young, all EU projects	1998 *vs* 2001	36	25
Economist Intelligence Unit	1997 *vs* 2001	28	22
OECD press release	1998 *vs* 2001	28	17
UNCTAD World Investment Report*	1998 *vs* 2001	27	16
Percentages from OECD & UNCTAD databases 2013[b]			
OECD single years	1998 *vs* 2001	31	19
UNCTAD single years	1998 *vs* 2001	31	19
OECD nine years	mean 1990–1998 *vs* mean 1999–2007	26	26
UNCTAD 1 nine years	mean 1990–1998 *vs* mean 1999–2007	25	25
UNCTAD 2 thirteen years	mean 1986–1998 *vs* mean 1999–2011	29	26

a. Huhne & Canning, op.cit
b. UNCTAD, UNCTADstat Inward and outward foreign direct investment flows, annual, 1970–2012
Source: OECDilibrary Dataset: Foreign direct investment: main aggregates inflows 1990–2011 oecd-ilibrary.org/finance-and-investment/data/oecd-international-direct-investment-statistics_idi-data-en

Overall, this evidence confirms that it was unwise of the Britain in Europe team to jump to conclusions on the basis of comparisons of FDI inward flows in particular years over a short period of time. While all their figures indicated large falls in the UK share, the longer term figures from the two databases indicate that the UK share held constant after nine years, and while there was to be sure a fall after thirteen, it was not on the scale they suggested.

FDI inward flows fluctuate, and whether or not one discovers a rise or a fall depends on where you start and where you finish. If, for instance, Britain in Europe had compared the FDI inflow to the UK between 1997 and 2000 to show the impact of

staying out of the euro, rather than 1997 and 2001, they would have been obliged to report a ‘dramatic’ increase of FDI inflow to the UK of more than 350 per cent, from $33.2bn to $118.8bn, and then perhaps they would have written about how the UK decision to remain outside had been triumphantly vindicated. Or perhaps not. The point holds.

For what it is worth, at the time of writing, UNCTAD reports for 2012 were published. They showed the UK share of FDI inflows in the EU15 for the year had jumped to 32.2 per cent, while OECD made it exactly 30 per cent, both comfortably above their respective means for the UK over the pre-euro years.[9]

Shares of FDI inflows to Europe pre- and post-euro: winners and losers

Instead of discussing the UK share of FDI inflows to the EU or Europe in isolation, we may better assess the UK performance by examining its per capita shares alongside that of every other European country for which there is adequate evidence over the thirteen years before and after the launch of the euro. We may then identify the countries that have increased their share, and might therefore be said to have benefited from the new currency, and perhaps even identify those that have gained at the expense of the UK.

For this comparison, the 11 eurozone countries for which we have complete data may be compared with a reasonable control group of six non-euro countries (three inside and three outside the EU). However, for this comparison it seemed sensible, on grounds mentioned earlier, to eliminate Belgium and Iceland.[10]

We are therefore left with ten countries to represent the eurozone, and five non-euro countries. Table 7 presents the shares of the FDI inflows to all 15 countries as percentages of the total value in the thirteen years before and after the launch of the euro (columns 1 and 2). Column 3 gives the percentage of the total EU population of each the 15 countries in 1999, and Column 4 provides a simple index of the over- and under-performers in FDI by dividing the post-euro mean share of the total value in column 2 by the share of the total population in 1999 (column 3). If a country’s percentage share of the former is greater than its percentage share of the latter, it is an over-performer, and if less it is an under-performer. Expressed as a ratio in column 4, over-performers score more than 1, and are shaded orange, and under-performers less than 1.

If we first consider the eurozone collectively, we may see that the ten eurozone countries have marginally increased their share of the total value of inward FDI flows

Table 7
Shares of the total value of inward flows of FDI to 15 European countries Eurozone *vs* non-euro countries 1986–2011

	Mean per cent share of total value		3. Per cent share population of the 15 in 1999	4. Over and under performers: ratio value col 2/population col 3
	1. Pre-euro 1986–1998	2. Post-euro 1999–2011		
Austria	1.9	2.2	2.2	1
Finland	2.1	1.3	1.4	0.9
France	18.3	14.9	15.6	1.0
Germany	6.9	13.7	21.8	0.6
Greece	1.1	0.5	2.9	0.2
Ireland	2.1	3.5	1.0	**3.5**
Italy	3.6	4.8	15.2	0.3
Netherlands	11.5	9.0	4.2	**2.1**
Portugal	1.7	1.5	2.7	0.8
Spain	10.1	9.6	10.6	0.9
Eurozone total	**59.2**	**60.1**	**77.5**	**0.8**
Denmark	2.6	1.9	1.4	**1.4**
Sweden	7.0	5.3	2.4	**2.2**
UK	25.9	24.9	15.6	**1.6**
Norway	2.0	2.4	1.2	**2**
Switzerland	3.3	4.6	1.9	**2.6**
Non-euro total	**40.8**	**39.0**	**22.5***	**1.7**

* There has been remarkably little change in this proportion over the 26 years. In 1986, it was 23.6 per cent and 2011 it was 22.5 per cent.
Source: UNCTADstat Inward and outward foreign direct investment flows, annual, 1970–2011 in US$ at current prices and current exchange rates in millions.

since the launch of the euro, from 59.2 per cent to 60.1 per cent. The share of the non-euro countries has correspondingly declined, by equally marginal percentages.

Euro enthusiasts might perhaps feel inclined to claim that this increased share, though small, demonstrates the benefits, and future prospects, of the euro. However, given that the eurozone is more than three quarters (77.5 per cent) of the total population of these 15 countries, this increase is only a rather modest step towards catching up with the non-euro countries. As the ratio of 0.8 between the eurozone's per capita and real population shares indicates, the eurozone is, as a whole, a long-term under-performer. Both of its over-performers are, moreover, suspected of having a high proportion of SPEs hidden within their inward flows of FDI, but we will let that pass. To have increased their share in the total value of inward FDI by 0.9 per cent over thirteen years can hardly be considered a stunning success. At this rate of increase, it will be quite some time before they equal the non-euro countries.

Within the eurozone, four countries have increased their share in the total value of inward flows of FDI: Germany by 6.8 per cent, Ireland by 1.4 per cent, Italy by 1.2 per cent and Austria by 0.3 per cent. Germany, with its exceptionally low starting point, has made the largest post-euro FDI gains, having very nearly doubled its share over the thirteen years.[11]

Ireland is far and away the highest over-performer in the eurozone, with the value of its FDI inflows more than 3.5 times greater than its population would lead one to expect. The other over-performer is the Netherlands. Austria and France's shares are almost exactly proportionate to the size of their populations, while in descending order, Finland, Spain, Portugal, Germany and Greece are all under-performers. Germany may have been catching up fast with its partner countries, and increasing its share at their expense, but it remains, as yet, an under-performer, not surprisingly perhaps, since reunification combined the historically low performer of West Germany with a non-performer, East Germany.

Among the non-euro countries, the two independent, non-EU members have been the only post-euro beneficiaries, while the three EU countries, Denmark, Sweden and the UK, have all lost ground, albeit by small amounts. In total value the UK share has fallen by one percentage point, though it remains, by some distance, the largest recipient of FDI in total value of all these 15 countries.[12] However, measuring again by the ratio of FDI share to real population share, the non-euro countries, whether inside or outside the EU, are all over-performers. Switzerland is followed by Sweden, then by Norway, the UK and Denmark.

Since both euro and non-euro countries are to be found with rising and falling shares of inward FDI, this evidence offers little support to the Britain in Europe argument that declining to join the euro adversely affected FDI in the UK. If anything, it suggests that the euro has not been a decisive determinant of the inward flows of FDI to these 15 European countries over the 13 post-euro years.

Shares of FDI stock in Europe pre- and post-euro: winners and losers

When measuring FDI inflows over time, even the means of inflows over several years, one has to be prepared for sudden, sharp fluctuations, which prompt one to be cautious when drawing conclusions from the data. One may, however, get some reassurance from the evidence of the inward FDI stock held, and from its growth over time. Since it records the inward FDI accumulated over time, it is necessarily a less erratic figure than FDI inflows, and might therefore be expected to provide a more reliable measure of the attractiveness of countries to foreign investors.

Table 8
Shares of inward FDI stock held in 15 European countries, 1986–2011, eurozone compared with non-euro countries

	Mean per cent share of total value		3. Per cent share population of the 15 in 1999	4. Over- and under-performers: ratio value col 2/population col 3
	1. Pre-euro 1986–1998	2. Post-euro 1999–2011		
Austria	1.8	2.4	2.2	**1.1**
Finland	1.9	1.3	1.4	0.9
France	17.9	14.5	15.6	0.9
Germany	7.0	14.1	21.8	0.6
Greece	1.0	0.5	2.9	0.2
Ireland	1.9	2.8	1.0	**2.8**
Italy	4.2	5.3	15.2	0.3
Netherlands	11.2	9.6	4.2	**2.3**
Portugal	1.9	1.3	2.7	0.7
Spain	10.6	9.7	10.6	0.9
Eurozone total	**59.3**	**61.6**	**77.5**	**0.8**
Denmark	2.4	2.2	2.4	0.9
Sweden	6.4	5.4	1.4	**3.9**
UK	26.6	24.6	15.6	**1.6**
Norway	1.9	1.9	1.2	**1.6**
Switzerland	3.4	4.3	1.9	**2.3**
Non-euro total	**40.7**	**38.4**	**22.5**	**1.7**

Source: UNCTADstat Inward and outward foreign direct investment stock, annual, 1980–2011
In US$ at current prices and current exchange rates per capita

In Table 8, the shares of inward FDI stock held by the same 15 countries are compared over the 13 years before the launch of the euro with the 13 years after it. Despite expectations, it does not reveal many startling discrepancies with the mean inward FDI flows given in Table 7.

If we first consider the percentage shares of the total value of the FDI stock held in each country (columns 1 and 2), we may see that the ten eurozone countries have again increased their share, this time from 59.3 per cent to 61.6 per cent, over the thirteen post-euro years, a gain of 2.3 per cent, which is more than double the 0.9 per cent increase in their share of the total value of annual flows.

This is another, much more significant, point for the euro cause, though again one must add that, since the eurozone is 77.5 per cent of the total population of the 15 countries, and has only 61.6 per cent of the total FDI stock, it can hardly be considered a convincing demonstration of the benefits of the single currency. It might make a case for the euro, if we assume the benefit for foreign investors of having

a common currency accumulates over time, and that the eurozone has temporarily been more affected by the euro crisis than the non-euro countries, both of which are not unreasonable assumptions. We might then take this 2.3 per cent gain as an indication of promising future prospects.

Within the eurozone, the big winner, by FDI stock value, was once again Germany, more than doubling its share of the 15 countries' FDI stock since the launch of the new currency. Ireland, Italy and Austria again followed with more modest gains. The shares of the other six eurozone countries have all fallen, with France once again standing out as the big loser, with a fall of 3.4 per cent, coincidentally exactly the same as its fall in its share of inflows. It is again followed by the Netherlands, with a fall of 1.6 per cent.

Of the non-euro countries, it is the two independent countries that have come off best in terms of the share of total post-euro value of FDI stock, though this isn't saying much. Norway's share remained the same, while Switzerland increased its share by 0.9 per cent. However, the share of the three non-euro countries in the EU declined, the UK's most of all, by two per cent, double the one per cent fall in its share of FDI inflows.

Overall, it may be seen that only three of the ten euro countries emerge as over-performers, while four of the five non-euro countries do so.

The main finding to take from these comparisons must be that there have been winners and losers, both inside and outside the euro. Six of the ten eurozone countries have seen their share of the total value of FDI inflows to these 15 countries fall over thirteen post-euro years, most notably France, while four have seen their share grow, most notably Germany. And the same six have seen their share of the total stock fall, France again being the biggest loser, and Germany again the biggest winner.

Of the five non-eurozone countries, the three EU members have all seen their share of the total inflows, and of the total stock, fall, while the two non-EU members have fared best, both increasing their shares of the total inflows, Norway holding its share of the total stock, while that of Switzerland has increased.

Once again, it seems reasonable to conclude that the adoption of the euro does not appear to have been a decisive determinant of the FDI. The under-performance of the eurozone countries relative to their non-euro neighbours has not changed significantly. Indeed, two eurozone countries, Finland and France, who were over-

performers prior to the new currency, have become under-performers in the thirteen years since. The non-euro countries have meanwhile maintained their appeal to foreign investors. They were all over-performers before the euro, and with the marginal exception of Denmark have remained so.

Growth of FDI inflows to Europe pre- and post-euro

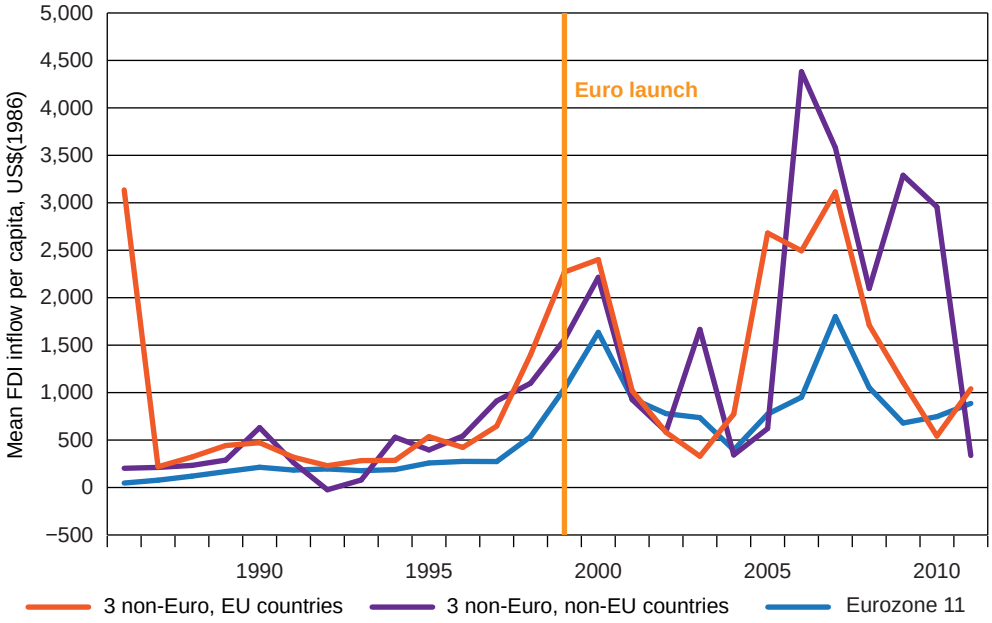
Huhne and Canning's evidence was not, however, confined to relative shares of FDI. They had still more startling contrasts to cheer their multinational sponsors about the overall *growth* of FDI in the eurozone, and about decline outside it. They meant growth of inflows, so we are back in dangerous territory.

They referred to 'official European Commission figures', unfortunately without further identifying their source, which they said, showed 'a dramatic 384 per cent increase in the value of foreign investment in the eurozone in the first two years of the euro', while 'over the same period the increase in FDI into Britain, Sweden and Denmark − non-euro area countries − was an eighth as much'. They illustrated these figures with a graph, sourced only to 'European Commission', tracing total amounts of FDI going to the euro area and the non-euro area running roughly alongside one another from 1996 to 1999 and parting at a something like a right angle from 1999 to 2000. Graphs are seldom so emphatic.

Thus far, I have failed to find the 384 per cent or, for that matter, the 'European Commission' graph, a press release I assume, but the direction of the changes they report for the two post-euro years is confirmed by the UNCTAD data. In 1999, the FDI inflow to 11 eurozone countries was $316.7bn and in the following year $498.2bn, a substantial increase of 57 per cent. Over the same two years the inflow to the non-euro three − Denmark, Sweden and the UK − also rose, but only from $165.9bn to $175.0bn, an increase of just six per cent, which might be the 'eighth as much' they referred to, and might even be an understatement, 57 per cent versus six per cent. However, although the evidence is in the right direction, it is once again so incomplete that it conveys a wholly misleading impression. When the data is presented alongside other countries, and over an extended time period, as it is in Figure 5, the euro's 'dramatic' success vanishes.

The graph does indeed show the post-euro ascent of the 11 eurozone countries which so impressed Huhne and Canning, and that FDI flows to them climbed rather more rapidly immediately after the launch of the euro than those to any of the non-euro countries, though the graph cannot convey this clearly. However, since they began from a much lower starting point than the non-euro countries, and had been growing at a lower rate over the preceding thirteen years, it hardly rates as the

Figure 5
Inward flows of FDI before & after the euro in the eurozone compared with six non-euro countries weighted means in US$(1986) per capita



The three non-euro EU countries are Denmark, Sweden and the UK.
The three non-euro non-EU countries are Iceland, Norway and Switzerland.
The Eurozone 11 are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Spain and Portugal.
Source: UNCTADstat Inward and outward foreign direct investment flows, annual, 1970–2011.

astonishing achievement that Huhne and Canning proclaimed. Moreover, the post-euro bounce of the three non-EU countries of 43 per cent, from $18.6b in 1999 to $26.5b in 2000, was not that far short of the eurozone's 57 per cent increase. Even the UK, measured on its own, enjoyed something of a post-euro bounce of 35 per cent from 1999 to 2000, or 37 per cent, according to the OECD.

After 2001, the inward FDI flows to all countries declined, euro and non-euro alike, with the euro offering no special protection or, it seems, having any added appeal to foreign investors. As one can see, over most of the thirteen post-euro years, FDI inflows to the euro countries have generally been lower than those to the non-euro countries. The eurozone 11 did not again approach the surge of 2000, when they hit $1,635 per capita, until 2007 when they reached $1,801 per capita (and $571bn in total value), but this recovery is rather modest when compared to the surges in all the non-euro countries, both within and outside the EU.

In the wake of the financial crisis starting in 2008, all the EU countries, both euro and non-euro countries, slumped. The three independent countries did not, at least till 2011, when they experienced a still more precipitous decline than the EU countries.

According to UNCTAD, their decline seems to be largely due to Switzerland, where the inflows turned negative, leading one to suspect that both the rise in 2009 and 2010, and the sudden fall in 2011 had more to do with SPEs, and the strength of the Swiss franc, than with authentic FDI. This is one occasion when there are large differences with OECD's record of the years 2010–2011, which show much less of a decline, but since nothing much hinges on the difference we will let it pass.[13]

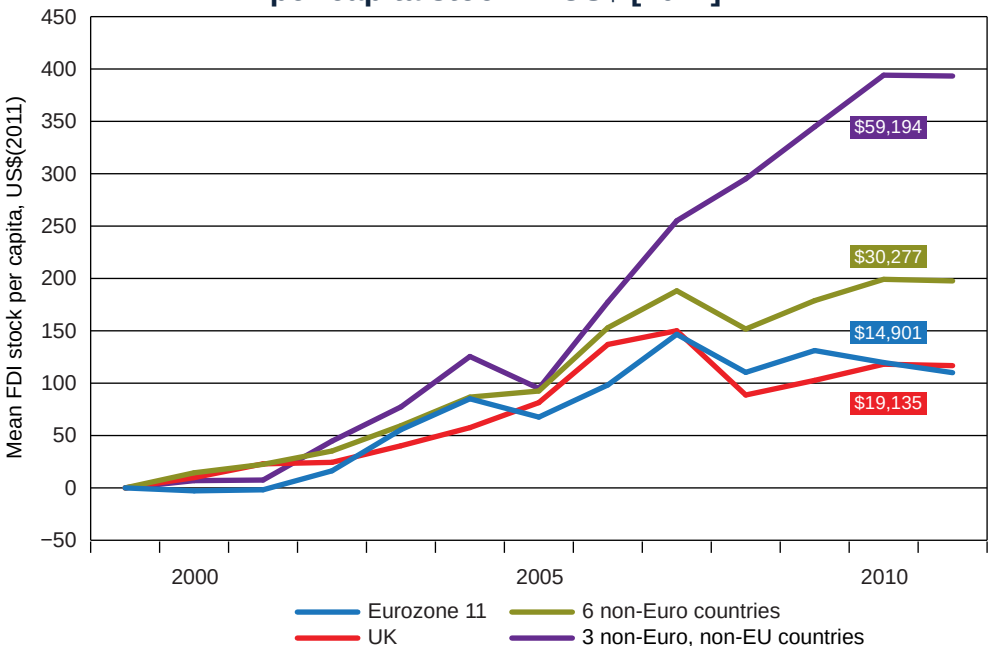
Overall, this evidence does not support the view that the euro has helped the growth of inward FDI flows in its member countries, nor does it suggest that they have been particularly attractive to foreign investors when compared with independent European countries with their own currencies. However, we still have to examine the growth of inward FDI stock, which, as noted earlier, would appear to provide a more reliable indication of a significant shift in the appeal of a country to foreign investors.

Growth of FDI stock in Europe pre- and post-euro

In the graph below, the real growth of the inward FDI stock of the EU and the UK over the years 1999–2011 is portrayed alongside that of six other European countries that are not members of the euro (Switzerland, Norway, Iceland, Sweden, Denmark and

Figure 6

Growth of FDI stock in Europe since the launch of the euro, 1999–2011 weighted means in US$(1986) per capita with 2011 per capita stock in US$ [2011]



The Eurozone 11 are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Spain and Portugal
The six non-euro countries are Iceland, Norway, Switzerland, Denmark, Sweden and the UK.
The three non-euro non-EU countries are, Iceland,Norway and Switzerland.
Source: UNCTAD http://unctadstat.unctad.org Inward FDI stock, annual 1980–2011

the UK), with the three of these that are members neither of the euro nor of the EU also given separately.

By some margin, these three independent European countries have been the most successful group of the three, with growth in real terms of inward FDI stock over these 13 years of nearly 400 per cent. Seen as a whole, the six non-euro countries, including the three non-EU members, appear to have been the reasonably successful, with real growth of nearly 200 per cent over these 13 years. However, their mean growth has obviously been lifted by the inclusion of the three independent European countries. We will separate them out in a moment.

By comparison with these two groups of countries, the UK, on its own has performed rather poorly, with growth of only 117 per cent, though the eurozone 11 have done no

Table 9

Growth of inward FDI stock per capita in Europe before and after launch of the euro in 1999 measured in constant US$(1986) and listed in order of growth over the post-euro years

	1. Pre-euro per cent growth 1986–1998	2. Post-euro per cent growth 1999–2011	3. FDI per capita 1986 in US$(1986)	4. FDI per capita 2011 in US$(1986)	5. FDI per capita 2011 in US$(2011)
Eurozone					
Austria	201	346	659	8610	17686
Belgium	330	272	2780	43362	89067
Spain	512	222	348	13659	13659
Finland	528	222	341	15407	15407
Portugal	351	189	437	4966	10200
Germany	166	125	634	4229	8687
Netherlands	206	115	2294	17208	35347
Italy	186	112	450	2264	5472
Ireland	9	105	10342	26192	53799
Greece	−11	23	910	1173	2409
France	549	11	780	7204	14799
Weighted mean	**352**	**110**	**861**	**7162**	**14901**
Non-euro countries					
Iceland	240	1735	327	20693	42505
Switzerland	137	427	2853	36709	75401
Norway	90	292	2032	16956	34828
Sweden	439	221	718	17455	35854
Denmark	404	127	898	13353	27428
UK	**187**	**117**	**1342**	**9315**	**19135**
Weighted mean	**207**	**198**	**1404**	**13205**	**30277**

Source: UNCTAD http://unctadstat.unctad.org Inward FDI stock, annual 1980–2011

better, with a mean post-euro growth of 110 per cent. However, the mean rate hides considerable variations within each group, as may be seen from Table 9.

At first glance, the UK entry on this table might seem to add some support to the Britain in Europe argument, since it shows UK pre-euro growth of FDI stock of 187 per cent while post-euro has been only 117 per cent. Add this to the decline in the UK share of FDI flows and stocks, and one might just about string together a narrative of the UK's post-euro decline, paying the price for not joining the euro etc. − as long as no other countries, either euro or non-euro, are included in it.

Once they are included, it falls apart, since there are plenty of other countries with declining post-euro growth. The weighted means of the Eurozone 11 shows that their growth over the thirteen post-euro years has been less than a third of that in the pre-euro years. Only three euro countries − Austria, Ireland and Greece − have seen an increased growth in inward FDI stock since the introduction of the euro. For six of the other eight, the decline in post-euro growth was greater than that of the UK, most especially France, with 549 per cent pre-euro FDI growth to a mere 11 per cent post-euro, though this is partly the luck of the draw or the vagaries of the start and end dates. French stock surged to a peak in 1998 and 1999 and then fell away, and as a result had high growth pre-euro, and very low growth post-euro.[14] In the light of all these figures, the narrative that FDI in the UK declined because it did not join the euro seems a little threadbare. Despite the luck of the draw, a French version, *mutatis mutandis*, would be much more convincing.

The non-euro countries are more evenly split. In the three EU members that elected to keep their own currencies, growth also declined, while in the three independent countries there was rather spectacular post-euro growth, and the overall growth pre- and post-euro of all six together is almost the same, 207 per cent versus 198 per cent. However, it is perhaps the bottom lines of each section of the table, the weighted means of the two groups, that provide the startling, even devastating, contrast. The amounts in US$(1986), both at the start and end of the period in columns 4 & 5, show that the six non-euro countries have been nearly twice as attractive to foreign investors as these 11 euro countries over the life of the euro.[15] The actual amounts of FDI stock held in 2011 confirm this conclusion: foreign investors invested $14,901 in every inhabitant of the eurozone versus $30,277 in every inhabitant of the six non-euro countries.

The UK's performance may have been lacklustre but, since many eurozone countries were no better, it would be difficult to argue that it suffered by declining to join them in the euro, while others who did not join the euro or the EU did very much better.

How to tell the truth and mislead the reader

We will conclude this discussion of the euro by showing how the Britain in Europe arguments contained elements of truth but, since their evidence only covered a short period of time, relied rather recklessly on volatile FDI flow data, and omitted relevant comparative evidence, it ended by conveying a wholly misleading impression.[16]

On the UK's declining share of FDI post-euro

There *was* a decline in the UK share of FDI inflows to the EU. By comparing just one year with another, Huhne and Canning could report falls in the UK share of FDI flows in Europe of 9, 11, 6, 11 and 11 percentage points (Table 6). If, by contrast, the UK share is compared over nine years before and after the euro launch, it may be seen to have remained unchanged (Table 6), while if comparisons are over thirteen years before and after, it may be seen to have fallen by three per cent (Table 6) or by one per cent (Table 7). Meanwhile, the UK share of European FDI stock may be seen to have fallen by two per cent, (Table 8). All of these falls were, in short, far smaller than Britain in Europe claimed.

On the UK's declining FDI inflow post-euro

There *was* a fall in the value of the flow of inward FDI to the UK after the launch of the euro, though they did not mention that it was preceded by a brief, modest jump immediately after the launch, and that the subsequent decline was accompanied by a similar decline in every European country, whether in the euro or not (Figure 5).

The argument of Britain in Europe was also further flawed by its repeated reliance on *post hoc ergo propter hoc* arguments, the assumption that every variation in FDI flows that followed the euro must have been due to the euro. By this reasoning, the data shows that France was its main victim and ill-advised to join it. However, the main defect in their argument was the lack of adequate historical and cross-societal comparative evidence, much if not all of which indicates that most of the changes in FDI flows and stocks that followed the euro were unlikely to have been due to the new currency.

3. Has the Single Market attracted FDI to the UK ?

The final step of this investigation is to discover whether two decades of membership of the Single Market has had a beneficial impact on FDI in the UK and in other member countries. Almost everyone, it seems safe to say, thinks that it has. It is a matter of common sense, or self-evident in Sir John Major's view, that foreign investors must have been keen to take advantage of 'the world's largest single market'. Even confirmed eurosceptics have been convinced, and therefore often make an exception of the benefits of the Single Market in their criticisms of the EU. Like everyone else, they therefore feel that no evidence is required to demonstrate such an obvious, universally-agreed point, but we will examine the evidence anyway, however unnecessary it may seem.

A revived pro-EU business lobby gives a different warning

After the collapse of the euro campaign, Business in Europe went on for a while to campaign for the new EU constitution, but losing further heart, when that was rejected by French and Dutch voters in 2005, it folded.[1] However, in the following year, one of its board members, Roland Rudd, a PR consultant, launched Business for New Europe, which has resumed the fight on behalf of many British and foreign multinationals for continued UK membership of the EU.

The grounds for doing so are rather different from those of its predecessor, indeed almost the exact opposite. The necessity for a stable exchange rate and warnings about the 'meltdown' of inward FDI have been forgotten, and it now argues that the UK's high rate of inward FDI, like its large volume of trade with the EU, are the *result* of EU membership, and that continued EU membership is therefore 'indispensable' to the UK. Hence, the argument of its predecessor has been turned upside down, and instead of examining the decline and imminent meltdown of FDI in the UK, because of the decision to stay out of the euro, we will now have to examine the remarkable success of FDI in the UK, and try to determine whether this has been due to membership of the EU. Has the business lobby, one wonders, got it right this time around?

To support their argument, they commissioned a body of research from Oxford Economics. This documents the substantial trade, investments, emigration and tourist flows between the UK and the rest of EU, all of which they argue have been to the benefit to the UK. It seems to be an exemplary piece of research. Unfortunately it is all beside the point, or at least beside Business for New Europe's point.

What has to be demonstrated to make the case for EU membership is not that there

is a high volume of trade with other members of the EU. There cannot now be any doubt whatever that all countries, everywhere on the planet, trade disproportionately with their close neighbours.[2] The evidence assembled by Oxford Economics therefore only confirms that the UK follows the general rule and, like every country in the world, trades a lot with its near neighbours. It does not address, nor even begin to address, the question of whether UK trade with the rest of the EU is high *because* of membership of the EU, or higher than it would be were the UK not a member, and therefore that membership of the EU is, as the title of the Business for New Europe pamphlet puts it, 'indispensable'.

Let us briefly consider one of the first items of evidence that anyone who claims that the EU has benefited UK trade must consider and explain. In 1973, the year the UK entered the EEC, 63.9 per cent of UK exports to the 22 OECD countries for which data is available went to 14 countries that were, or were later to become, members of what is now the EU. In 2012, the proportion going to those same 14 countries was 61.9 per cent.[3]

In other words, the UK had a close trading relationship with EU countries before it joined the EEC, and 40 years later, it still has a close trading relationship of almost exactly the same relative proportions, though to be precise it has declined by two per cent. Meanwhile, the proportion of exports to these 22 OECD countries going to the three independent European countries, with which the UK has no political links, no treaty obligations, and that entail no direct costs, has risen fairly steadily from seven per cent to 10.7 per cent in 2012.

How, we may ask, could EU membership reasonably be said to have contributed in any significant way to the present large volume of UK exports trade with EU countries if the proportion is virtually the same as it was in the first year of EEC membership? What, one may reasonably ask, are the benefits of EU membership for UK trade if our trade with European non-member countries increased at a faster rate? The research assembled by Oxford Economics does not help us at all to answer these questions. It merely confirms that we trade a lot with our near neighbours. Thanks.

Similar questions might be asked about tourism to and investment in the EU, but we will put them aside since the main interest here is the Business for New Europe argument about FDI. This is based on the repeated claim that 'access to the Single Market is one of the main reasons why companies decide to invest in the UK.'[4] They also mention a number of other factors that make the UK an attractive location for foreign investors, such as 'access to capital markets, a good pool of resources

(labour skills, ICT, a strong R&D base) and a low level of regulation', but none of these things owe anything to EU membership. However, rather than face the tough intellectual question (which Oxford Economics would, one imagines, have relished) and measure their importance relative to that of EU membership and the Single Market, they put them all on one side and concentrate on membership and access to the Single Market alone.

By way of explanation, they claim that the 'UK attracts such a high amount of FDI from both EU and non-EU countries because international companies choose the UK as the gateway for their European operations. 26 per cent of non-EU companies have their European Headquarters in the UK.' [5] This idea, that the UK has been the 'gateway' to investment in Europe, is however an ancillary, supportive part of their argument, so it will be examined later, after trying to identify the benefits of the Single Market for FDI in the UK.

Since the euro and the Single Market have been concurrent developments of the European project, and the euro is seen, in the words of the European Commission, as 'a logical complement to the Single Market' we will of course be covering much of the same ground as in the preceding discussion of the euro though over a slightly different time period, and with slightly different participating countries. However, it is illuminating to conduct a separate analysis of the impact of the Single Market despite the degree of repetition this entails. The main aim of this examination of evidence about FDI is to inform debate about the EU, and that debate now focuses on the Single Market, while the idea that the UK should join the euro has passed into history.[6]

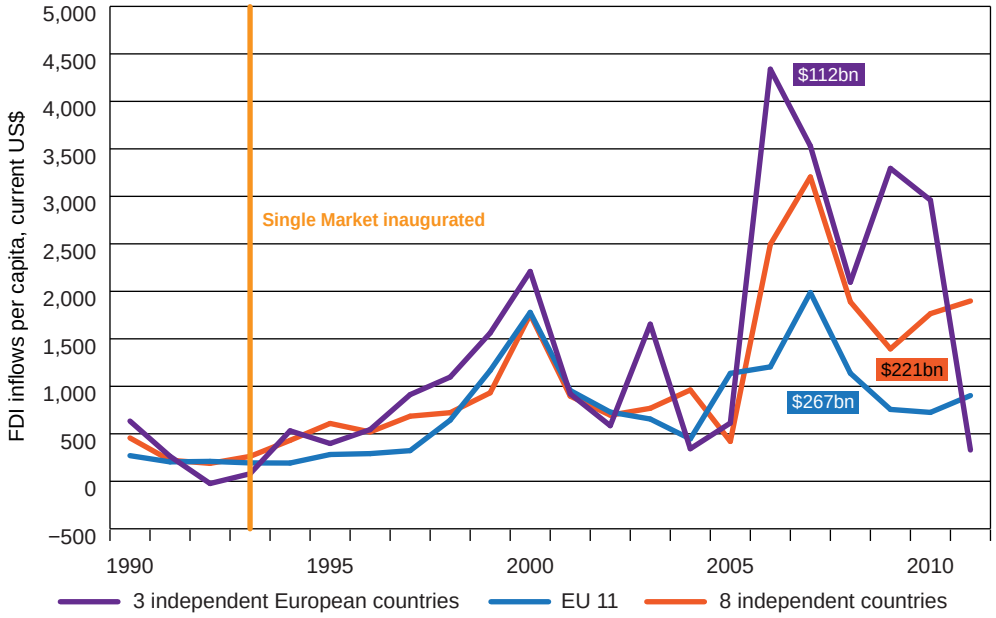
Growth of FDI flows and stock under the Single Market

We may begin by examining the growth of inward flows of FDI to 11 of the founder members of the Single Market when it began in 1993. The twelfth, Luxembourg, has been omitted as usual for the lack of data until 2002. Since they were latecomers, the three 1995 entrants − Austria, Finland and Sweden − have also been omitted. If the Single Market were a magnet for FDI, the 11 founder members should be able to demonstrate its appeal. We will therefore still be dealing with an EU 11, but with Denmark and the UK in place of Austria and Finland.

The graph below presents the weighted means of the inward flow of FDI per capita over the 22 years from 1990 to 2011, in thousands of current value US$, to these eleven founder members, and to eight independent countries: Australia, Canada, Israel, Singapore and New Zealand plus the three independent European countries,

which are, as before, also shown separately. The graph starts three years before the Single Market began. A number of the measures to implement the Single Market were in fact implemented in earlier years, but the main reason for starting earlier is to see if there was a bounce in the FDI of the EU 11 prior to its launch, as investors savoured the prospect of a vast new single market of 350 million.

Figure 7
Per capita inward flows of FDI to 11 EU countries compared with independent countries, 1990–2011, in current value US$ with totals invested 1993–2011



The three independent European countries are Norway, Iceland and Switzerland.
The EU 11 are Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Spain, Portugal and the UK. The eight independent countries are Australia, Canada, Israel, Singapore, New Zealand, Norway, Iceland and Switzerland.
Source: UNCTAD UNCTADstat http://unctadstat.unctad.org Inward FDI flows, annual 1970–2011

As we have now come to expect, over most of the years 1990–2011, 16 of the 22 to be precise, the three independent European countries have received the highest inflows of FDI per capita. The EU 11 in the Single Market received the largest inflows per capita in four of these 22 years, 1992, 2001–2, 2005, all by tiny margins which are barely visible on the graph. The first of these, 1992, was as close as its members came to enjoying a pre-launch bounce, meaning the per capita flow in that year was $12 per capita above that of the mean for the eight independent countries.

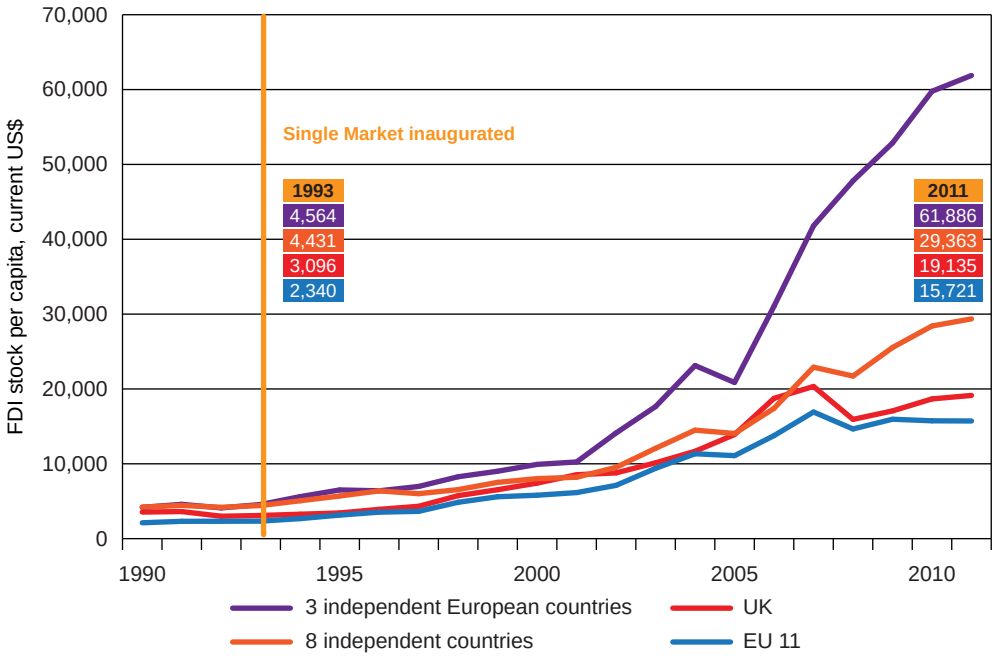
Over the 19 years of the Single Market, 1993–2011, the total value of FDI in the EU 11 was $267bn, versus $221bn in the eight independent countries, $112bn of which went to the three independent European countries. However, per capita it

was far lower than both. The eleven founder members of the Single Market received $15,507 per inhabitant, the eight independent countries received $22,305, while the three independent countries on their own received $27,999 per inhabitant.

However, since we have learned to be wary of FDI inward flows, we will also compare the growth in the weighted means of the FDI stock of each group over the same 22 years, alongside the UK on its own. The result is shown in Figure 8 below, together with weighted means, of the actual amounts of per capita FDI stock held by each group of countries in the year the Single Market began, 1993, and in 2011. This graph is plotted in current value dollars, and therefore exaggerates the real rate of growth somewhat.

Figure 8

Per capita growth of FDI stock over the life of the single market, 1993–2011, in current value US$, with weighted means of stock held per capita in 1993 and 2011



The three independent European countries are Norway, Iceland and Switzerland.
The eight independent countries are Australia, Canada, Israel, Singapore, New Zealand, Norway, Iceland and Switzerland.
The EU 11 are Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Spain, Portugal and the UK.
Source: UNCTAD http://unctadstat.unctad.org Inward FDI stock, annual 1980–2011

By subtracting the FDI stock at the start of the Single Market from the 2011 stock, the totals of which are both given in the graph, we can see the increase in the value of foreign investment stock, which includes retained and re-invested earnings as well as new inflows, over the 19 years of the Single Market in each group of countries as well as the UK. Foreign investments increased, in current value US$, by

$13,381 for every inhabitant in the EU 11 countries, $24,932 for every inhabitant of the eight independent countries, and $57,323 for every inhabitant of the three non-EU European countries.

The value of foreign investments for every inhabitant of the UK increased by $16,039, and therefore above the mean of the EU 11, but below that of all eight independent countries, and of course far below that of the three European independent countries.[7]

Yet again, the three European countries that are not members of the EU proved to be the most attractive to foreign investors, and their FDI stock has therefore increased at the fastest rate over the life of the Single Market. As a result, the disparity between their FDI stock and that of the eleven members of the Single Market has increased considerably. In 1993, the stock of the three independents of $4,564 was about twice that of the 11 EU countries but, after 19 years of the Single Market, it has become nearly four times larger, $61,886 *vs* $15,721. As the years have rolled by, and the Single Market has 'widened' and 'deepened', and even been 're-launched', it has evidently proved increasingly less attractive to foreign investors, relative to the remaining three independent European countries. The common-sense consensus about the FDI benefits of the Single Market, along with Sir John Major's intuition, takes a severe knock.

The EU 11 have, however, held their own relative to the eight independent countries as a whole. In 1993 the per capita FDI stock of these eight countries was just under double that of the EU 11, and in 2011, it was still just under double. Since these eight independent countries include the three European independent countries that we know to be high flyers, some of the eight have evidently performed poorly by comparison with the EU 11 mean. We will identify them in a moment.

The only gap that has declined over the 19 years of the Single Market is that between the UK and the other EU members. Or to put it the other way around, the UK has fallen towards the EU mean. In 1993, the UK stock per capita was 32 per cent above the EU mean, but by 2011, it was only 22 per cent higher.[8]

Weighted means hide differences between countries of each group, so it is worth setting out the growth of per capita FDI stock for every country since the launch of the Single Market in 1993. In Table 10 countries are ranked in order of the growth of their FDI stock over the life of the Single Market, which is given here in real terms, that is, in US$(1993). Among other things, this table enables us to see how the three independent European countries have lifted the mean of the eight independent countries. Israel and Singapore, among the other five, have performed rather well

over the period, Israel from a low starting position and Singapore from the very highest, but the other three, Canada, Australia and New Zealand have all performed comparatively poorly.

Table 10
Growth of per capita FDI stock over the life of the EU's Single Market 1993–2011 in 11 EU and 8 independent countries

	Per cent growth 1993–2011 in US$(1993)	Per capita value of current stock in US$(2011)
Iceland	5,225	42,504
Switzerland	766	75,401
Norway	608	34,828
Denmark	525	27,428
Belgium	508	*89,067
Israel	468	8,829
Singapore	407	99,968
Netherlands	364	35,347
EU 11 mean	**331**	**15,721**
Spain	328	13,659
France	315	14,799
Portugal	300	10,200
UK	**297**	**19,135**
Germany	289	8,687
Italy	271	5,472
Canada	199	17,322
Ireland	194	53,799
Australia	187	22,103
New Zealand	147	16,744
Greece	81	2,409

*The usual caveats apply.
Source: UNCTAD http://unctadstat.unctad.org
Inward FDI stock, annual 1980–2011

A moment ago we noticed a modest degree of convergence within the EU Single Market: the UK stock had fallen towards the EU mean. The data in Table 10 also allow us to see the differences within the EU 11, and to consider whether, as is sometimes thought, member countries have grown more alike under the impact of the Single Market. The EC often claims that its policies, regulations and subsidies, together with its cohesion and other funds, promote 'a level playing field' and 'fair competition' amongst its members. On five separate occasions in the Lisbon Treaty, the European Commission is charged with 'the organisation of the exchange of best practice' amongst member countries. Have foreign investors, one may wonder,

sensed any greater harmony or convergence amongst members of the EU? And have they responded by treating them as equal, or at any rate increasingly similar, parts of 'the world's largest single market'?

As a rough, initial measure of convergence in the appeal of member countries to foreign investors, one may compare the coefficients of variation in the distribution of FDI stock per capita, measured, of 11 founder members of the Single Market in 1993 and 2011, as usual excluding Luxembourg. In 1993, the mean holding per capita was $3,742, the standard deviation $3,432, giving a coefficient of variation of 92 per cent. Over the subsequent 19 years, it fluctuated, indicating both convergence and divergence, but by 2011 had risen to 97 per cent, indicating a slight divergence.[9]

One might perhaps have higher, and more realistic, expectations of convergence amongst those members of the Single Market that had integrated their economies still further by adopting the euro. The European Commission's 1990 publication promoting the currency certainly anticipated that it would promote convergence amongst its members, and forecast that it would give 'the least favoured regimes … a real opportunity for rapid catch-up'.[10] In the event, it seems that, before the adoption of the single currency, the 'least favoured' were catching up and coming to be seen, in the eyes of foreign investors, as more alike. Over the thirteen years 1986–1998, the coefficient of variation in the per capita value of inward FDI to the 11 countries fell from 162 per cent to 94 per cent. However, over the thirteen years following the adoption of the euro, it rose from 94 per cent to 108 per cent, suggesting that the foreign investors were discriminating more keenly between members of the zone, rather than coming to treat them all as members of the same market.

Our attempt to identify the benefits of the Single Market for FDI, on which the Business for New Europe argument depends, has not therefore been successful, since none of the evidence presented enables us to identify the appeal of the world's largest single market to foreign investors. Only three of the 11 member countries we have examined − Denmark, Belgium and the Netherlands − have had rates of growth in FDI stock comparable to those of the three independent countries of Europe. Most of the foreign investors in these three independent European countries are, of course, from the European Union. They are therefore presumably aware of such advantages as the Single Market has to offer, and have nonetheless preferred to invest outside it.

Business for New Europe has therefore been no more successful than its predecessor, Britain in Europe, in getting the facts straight for its multinational sponsors. There is no evidence to suggest that the euro boosted FDI in the eurozone countries, and none to suggest that the Single Market has had a beneficial impact on FDI in

its member countries. FDI in non-member countries has been as high, or higher − usually far higher.

Once upon a time, the European Commission would boast of the attractions of the Single Market to foreign investors, and its UK supporters like Britain in Europe obligingly echoed their claims, both of them without checking any facts. Investors themselves, who have to put their money where their mouth is, were obviously not convinced, as the evidence from 1993 onwards presented in Table 10 indicates. Nowadays, the EC is rather more circumspect. Indeed, the *European Competitiveness Report 2012* acknowledged that 'the EU's share of global inward FDI has *declined significantly*' (emphasis in original) which it attributed to 'the crisis' and to the attractiveness of emerging markets, i.e. to anyone but us.[11] The report then embarked on one of its customary excursions, showing how 'more Europe' would solve the problem.

From a research point of view, this report is gravely deficient. It makes no attempt to understand the differences between EU countries, or to explain why these differences have not declined over the life of the euro or the Single Market. Needless to add perhaps, it does not ask why independent European countries have done so much better, despite 'the crisis' and the 'attractiveness of emerging markets'.

To conclude, we may consider the ancillary argument of Business for New Europe that the UK attracts foreign investors as the gateway to other EU countries. It is curious because it is directly and emphatically contradicted by the research of Ernst & Young, a source they often cite. In one of their studies, E&Y observe, for instance, that they have found 'no strong relationship between the establishment of European headquarters and the establishment of other company activities'. On the contrary, they observe that 'other activities attract European headquarters rather than vice versa'. In other words, the gateway concept is itself questionable, but if any country is the gateway to the EU, as the E&Y report repeatedly pointed out, it is the non-EU member Switzerland. It has, they said, 'the best overall climate for European headquarters', while the Netherlands has the second best. By contrast, the UK and Luxembourg 'have a relatively bad investment climate for European headquarters', and they suggest that the UK's might get worse since 'owing to the new 2004 entrants to the EU, its geographical position is becoming less favourable'.[12]

Why Business for New Europe should ignore this evidence, and mention a source so unfavourable to its own cause, is puzzling. Their predecessor Britain in Europe was caught up in a mini-scandal because of its misuse of statistics from a highly reputable source which would, one would think, have made its successor scrupulously careful about the sources they cite.[13] Moreover, they represent, and are funded by, a number

of leading British and foreign multinationals, but apparently these multinationals never noticed that the most preferred location of European headquarters for non-European multinationals is to be found outside the EU.

As it happens, on this latter point at least, help is provided by the recent *Balance of Competences Review*, which declared that '…half of all European headquarters of non-EU firms are based in the UK, and the UK hosts more headquarters of non-EU firms than Germany, France, Switzerland and the Netherlands put together'.[14] Unfortunately, it did not give a source, though given that English is the common language of the EU and of world trade it seems highly probable. Might it not be, one wonders, that the appeal of the UK has more to do with the English language than with the Single Market? Would it not be worth considering this at least, as well as the other possible reasons for the appeal of the UK that Business for New Europe have themselves mentioned, such as access to capital markets, labour skills, ICT, a strong R&D base and a low level of regulation before attributing overwhelming importance to a supposed 'indispensable' relatonship with the EU?

4. A summary of the findings with short answers to the three questions

Since we have covered a fair amount of ground, it may be helpful to recap both the methods and measures used in this search, and the evidence presented in all three stages.

Inward FDI has here been measured in a variety of ways:

- as a proportion of GDP and of gross fixed capital formation
- by flows per annum or by decadal means since 1970
- by the annual growth of stocks or 'positions' since 1980
- both flows and stocks have in turn been measured by one country's share of a set of countries, and by total and per capita value
- by a summary index of over- and under-performing countries, being the ratio between a country's share of the total inflows and stocks and its share of the total population of 15 European countries.

The shadow of SPEs hangs, it must be added, over all the measures and evidence presented, since their extent, and the degree to which they have distorted FDI returns, is unknown.[1]

The years and the countries, or groups of countries, compared have varied, along with the focus of analysis and the availability of the data. The time spans of before/after comparisons have therefore also varied. Data for only three pre-entry years was available to assess the impact of EU entry on the three 1973 entrants, but for six later entrants a decade of data before and after could be used. To assess the impact of the euro, preference was given to comparisons for thirteen years before and after the launch because there were thirteen years of pre- and post-euro data available when this search started, and to assess the impact of the Single Market, the evidence could refer to nineteen years before and after its inauguration.

Given the variety of measurements used in this, as in other discussions of FDI, it follows that answers to questions about it may vary according to the measure chosen, as well as the countries included in any comparison, and the time over which it has been measured.

The evidence analysed and presented above to try to answer the three questions will now be summarised, with footnotes referring to the pages above in which it was first presented. Each of the three summaries will conclude with a short and direct answer to the question.

Question 1: Did entry to the Common Market in 1973 boost FDI in the UK?

- Comparison of the pre- and post-entry experience of nine entrants to the EU shows that seven of them, including the UK, experienced substantial growth in FDI inflows over their first post-entry decade. These appear, in all probability, to have been a direct result of joining, since they were higher than the growth of FDI to European and non-European non-members, and no other known common factor could explain similar FDI increases to all seven countries following their different entry years (pp.24–28, Figure 2, Table 2).

- Two new entrants, Denmark and Greece, grew at a lower rate than five non-member countries of the time (Austria, Finland Sweden, Norway and Iceland). There is therefore no prima facie evidence to show that entry had a beneficial impact on FDI in these countries (pp.27–28, Table 2).

- However, from 1983–1992, FDI in the UK grew at a slower rate than that of five independent countries, and over the years 1993–2012 much slower than three independent countries (Iceland, Norway and Switzerland), even after we eliminate Norway's oil and gas industries and most of Switzerland's financial services from the calculation of the growth of their FDI stock (p.33, Figure 4).This suggests that the benefit of joining for FDI in the UK lasted no more than a decade. There is no evidence, either from FDI flows or stock, that membership of the EU has been of lasting benefit to FDI in the UK (pp.29–34, Table 3, Figures 3 & 4).

- A similar post-entry surge followed by a decline of FDI inflows to a lower level than those of independent European countries is found in most of the other later entrants, as well as in the growth of their FDI stock (pp.34–77, Tables 4 & 5). This supports the view that while EU entry has a positive initial impact on FDI, membership over the longer run does not.

Answer: *Yes, the evidence suggests that entry to the Common Market had a beneficial effect on FDI in the UK, but there is no evidence that any benefit continued beyond the first post-entry decade. Since 1982, one EU member – Ireland − and three independent European countries have been consistently more attractive than the UK to foreign investors.*

Question 2: Did declining to join the euro adversely affect FDI in the UK?

The evidence supporting the answer to this question will be summarised, first, for the eurozone and non-euro countries collectively, then for individual countries within each bloc, and finally for the UK alone. This is not the same sequence as the evidence was presented on pp.38–52 above.

Euro versus non-euro Europe

- The 10 eurozone countries increased their share of the total value of FDI inflows to 15 European countries by 0.9 per cent to 60.1 per cent, and their per capita share by 0.8 per cent to 53.2 per cent over the thirteen post-euro years. The share of the five non-euro countries correspondingly declined (pp.42–44, Table 7).
- The 10 eurozone countries also increased their share of the FDI stock by 2.3 per cent, from 59.3 per cent to 61.6 per cent, and the non-euro countries experienced a corresponding decline. However, since the eurozone has 77.5 per cent of the population of the 15 countries, they can only be said to have been catching up with non-euro countries – slowly (p.45, Table 8).
- Post-euro growth of FDI stock of the three non-EU non-euro countries, in real terms, has been three times greater than that of the eurozone countries, while that of the six non-euro countries together has been approaching double that of the euro countries, 198 per cent *vs* 110 per cent (p.49, Figure 6; p.50, Table 9).
- Over the thirteen euro years to 2011, foreigners invested $30,277 in every inhabitant of non-euro countries, which is almost exactly double the amount invested in every inhabitant of the eurozone: $14,901. And they invested $59,194, nearly four times as much, in every inhabitant of the three non-euro, non-EU countries (p.49, Figure 6; p.50, Table 9).
- Only two of the 10 eurozone countries ended in 2011 as over-performers, meaning the value of their FDI inflows was larger than their share of the population of the 15 countries, while all five of the non-euro countries were over-performers. In terms of FDI stock, only three of the 10 eurozone countries were over-performers, while four of the five non-euro countries were, Denmark being the marginal exception (pp.42–45, Table 7, Table 8).

Individual winners and losers in the eurozone

- Four of the ten eurozone countries increased their shares of total value of FDI inflows in the thirteen post-euro years: Germany was the clear winner. Its share increased by 6.8 per cent. France was the clear loser. Its share declined by 3.4 per cent (pp.42–44, Table 7).

- Changes in shares of FDI stock were similar. Germany's increased most, by 7.1 per cent, so its share more than doubled in the thirteen post-euro years. France's share has fallen most, again by 3.4 per cent (p.45, Table 8).

- Ireland is the outstanding over-performer in the eurozone, and indeed of all the 15 countries. Despite rather modest growth from 1999 to 2011, it ended with a share of FDI inflows 3.5 times more than its share of the population of the 15 countries, and a share of Europe's FDI stock more than 2.8 times greater. The Netherlands is the only other over-performer in the eurozone in both inflows and stocks, and Austria the only other over-performer in stocks. All the others are under-performers in both flows and stocks from 1999 to 2011, Greece and Italy being the least attractive to foreign investors (pp.42–45 Tables 7 & 8).

Individual winners and losers in non-euro Europe

- The only post-euro increases in the share of FDI inflows in Europe among the non-euro countries were made by the two countries that are outside both the EU and the euro: Switzerland increased its post-euro share of FDI inflows in Europe by 1.3 per cent in total value and Norway by 0.4 per cent. Switzerland increased its share of FDI stock by 0.9 per cent in value, while Norway's share in the total value remained the same (pp.42–45 Tables 7 & 8).

- Meanwhile, the shares of the FDI inflows of the EU members outside the euro, Denmark, Sweden and the UK, all declined post-euro: Sweden by 1.7 per cent, Denmark by 0.7 per cent and the UK by 1 per cent (pp.42–45 Tables 7 & 8).

- Sweden's share of the FDI stock of Europe declined by one per cent, Denmark's by 0.2 per cent, while the UK's declined by two per cent (p.45, Table 8).

The post-euro experience of the UK

- By three measures, the UK has been a post-euro loser. Its share of the inflows to 'EU countries' fell over thirteen years by three per cent (pp.40–42, Table 6).[2] Its share of the value of FDI inflows to 15 euro and non-euro European countries declined by one per cent, and its share of the value of their total FDI stock by two per cent (p.32–35, Tables 7 & 8).

- Before drawing conclusions from these figures, it must be noted that the UK was not a strong performer in terms of per capita growth over the thirteen pre-euro years, it being lower over these years than that of seven euro and four non-euro countries. Over the post-euro years per capita growth was lower than six euro and five non-euro countries, though this was none the less higher than the weighted mean of all 11 eurozone countries (p.50, Table 9). This suggests the continuation of a trend that began long before the new currency was launched, rather than a change brought about by the UK decision to remain outside the new currency.[3]

- Despite its pre- and post-euro decline in its share of both inflows and stock, the UK has remained by far the largest recipient of all 15 countries of post-euro FDI inflows, and by far the largest holder of FDI stock, measured by share or value, taking nearly a quarter, 24.9 per cent, of all FDI inflows, and holding 24.6 per cent of FDI stock over the thirteen post-euro years. It is followed by France with 14.9 per cent and 14.5 per cent, and by Germany with 13.7 per cent and 14.1 per cent (pp.43–45, Tables 7 & 8).

***Answer**: No. While the UK share of FDI inflows and stocks in these European countries has fallen a little, it seems highly unlikely that this was the result of not joining the euro. There are post-euro FDI winners and losers in both euro and non-euro countries with rather more non-euro winners.*

Two eurozone members, France and the Netherlands, experienced greater falls in their share of FDI flows flows than the UK. It is therefore unclear why the UK fall should be attributed to the decision not to join the euro. Moreover, the UK's FDI stock grew faster than the weighted mean growth of the eleven eurozone countries after the launch of the currency.

Overall, the evidence suggests that the euro has not been a significant determinant of the inflows and stock of FDI in Europe, neither a disadvantage to those who declined to join it nor a special benefit to those who did.[4]

Question 3: Has the Single Market attracted FDI to the UK and to other members?

- FDI inflows per capita to the three independent European countries have been nearly double those to the 11 founding members of the Single Market, and inflows to eight independent countries collectively have been one third higher (pp.56–57).
- The FDI stock of the three independent European countries has grown about four times as much as that of Single Market countries, and the eight independent countries collectively nearly twice as much. Relative to independent countries, members of the Single Market, including the UK, have become less attractive to foreign investors (p.57, Figure 8; p.59, Table 10).
- Growth of FDI per capita among founder members of the Single Market has been highest in Denmark, Belgium and the Netherlands. The UK has been below the EU mean (p.58–62, Table 10). There is no evidence of any convergence in the appeal of members of the Single Market to foreign investors over its first 19 years. If anything, the evidence suggests the opposite (p.62).

Answer: *No. There is no evidence to suggest that the Single Market as a whole has been a magnet to foreign investors, or that it has encouraged FDI in the UK specifically. Many non-members have attracted more FDI. They may have done so, of course, by negotiating terms so that their trade differs little from that of EU members, and their non-membership is therefore of little or no significance to foreign investors.*

5. On claims and warnings about the FDI in debates about the EU

The case for UK membership of the EU, of the euro and of the Single Market has rested to a considerable extent on claims about their benefits for FDI in the UK, and warnings about the consequences of losing them. Claims and warnings are sometimes accompanied by abuse of those who doubt either the benefits claimed, or the warnings made, but we will let that pass.

Much the most credible of these claims is that entry to the Common Market 1973 boosted FDI in the UK, since the same positive effect can be observed in most other new entrants, whatever date they might have joined. However, the claim that membership of the EU as such has been of lasting benefit to FDI in the UK is not credible, and difficult to reconcile with the higher rates of growth of FDI flows and stocks found in many non-member countries in Europe and beyond.

The claim that the adoption of a single currency would have a beneficial impact on FDI, which the UK would forfeit by declining to join, has to rest primarily on the post-euro growth of FDI in Germany and to a lesser extent on Austria and Ireland. There are, however, more plausible alternative explanations for the increased FDI flows to these three countries.

Pre-euro Germany had rather low FDI inflows and stock relative to the size of its economy, and over the post-euro years was still incorporating one post-socialist country, with several others as neighbours. Austria shares that geographical advantage and also started from a relatively low base, so substantial FDI growth over the post-euro years might have been expected in both of these countries, regardless of the euro. Ireland's main appeal to foreign investors, its low rate of corporation tax, was evident long before the advent of the euro. In 1986 its FDI stock per capita was ten times the eurozone mean. As it happened, its FDI inflows grew rather slowly after it adopted the euro, though with such a headstart it was able to remain in 2011 the outstanding FDI over-performer in the eurozone. It has other advantages. Its inhabitants speak English. Its law and institutions closely resemble those of the UK and it can easily be treated by foreign investors as a part of the domestic market of its large neighbour, much as many UK firms have often done.

Clearly, we ought to measure reliably the contribution of each of these factors to the FDI growth in these countries over the post-euro years before we can attribute any positive impact to the new currency. And when we have done that, we have still to explain the rather poor post-euro performance of the other eurozone countries, and

to explain why FDI in the UK, and the five other European countries that remained outside the euro, subsequently grew at a faster rate than the eurozone mean. That would be a difficult task.

Claims that the Single Market has benefited FDI in the UK have proved equally difficult to identify. The rate of growth of the UK's FDI stock over the years 1993–2011 has been comparatively mediocre, slightly below the mean of other founder members. In the meantime, FDI in many independent countries, both in Europe and beyond, has grown at faster − often far faster − rates.

Since the claimed benefits of EU membership, of the euro and of the Single Market lack empirical support, it necessarily follows that the warnings about losing one or other them, and of the adverse consequences for FDI, must fall flat. This does not mean, of course, that they will not continue to be heard. Warnings have accompanied every step of UK participation in the European project thus far, and there is no reason to think that they will not do so in the future. They are cost-free, evidence-lite, and if they prove to be false are quickly forgotten, and replaced by a new warnings about some other threat.

The warning that preceded the 1975 referendum about the possible consequences for FDI of a no vote was presented in an appropriately cautious manner, since no one could then know one way or the other what the impact on FDI in the UK might be. During the euro debate, as we have seen, warnings about the consequences of remaining outside the new currency were rather more confident, perhaps because scraps of empirical evidence seemed to support the idea. We are now able to see how selective this evidence was, and that it conveyed a wholly mistaken impression. No matter, that is now history.

More recently, an opportunity arose for another warning about FDI arose with the Prime Minister's veto in the Council of Ministers in December 2011. This was seen at the time as a dangerous expression of independence from the EU consensus with fearful consequences for FDI in the UK. The BBC news coverage seemed to be trying to orchestrate a day of national mourning, with its Business Editor warning his national audience that foreign investors would flee and the UK would become an 'isolated island'. This prediction can now be seen to be wildly mistaken. Over the year following this veto, as noted earlier, the UK share of FDI inflows to Europe increased significantly, while those of France and Germany plummeted.[1] But that warning too has now passed into history.

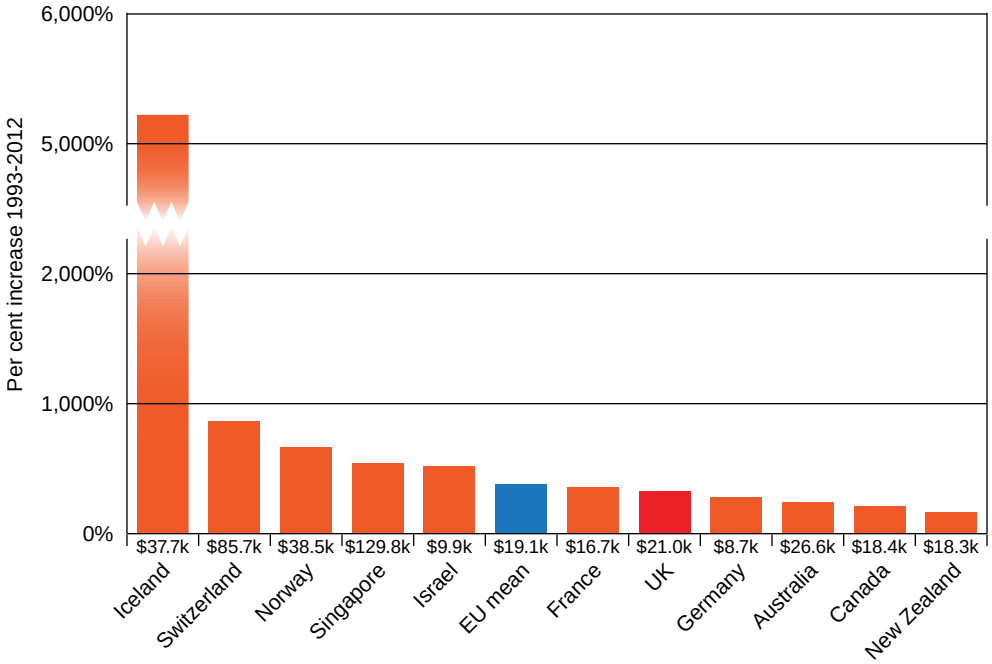
Currently, we have other warnings to attend to. The very idea that the UK might, at

sometime in the future, hold a referendum on the issue of EU membership allegedly threatens FDI in the UK, and therefore jobs and livelihoods, since it raises the possibility that the UK might end up outside the EU's Single Market. And if the UK does actually decide to hold such a referendum, we may reasonably expect to hear more, much more about how the UK will become a 'small', 'isolated' or 'lonely' island in which no foreign investor would wish to invest.

Since our control groups included countries that might accurately be described in one or more of these ways, the evidence we have collected about their FDI may be useful to anyone wondering whether to take these future warnings any more seriously than those they have heard in the past.

Figure 9 presents in each column the growth of the FDI stock per capita in these eight independent countries over 20 years of the Single Market, alongside the mean rate

Figure 9
Independent countries compared with the EU, 1993–2011: percentage growth in FDI stock per capita with 2011 value of stock per capita



The column for Iceland has been foreshortened, simply to keep the others visible. The true increase was, in US$(1993), from $512 to $27,293 per capita or 5225 per cent. Seðlabanki Íslands, Central Bank of Iceland, Statistics, Foreign direct investment stocks in Iceland:
http://www.cb.is/statistics
UNCTAD records a still higher rate of growth but, for reasons mentioned above, I have used the Central Bank figures here, as throughout. All the other figures are calculated from UNCTAD inward and outward foreign direct investment stock, annual, 1980–2011:
http://unctadstat.unctad.org

of growth of the EU 14, the three latecomers to the Single Market Austria, Finland and Sweden being included and Luxembourg being omitted, as usual, for lack of data. France, Germany and the UK are also shown separately. The figure beneath each column is the value of the FDI stock held per capita in 2012, since these figures became available when writing. The FDI stock of an island that is certainly small, and might be thought lonely and isolated, has, it may be seen, grown most over the life of the Single Market. Another lonely and isolated island country has grown least. Perhaps that should worry us, but then New Zealand's FDI stock per capita is currently more than double that of Germany.

Afterword

This study, together with *Where's The Insider Advantage* (http://www.civitas.org.uk/pdf/insideradvantage.pdf), was written by a voter who has grown tired of the case being made for continued membership of the EU, or in defence of the Single Market, by members of the UK political elite who have declined, over many years, either to collect or to present any convincing to evidence to support their arguments.

Why they have declined to collect evidence systematically is still a bit of a mystery. Among those most ready to speak fervently, and often eloquently, in favour of the European Union, or of the merits of the Single Market, are ex-prime ministers and ex-chancellors, ex-cabinet ministers, ex-EU commissioners, many of whom once had the power to initiate regular, detailed, systematic monitoring of the impact of the EU on the UK's economy that would inform public debate. They declined to do so and speak now as if the high offices they once held give them some special exemption from the ordinary rules of debate, and as if by confidently, and constantly, repeating their arguments they will obtain credibility, even without evidence. The ever-growing scepticism about the merits of UK membership of the EU suggests they won't.

Since the sources of data that might demonstrate whether their arguments have any merit are readily accessible, I decided to look at them, in my spare time, in the hope of finding evidence that might corroborate their views. This paper and its predecessor (*Where's the Insider Advantage?*) are the result. As will be clear, I failed to find any support for two of the arguments most frequently repeated by those who favour continued membership: that the Single Market has been of immense benefit to UK trade; and that, outside it, foreign investors would desert this lonely little island.

Perhaps other researchers will be more successful, but for the moment, I am inclined to the view that if the case for the Single Market rests on its help to UK exports, it is a poor one. To those with whom I spar on such matters, and there are a few, I am inclined to say: 'Defend the Single Market any way you wish, but do not argue it is good for British exports. It isn't, and has never been, so on that score you don't have a case.' I make a similar reply whenever the FDI scare is raised. 'None of us understand the causal dynamics of investment decisions, so before frightening yourself and others with what *might* happen to the UK, look at the best available evidence about how other independent countries have fared'. I sometimes add: 'If you don't believe my presentation of it, then go and look the EC's own reports. They have long since abandoned the idea that the Single Market is a magnet for foreign investors.'

These papers are no more than reporting evidence that anyone can consult, resting on no scientific method other than observation and comparison. Many economists will no doubt find such descriptive statistics elementary, even simplistic, and would prefer to incorporate the raw data presented in a model of some kind which would allow one simultaneously to assess the impact of the many other factors that affect both UK exports and foreign direct investment. Obviously, at several points in these searches, I wished I could do this, but almost immediately wondered whether I would, even if I could. Such models come at a price of making assumptions and estimates, and finding debatable proxies, and pretty soon one begins to lose contact with the real world, leaving only a tiny group of fellow specialists who can assess the trustworthiness of the model. I remain therefore a little sceptical of their merits.

Who can forget Rose's much-discussed model that predicted: 'British trade with euroland may eventually triple as a result of British entry into EMU, conceivably resulting in… a 20 per cent boost to British GDP in the long run?' He went on to urge the UK to 'seriously consider whether it wishes to forgo this historic opportunity for an enormously beneficial expansion of its European trade'.[1] And somehow or other, I have never come across a prediction from the EC's own models, or from those of its commissioned contractors, that predicts anything other than good things for everyone providing we have 'more Europe'. It is almost as if they had been set to avoid bad news. And yet, at the same time, ever since the Single Market commenced in 1993, the inhabitants of the EU have suffered from an unemployment rate invariably two, and often many more, points higher than the mean of other OECD countries, almost invariably more than double that of the three European countries that have declined to join the EU, and consistently far more severe in terms of duration than the mean of other OECD countries.[2] It has been a club of high and severe unemployment. There is still a role for simply reporting what has actually happened, good news or bad.

There are, of course, a few contrary spirits who have been and are determined that the EU debate should not proceed as a debate without evidence. One of the more notable is the former Chancellor and Prime Minister Gordon Brown, who initiated the process for the evaluation of the five tests which should be met before the UK joined the euro, a constitutional tweak for which he deserves great credit. Launched from within the Treasury but open to any interested parties who had something to say that was worth hearing, the process was impartial, extremely thorough, and as a result its recommendation was wholly convincing.[3] A private initiative worthy of note is Tim Congdon's study of the costs of EU membership for UKIP.[4] Which of the major parties, one may ask, has conducted as serious, as thorough or as knowledgeable

an analysis? Which of them has even attempted to promote debate by publishing a rejoinder? The *Balance of Competences Review* of the FCO might have been another useful contribution, but it is more a forum of firmly-held opinions than a mine of research.

If these two papers provoke another researcher, with or without a model, to try to show that their conclusions are wrong, either by identifying benefits of the Single Market for British exporters that have so far eluded me, or by demonstrating, despite the evidence that I have assembled, that as an independent country the UK would be unattractive to foreign investors, then they will have served a useful purpose.

Appendix A: OECD vs UNCTAD: inward FDI flows and FDI stock

The two main sources of FDI data provide different figures. These tables show when, and by how much, they differ. For further comment, see pp.11–13 above.

Table 11

OECD and UNCTAD compared Inward FDI flows in 18 European countries 1990–2011 in US$m at current prices & exchange rates with discrepancies of more than $100m shown in RED and mean annual amount in US$m that OECD exceeds UNCTAD, in GREEN when OECD is lower

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	OECD mean annual difference in US$m		
Austria	OECD	651	351	1433	1137	2102	1781	4421	2612	4422	2762	8502	5691	138	6201	3187	10778	7936	31159	6845	9304	838	11390	−414	OECD	Austria
	UNCTAD	653	360	1433	1137	2102	1904	4426	2654	4533	2974	8840	5919	356	7144	3891	10784	7933	31154	6858	9303	4265	14128		UNCTAD	
Belgium	OECD	6674	7920	9730	9295	7382	9674	12365	14661	26770	126551	196237	*75229**	16265	33508	43583	34351	58926	93448	193575	60966	85682	103376	1768	OECD	Belgium
	UNCTAD	8047	9363	11286	10750	8514	10689	14064	11998	22691	119693	88739	88203	16251	33476	43558	34370	58893	93429	193950	61744	81190	89142		UNCTAD	
Denmark	OECD	1207	1460	1015	1669	4898	4176	759	2801	7732	16742	32992	11111	6639	2711	−10447	12873	2715	11815	1827	3942	−11549	12712	10	OECD	Denmark
	UNCTAD	1132	1553	1017	1713	5006	4329	750	2787	7730	16757	33823	11523	6630	2709	−10442	12871	2691	11812	1824	3917	−7397	14771		UNCTAD	
Finland	OECD	788	−247	406	864	1578	1063	1109	2116	12141	4610	8836	3732	8053	3322	2828	4747	7656	12455	−1142	718	6525	2688	−350	OECD	Finland
	UNCTAD	787	−247	407	866	1577	1063	1109	2114	12144	4610	8834	3732	8046	3319	2827	4750	7652	12451	−1144	398	6733	54		UNCTAD	
France	OECD	15613	15171	17849	16443	15574	23679	21960	23169	30982	46546	43258	50485	49079	42538	32579	84898	71888	96240	64060	24216	30634	40982	−3	OECD	France
	UNCTAD	15629	15188	17900	16449	15575	23673	21961	23174	30983	46547	43252	50477	49035	42498	32560	84949	71848	96221	64184	24219	30638	40945		UNCTAD	
Germany	OECD	2962	4729	−2089	368	7134	12025	6573	12243	24597	56077	198313	26419	53571	32398	−10195	47411	55657	80223	8093	22461	57432	48982	799	OECD	Germany
	UNCTAD	2962	4727	−2089	368	7135	12024	6573	12245	24593	56076	198277	26414	53523	32368	−10189	47439	55626	80208	8109	24156	46860	40402		UNCTAD	
Greece	OECD	1688	1718	1589	1244	1166	1198	1196	1089	73	562	1108	1590	50	1276	2103	623	5358	2112	4490	2435	330	1144	83	OECD	Greece
	UNCTAD	1005	1135	1144	977	981	1053	1058	984	71	562	1108	1589	50	1275	2102	623	5355	2111	4499	2436	373	1823		UNCTAD	
Iceland	OECD	22	18	−13	0	−2	−9	83	148	152	68	171	173	87	332	737	3086	3858	6822	917	86	246	1108	5	OECD	Iceland
	UNCTAD	22	18	−13	0	−2	−9	83	150	153	68	171	174	87	332	737	3081	3843	6824	917	86	246	1013		UNCTAD	
Ireland	OECD	623	1361	1458	1068	856	1442	2616	2710	8856	18210	25783	9653	29350	22803	−10614	−31670	−5545	24712	−16421	25717	42807	11478	694	OECD	Ireland
	UNCTAD	622	1362	1458	1078	857	1443	2617	2136	8865	18211	25779	9651	29324	22781	−10608	−31689	−5542	24707	−16453	25960	26330	13102		UNCTAD	
Italy	OECD	6343	2481	3211	3751	2236	4816	3535	4962	4280	6911	13377	14873	14558	16430	16824	19960	39259	40209	−10814	20078	9179	29086	−865	OECD	Italy
	UNCTAD	6345	2482	3210	3747	2236	4817	3535	4961	4280	6911	13375	14871	17055	19424	20126	23291	42581	43849	−10835	20077	9178	29059		UNCTAD	
Luxembourg	OECD	842	999	1227	1172	931	1220	1560	2849	3376	15961	24751	*9488**	4062	2916	5195	5976	31803	−28265	11195	20667	27677	14407	1296	OECD	Luxembourg
	UNCTAD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4058	2914	5192	6564	31837	−28260	11216	22408	9211	17530		UNCTAD	
Netherlands	OECD	10516	5779	6169	6443	7158	12307	16660	11137	36925	41206	63866	51937	25060	28424	12459	39023	13984	119406	4540	38612	−7366	17195	−5	OECD	Netherlands
	UNCTAD	10516	5779	6170	6443	7157	12304	16662	11134	36939	41203	63855	51927	25038	32820	12453	39047	13978	119383	4549	36042	−8966	17129		UNCTAD	
Norway	OECD	1177	−49	810	1461	2777	2409	3207	3982	3935	6792	7095	2122	791	3472	2544	2181	10524	7993	10237	16637	16823	18224	924	OECD	Norway
	UNCTAD	1564	302	−668	992	2776	2409	3211	3982	3935	6790	7090	2123	791	3471	2544	5558	7085	5800	10564	13403	17519	3569		UNCTAD	
Portugal	OECD	2255	2292	1904	1516	1255	660	1344	2362	3005	1157	6637	6232	1801	7155	1936	3927	10914	3063	4656	2707	2646	11160	−20	OECD	Portugal
	UNCTAD	2902	2548	2218	1534	1270	685	1344	2360	3005	1157	6635	6231	1799	7149	1935	3930	10908	3063	4665	2706	2646	10344		UNCTAD	
Spain	OECD	13839	12445	13351	9572	9276	8071	9645	8937	14175	18744	39582	28413	39258	25844	24775	25005	30819	64277	76843	10406	39875	26841	−173	OECD	Spain
	UNCTAD	13294	11624	14950	9570	9276	8070	9647	8937	14173	18743	39575	28408	39223	25819	24761	25020	30802	64264	76993	10407	40761	29476		UNCTAD	
Sweden	OECD	1971	6356	41	3845	6350	14447	5437	10967	19926	61001	23433	10905	12270	4981	12218	11627	27521	28849	36855	10034	−64	9262	−107	OECD	Sweden
	UNCTAD	1971	6353	−41	3846	6350	14448	5437	10968	19919	61135	23430	10914	12273	4975	12122	11896	28941	27737	37153	10023	−1347	12091		UNCTAD	
Switzerland	OECD	5485	2643	411	−83	3368	2224	3078	6642	8942	11714	19266	8859	6284	16505	933	−949	43740	32446	15137	28945	32556	11805	1115	OECD	Switzerland
	UNCTAD	5484	2642	411	−83	3367	2222	3078	6636	8941	11719	19255	8856	6276	16503	932	−951	43718	32435	15144	28642	20381	−196		UNCTAD	
UK	OECD	33982	16223	16528	16431	10866	21826	27409	37510	74642	89089	121959	53792	25176	27502	57178	177868	156218	200068	88678	76375	50587	51133	1925	OECD	UK
	UNCTAD	30461	14846	15473	14804	9253	19969	24435	33227	74321	87979	118764	52623	24029	16778	55963	176006	156186	196390	91489	71140	50604	53949		UNCTAD	

Sources: UNCTADstat Foreign direct investment stocks and flows, annual, 1970–2011
http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/Tables&Indicators.html
OECDilibrary Dataset: Foreign direct investment: main aggregates inflows 1990–2011
oecd-ilibrary.org/finance-and-investment/data/oecd-international-direct-investment-statistics_idi-data-en

Unlike data for FDI flows given above, the OECD more often than not records a *lower* figure for FDI stocks than UNCTAD. It has done so in 11 of these 18 countries. See right-hand column of Table 12. The countries are not exactly the same as those listed in Table 11 above.

Table 12

OECD and UNCTAD data compared FDI stock in 18 countries 1990–2000 in US$m at current prices & exchange rates with discrepancies of more than $100m shown in RED and mean annual amount in US$bn that OECD exceeds UNCTAD, in GREEN when OECD is lower. Blank spaces mean no figures were published by OECD

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	OECD mean difference in US$bn		
Australia	OECD	80333	81560	79712	87630	101370	111310	122779	106500	113121	127183	118858	122020	150282	213911	284952	242167	296453	386457	305959	425703	508794	546024	2.5	OECD	Australia
	UNCTAD	80364	81538	79666	87643	101344	111311	122702	106451	113102	127144	118858	121925	150335	213911	284951	242167	296566	386252	306174	428554	497305	499663		UNCTAD	
Belgium	OECD	58388	70163	75678	94295	105881	112960	123883	128728	180492	179924	181650	179375	255872	357429	471287	477779	618990	784631	853166	966719	950027	1002717	14.6	OECD	Belgium
	UNCTAD	58388	70163	75678	94295	105881	112960	123883	128728	180492	179924	195219	203537	229513	351499	466548	378156	481356	810944	854425	948150	901038	957836		UNCTAD	
Canada	OECD	112850	117032	108500	106870	110210	123182	132970	135936	143349	175001	212723	213755	225902	289157	315247	341630	375136	518435	449566	548400	591873	586999	0	OECD	Canada
	UNCTAD	112843	117025	108503	106868	110204	123181	132978	135944	143345	174990	212716	213757	225892	289140	315263	341630	375157	518435	449566	547336	584581	595002		UNCTAD	
Denmark	OECD		14747			17846		22337		35705	47660	73585	75430	82809	100219	116486	116124	132733	161455	151933	154052	140250	140092	−4.9	OECD	Denmark
	UNCTAD	9192	14712	14387	14618	18083	23801	22340	22268	35694	47643	73574	75438	82799	100191	116614	116443	133783	162631	154478	156818	142323	152847		UNCTAD	
France	OECD	84931	97450	127881	135078	163451	191433	200096	195913	246216	244672	259773	295308	385187	527625	641807	628017	762123	955476	952727	985236	955138	953938	−114	OECD	France
	UNCTAD	97814	110174	127883	135078	163447	237463	314535	326336	454046	597283	390953	384465	441135	653105	867490	888935	1107299	1247392	904660	1038905	1045614	963792		UNCTAD	
Germany	OECD	74067	77928	74730	71095	87338	104367	104658	190733	252392	290457	462564	416826	529323	666185	719261	647808	836230	1012729	927428	969550	943791	927452	116.1	OECD	Germany
	UNCTAD	111231	123992	119965	116134	139154	165914	162514	158832	206776	235259	271613	272155	297797	394529	512094	476011	591460	695498	667748	701186	698203	713706		UNCTAD	
Greece	OECD									13084	15890	14113	13941	15560	22454	28482	29189	41288	53221	38121	42101	35025	29058	−3.3	OECD	Greece
	UNCTAD	5681	6816	7960	8937	9918	10971	12029	13013	13084	15890	14113	13941	15561	22454	28482	29189	41288	53221	38119	42097	35026	27433		UNCTAD	
Iceland	OECD	147	166	123	116	126	129	199	337	465	478	497	685	797	1194	2090	4709	7692	16451	9214	8622	11784	12656	−8.8*	OECD	Iceland
	UNCTAD	147	165	123	117	127	129	199	336	466	1906	1720	1930	3451	3924	6843	11646	22867	47150	45750	33816	40026	48752		UNCTAD	
Ireland	OECD									62453	72817	127088	134051	182890	222837	207647	163530	156491	203683	188302	250122	285572	290479	−11.6	OECD	Ireland
	UNCTAD	37989	39351	40809	41887	42744	44187	46804	48940	62450	72815	127089	134052	182897	222837	207647	163530	156491	203683	188290	247446	247097	243484		UNCTAD	
Israel	OECD	365	315	353	402	474	5741	7096	9566	11913	18889	22367	21988	21546	26838	29702	36646	52623	60625	49748	55797	60237	65014	1	OECD	Israel
	UNCTAD	4476	4568	4307	4976	4264	5893	7376	9045	10418	17743	20426	18939	17886	22653	24876	30811	44273	49989	49748	55791	60220	66768		UNCTAD	
Italy	OECD	60009	61592	49973	53962	60416	65347	74600	85402	108835	108641	121169	113434	130814	180891	220720	224079	294876	376514	327932	364456	328055	339250	−2.4	OECD	Italy
	UNCTAD	59998	61576	49963	53949	60376	65350	74640	85468	108822	108638	122533	114801	134743	188164	231791	237474	312464	376513	327911	364427	331964	332664		UNCTAD	
Netherlands	OECD	68699	72456	74149	74468	93343	115756	128485	123758	164210	192232	243730	282879	349955	458224	519479	479421	552748	766622	645642	644304	586069	606956	−0.2	OECD	Netherlands
	UNCTAD	68701	72451	74155	74473	93350	115755	128492	123767	164222	192228	243733	282881	349969	458224	519479	479420	552748	766619	645601	660423	593109	589051		UNCTAD	
Norway	OECD	12404	15865	13645	13642	17018	19836	20624	20704	16969	25420	25282	21016	25229	26105	85047	81474	97550	132417	118554	148315	174569	182581	−1.6	OECD	Norway
	UNCTAD	12391	15871	13647	13621	16282	18800	21001	22486	25618	29430	30265	32669	42781	48967	79395	76322	95688	125594	114194	150834	171916	171524		UNCTAD	
NZ	OECD	8065	9929	11780	15539	22062	25728	34744	31365	33170	32861	28070	20781	29800	44047	51629	51486	58992	67775	51979	64801	67706	73641	−0.2	OECD	NZ
	UNCTAD	7938	10761	12545	15539	22062	25728	34744	31507	33191	32875	24957	20778	29799	43659	51438	51614	59994	68544	52267	65849	70508	73917		UNCTAD	
Portugal	OECD						18973	21103	22414	30090	26911	32043	36023	44635	60585	66970	63340	88461	115315	99976	114718	111685	111822	−3.2	OECD	Portugal
	UNCTAD	10571	13020	14893	16427	17697	18982	21118	22392	30089	26911	32043	36024	44637	60584	66971	63340	88461	115314	99970	114710	111686	109034		UNCTAD	
Spain	OECD	65916	79570	85989	80296	96302	110291	111532	105266	126018	125364	156347	177252	257095	339652	407472	384538	461527	585859	588938	632296	628333	617031	−2.4	OECD	Spain
	UNCTAD	65916	79571	107840	80314	96311	110246	111497	105295	126059	125361	156348	177254	257106	339652	407472	384538	461528	585857	588901	632246	640806	634532		UNCTAD	
Switzerland	OECD	34245	35747	32989	38713	48668	57064	53917	59515	71997	76000	86810	88766	124808	162238	197679	170156	268939	353328	447507	499595	617703	644912	5.8	OECD	Switzerland
	UNCTAD	34245	35749	32990	38714	48667	57063	53918	59519	71995	75995	86804	88766	124805	162233	197679	170156	268929	353325	447128	492346	559333	583455		UNCTAD	
UK	OECD	233305	240604	197812	201292	203045	226626	259169	287315	355398	404428	463134	527180	548953	634534	740368	851013	1133314	1229880	962640	1104273	1162649	1184547	18	OECD	UK
	UNCTAD	203905	208346	172986	179233	189588	199772	228643	252959	337386	385146	438631	506686	523320	606158	701913	840652	1139155	1242949	980079	1056367	1162696	1198870		UNCTAD	

This discrepancy was the subject of discussion with Central Bank of Iceland and UNCTAD. See fn 11, p.xx8

Sources: UNCTADstat Foreign direct investment stocks and flows, annual, 1970–2011 http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/Tables&Indicators.html
OECDilibrary Dataset: Foreign direct investment: main aggregates: Inward position at year end 1990–2012
oecd-ilibrary.org/finance-and-investment/data/oecd-international-direct-investment-statistics_idi-data-en

Appendix B: UNCTAD *vs* OECD

There are only two occasions where a set of UNCTAD data used to construct a table or graph can be compared with a reasonably full set of OECD data used for the same purpose. The first is Figure 8 on page 57. It is reproduced below, together with the same graph using the OECD data − with a few necessary adjustments and omissions − which are explained in the Table below. The overall result of using OECD data would be to increase the disparity between the EU and the other countries.

The second occasion when we can compare UNCTAD with almost-complete OECD data is Table 10, p.59. Table 10a below extends Table 10 by adding alongside the original UNCTAD data the equivalent OECD data, though some estimates have been included, as shown beneath the table, to provide a reasonably complete comparison. Cells with major differences are shaded orange. Those shaded green indicate other large discrepancies between the two databases.

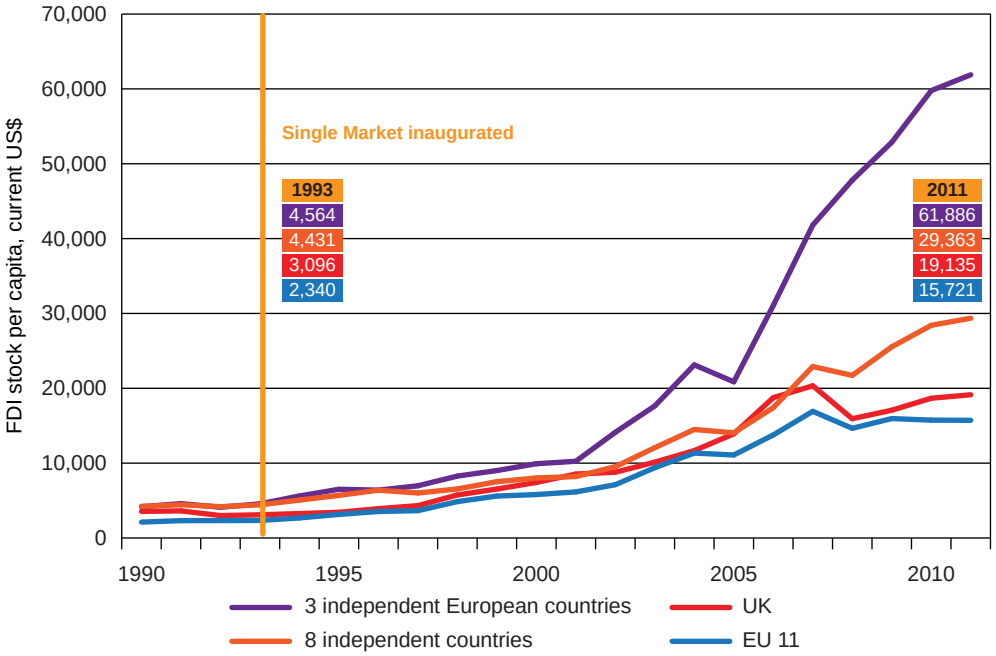
In the UNCTAD table, Iceland was the fastest-growing FDI stock over the period, but it is replaced by Israel when we use OECD data. The main differences between the two sources which are responsible for this change are the values recorded for Israel over the years 1990 to 1995. UNCTAD figures for these years were more than ten times higher than those of OECD (see Table 12 above) hence the very high growth rate recorded by the OECD. The figures recorded by the two agencies for Israel's 2011 FDI stock, it may be noted, differ by a relatively small amount.

The second striking contrast is Germany's growth and the 2011 value of its FDI stock. Over the years 1990–1996, Germany's FDI stock was, according to the OECD, roughly one third lower than UNCTAD's figure, but quite suddenly, from 1997–2011 it averaged 40 per cent higher than the UNCTAD figure. Hence its very high growth rate by OECD's reckoning, and the jump from thirteenth fastest-growing in the UNCTAD table to fourth in OECD's. The higher OECD rating of the growth and value of German FDI stock, no doubt, also largely explains the increase in the EU mean growth and stock value.

If Israel or Germany had been the focus of this analysis, these differences would have been of some consequence, over certain years at least. Since they were not, we can merely note them for a future occasion. The boost to the EU mean from Germany's OECD figures would not require any alteration to the conclusions of the paper.

Figure 8

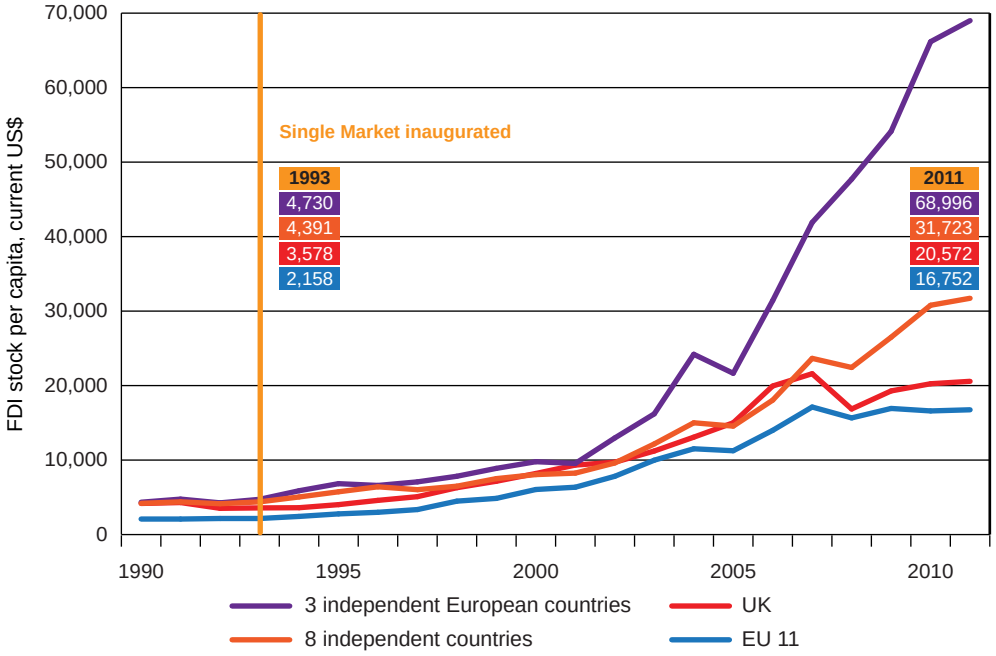
UNCTAD: Per capita growth of FDI stock over the life of the single market, 1993–2011, in current value US$ with weighted means of stock held per capita in 1993 and 2011



The three independent European countries are Norway, Iceland and Switzerland
The eight independent countries are Australia, Canada, Israel, Singapore, New Zealand, Norway, Iceland and Switzerland
Source: UNCTAD http://unctadstat.unctad.org Inward FDI stock, annual 1980–2011

Figure 8a

OECD: Per capita growth of FDI stock over the life of the single market 1993–2011 in current value US$ with weighted means of stock held per capita in 1993 and 2011



The three non-EU European countries are Iceland, Norway and Switzerland.
The eight independent countries are these three plus Australia, Canada, Israel, New Zealand & Singapore.
Source: UNCTAD http://unctadstat.unctad.org Inward FDI stock, annual 1980–2011

Table 10a
UNCTAD *vs* OECD: Growth of per capita FDI stock over the life of the EU's Single Market 1993–2011 in 11 EU and 8 independent countries

UNCTAD RANK		OECD RANK	Per cent Growth 1993–2011 in US$(1993)		Per capita value of current stock in US$(2011)	
			UNCTAD	OECD	UNCTAD	OECD
1	Iceland	2	5225	5668	42,504	49,170
2	Switzerland	3	766	867	75,401	84,225
3	Norway	5	608	698	34,828	42,836
4	Denmark+	8	525	393	27,428	27,180
5	Belgium	6	508	537	89,067*	93,241*
6	Israel	1	468	6754	8829	8597
7	Singapore	7	407	n/a	99,968	n/a
8	Netherlands	9	364	378	35,347	36,422
	EU 11 mean		**331**	398	**15,721**	**16,752**
9	Spain	10	328	316	13,659	13,282
10	France	11	315	311	14,799	14,648
11	Portugal+	14	300	258	10,200	10,461
12	UK	13	297	**269**	19,135	20,572
13	Germany	4	289	**725**	8687	**11,288**
14	Italy	12	271	278	5472	5581
15	Canada	17	199	195	17,322	17,089
16	Ireland+	15	194	218	53,799	**82,112**
17	Australia	16	187	214	22,103	24,154
18	NZ	18	147	146	16,744	16,681
19	Greece+	19	81	54	2409	2551

* The caveats mentioned in the text apply.
+ OECD data for these years for these countries is not quite complete, as may be seen in Table 12 above. Denmark's stock in 1993, 1995 and 1997 was assumed to be the same as in the following years. Portugal's stock in 1993 and 1994 was assumed to be the same as in 1995. Portugal's growth was measured from 1995, and Ireland's and Greece's from 1998.
Sources: UNCTADstat Foreign direct investment stocks and flows, annual, 1970–2011; OECDstat Dataset: Foreign direct investment: main aggregates: Inward position at year end

Appendix C: Obiter dicta of the Britain in Europe case for joining the euro

The two main empirical planks of the Britain in Europe case for the UK to join the euro − the decline in the UK share of FDI in the EU and the fall in the flow of inward FDI to the UK − have been examined above.[1] However, in the few pages devoted to FDI, they added various other random scraps of evidence which they thought would to strengthen their case. Since these would have led the search in all directions, and were only supplementary to their argument, it did not seem worth examining each of them at length. Here are some examples:

- They claimed that: 'Investment into the euro area has risen most sharply *from* (emphasis added) EU countries that have yet to join the euro (up 867 per cent between 1998 and 2000).' They give no source for this figure, and the word 'from' is puzzling. Eastern Europe could not have been a significant source of investment in the EU, so at first I decided to take 'from' as meaning 'to', since elsewhere in the text they refer to FDI growth in Eastern Europe. On second thoughts, I decided to ignore the remark. Eastern Europe countries were still in the throes of transition from socialism, and FDI in them was still in its early days. It therefore seemed unlikely that we could disentangle from their experience, whatever it was, much of relevance about the impact of the decision to remain outside the euro on the UK economy.

- They note that 'in 2001 Britain was overtaken by the Netherlands as the principal recipient of foreign investment from outside the EU'. They forgot to mention that this had happened intermittently during the pre-euro years, in 1993, 1994, 1996 and 1998. However, since they were focusing specifically on post-euro decline in inward FDI to the UK, they might also have mentioned that in 1999 and 2000, the first two years of the euro, inward FDI to the UK from the wider world exceeded that to the Netherlands by a far larger margin than any recorded since the OECD began keeping records in 1985.[2] So yes, while, as they said, the Netherlands did overtake the UK in 2001, it does not have the significance they wished to attach to it. It has only happened once since then, in 2008.[3]

- They quote from *Invest-UK Annual Report* that 'not only is Britain's international *share* of inward investment falling but the absolute levels of inward investment are now falling as well'. This is a common

occurrence, as we have often had occasion to note: FDI flows are volatile. This is not therefore the significant indicator they seem to think. The absolute level of inward investment to the UK fell during 11 of the years between 1970 and 1998, and has fallen on seven occasions since 1999, including 2001, the year to which they are presumably referring.

- They observe that: 'US investment to EU countries outside the euro has fallen by 71 per cent' but give no source or date, and it is therefore difficult to know how it might be re-examined.

All these random, scrappy bits of evidence add little to the Britain in Europe argument. If anything, they discredit it.

Notes

Introduction

1 Christopher Huhne and Nick Canning, *Crystal Balls: false prophecies from anti-European economists*, Britain in Europe, nd, 2002ca, pp.22–26.

2 An enlarged version of his report appeared on his website. ‘Big Business Deeply Troubled By Cameron’s Veto’, Robert Peston, 11 December 2011.

3 Sir John Major, ‘The Referendum on Europe: Opportunity or Threat?’, Chatham House, 14 February 2013. He has continued in the same vein and clearly intends to rely on his intuitions rather than look at any evidence. At an Institute of Directors’ dinner in November 2013, he pronounced confidently: ‘We would lose inward investment – ask Japan or Korea, or even America.’ And he left it at that.
www.johnmajor.co.uk/page4370.html
at the Institute of Directors on 28 November 2013. He might perhaps have glanced at page 35 of *Ernst & Young’s attractiveness survey, UK 2013*, whose researchers did ask companies in Japan, Korea and America. ‘The picture that emerges from our research is that European companies regard the UK’s integration into the EU as being important to the country’s attractiveness for FDI, while those in the US and Asia do not.’

4 ‘Britain warned by Dublin over Europe exit’, *Financial Times*, 10 March 2013

5 ibid.

6 http://www.oecd.org/investment/globalforum/44246319.pdf

7 p.23 2002 *World Investment Report*, UNCTAD.

8 Carlos Rodríguez, Carmen Gómez and Jesús Ferreiro, ‘A proposal to improve the UNCTAD’s inward FDI potential index’, *Transnational Corporations*, Vol. 18, No. 3, 2009: http://ea5.codersnest.com/images/files/Ferreiro1.pdf

9 *European headquarters: Location decisions and establishing sequential company activities*, Final report, Ernst & Young, Utrecht, 2005.

10 Appendix Table 2b, p.60,

11 I requested an explanation of the discrepancies from the help lines of both agencies, but have thus far not received a reply.

12 In the course of these initial cross-checks, and following email exchanges with Sigrún Davíðsdóttir the London correspondent of Icelandic Radio, the UNCTAD data for Iceland over the years 1989 to 2011 was also checked against that issued by the Central Bank of Iceland, which revealed large discrepancies between the two. Both were approached for clarification. The Central Bank insisted its figures were correct, and, after some email exchanges, UNCTAD conceded that its figures would be corrected in accordance with those of the Central Bank in future publications. The figures used in this investigation are therefore

not those provided in the UNCTAD database up to April 2013 (with a final reported year of 2011) but those published on the Central Bank of Iceland's website:
http://statistics.cb.is/en/data/set/
See Foreign direct investment position in Iceland: Total FDI position & Total FDI flows.

13 OECD *Benchmark Definition of Foreign Direct Investment*, Fourth Edition, OECD, Paris, 2008 Access the complete publication at:
http://dx.doi.org/10.1787/9789264045743-en

14 FDI in figures OECD Paris, January 2013, and personal communication Emilie.Kothe@oecd.org

15 Nigel Williams, *Trade Distortions and the EU*, Civitas: Institute for the Study of Civil Society, London, 2011. 07/2011:
http://www.civitas.org.uk/eufacts

16 http://www.centralbank.ie/polstats/stats/fvc/Pages/fvc.aspx
Since it began reporting these figures, Ireland's share of the total assets of all FVCs and FSVs in the euro area has declined from 24.2% in Q22011 to 21.9% in Q32012. The other countries with significant shares are Netherlands, Luxembourg, Spain and France. The aggregate figures for the entire euro area are given in the Statistical Data Warehouse of ECB:
http://sdw.ecb.europa.eu/

17 http://cdis.imf.org
and
http://www.imf.org/external/NP/ofca/OFCA.aspx

18 Investment Country Profiles: Switzerland, UNCTAD, Oct 2011.

19 Table 2.3, row HBWI, 'Summary of international investment position, financial account and investment income', Office of National Statistics, *The Pink Book 2012*, Cardiff, 2012, pdf page 42.

20 p.104, Table 10.1; p.106, Table 10.3, row HBWI, Office of National Statistics, *The Pink Book 2002*, HMSO, London, 2002.

21 *Pink Book 2012, op.cit,.* p.1.

22 http://elibrary-data.imf.org
The IMF already provides a catalogue of the 28 Offshore Financial Centers, many of them in receipt of very high amounts of FDI, with almost 100% going to SPEs. However, we are here concerned with SPEs within normal trading countries.

23 Since 1996, the data collected by E&Y's *European Investment Monitor* offers a potential solution to this problem – at least for recent years. Its figures are based on company announcements about new investments across Europe and companies are unlikely to announce by press release that they intend to establish an SPE in a particular country.

The only disadvantage is that much of this evidence is for the benefit of paying commercial clients and remains confidential. It cannot therefore contribute a great deal to public debate.

24 One incidental advantage of omitting Belgium is that it allows straight comparisons with OECD data without making the reconstructions needed to separate returns for Belgium from those of Luxembourg prior to 2002. Until that year, the two countries made only joint returns to the Belgo-Luxembourg Economic Union. In an FDI context, at least, these reconstructions are high risk.

25 UNCTADstat Inward and outward foreign direct investment flows, annual, 1970–2011 US$ at current prices and current exchange rates in millions.

26 'Share of International trade in GDP', oecdilibrary@oecd.org: http://www.oecd-ilibrary.org/economics/data/oecd-factbook-statistics_factbook-data-en

27 HM Treasury, 'EU Membership and FDI'. This is one of five internal Treasury analyses of third party assessments of the cost-benefits of EU membership. They were released in 2010, apparently as a result of an FOI request, though they do not indicate which third party is being assessed, or who made the FOI request. This paper has 21 pages, and is undated, but was apparently completed in 2005: https://www.gov.uk/government/publications/treasury-analysis-of-third-party-assessments-of-cost-benefit-analyses-of-eu-membership

28 For a mountain of evidence to demonstrate the importance of proximity in determining trade relationships see Pankaj Ghemawat with Steven A. Altman, *DHL Global Connectedness Index* of 2011: http://www.dhl.com/content/dam/flash/g0/gci/download/DHL_GlobalConnectednessIndex.pdf The central proposition of the most popular theory of international trade, the so-called gravity theory, is that trade between two countries is proportional to their national income and inversely proportional to their distance from one another.

1. Did entry to the Common Market in 1973 boost FDI in the UK?

1 UNCTAD will, however, run special analyses, by request, in return for a suggested donation. The suggested donation following my request was $6,938. I have thus far declined, and not simply because I did not have the dollars to hand. One of the purposes of the present investigation was to show that though HM Government has declined to provide the data to support the claims of various ministers and prime ministers about the EU, the ordinary voter might nevertheless still obtain it from readily accessible sources, and that any arguments in this research could be checked in the same readily accessible sources.

2 For instance, the value of Denmark's 1980 stock, was 7.5% of its value in 2011, measured in constant US$(1980), while Ireland's was 39.8%, and the UK's was 14.4%.

3 Curiously enough, this switch did not cause a sudden jump either in the per capita

amount or the decade-to-decade growth of the independent countries. Both would have been substantially *higher* if we had continued with the original five countries, though this disparity would have been strikingly reversed over the fourth decade.

4 Article 188 C reads: 'The common commercial policy shall be based on uniform principles, particularly with regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, *foreign direct investment*, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies. The common commercial policy shall be conducted in the context of the principles and objectives of the Union's external action.' [Emphasis added] The full scope of Article 188 C has never been determined by the EC or by the European Court, and no doubt will take many years to do so, but actions to impose common EU rules for incentives to promote inward FDI are not in the least unrealistic, though for the moment action under Article 188 C appears to require unanimity. In its August 2013 update on 'Trade and Investment agreements', the EC proudly announced that the negotiating directives it had drafted for the Council to approve before talks with China begin 'is the first ever proposal for a stand-alone investment agreement since foreign direct investment became the exclusive competence of the EU under the Lisbon Treaty'. The EU's bilateral trade and investment agreements – where are we? p.4: http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150129.pdf

5 Not quite entirely eliminated it seems. The OECD class description reads: 'Extraction of crude petroleum and natural gas; service activities, incidental to oil and gas extraction, excluding surveying.' The mean percentage of UK FDI going to oil and gas over the years 1989–2011 was 16.9%, about half the proportion of Norway's.

6 'Services' was, by some distance the largest recipient industry, with 44% of the total. Manufacturing of various kinds received 7%, trade 4%, banks 3% and insurance 2%. The remaining proportions went to chemicals, electronics, machinery, construction and transportation.

7 This argument will come as no particular surprise to the research staff of the European Commission. As long ago as 2007, one of their reports noted that: 'While European integration seems to be associated with an increase of intra-EU FDI activity, the available evidence suggests that the Internal Market has not been able to deliver in terms of promoting further the role of the EU with respect to global investment flows… Since 2001 the volume of FDI from the rest of the world into the EU25 has gradually declined… until 2005 when it recovered slightly… The Internal Market's two-fold objective of making the EU a more attractive place for foreign investors and of boosting the presence and competitive position of EU firms in world markets seems far from being achieved.' Fabienne

Ilzkovitz, Adriaan Dierx, Viktoria Kovacs & Nuno Sousa, *Steps towards a deeper economic integration: the Internal Market in the 21st Century – a contribution to the Single Market Review*, European Commission – DG EcFin; European Economy No. 27, 2007, p.49.

2. Did declining to join the euro adversely affect FDI in the UK?

1 Standard *Eurobarometer* 57, Fig. 6.3b, Survey no. 57.1 – Fieldwork March – May 2002: http://ec.europa.eu/public_opinion/archives/eb/eb57/eb57_en.pdf

2 All these quotations are taken from Peter Oborne and Frances Weaver, *Guilty Men*, Centre for Policy Studies, 2011. They give the dates of the columns from which they are taken.

3 In his memoirs, Blair rejects this version of events. 'In principle I was in favour and for me the politics were clear: better to join and be full players in Europe's economic decision-making…The trouble was the economic case was at best ambiguous… If the economics had changed, I would have gone for it. They didn't. And for me that was that.'. Tony Blair, *A Journey*, Hutchinson, London, 2010, p.536. He fooled everybody, one is tempted to say, including his fellow campaigners and supporters.

4 Huhne & Canning, *op.cit*.

5 Richard Layard, William Buiter, Christopher Huhne, Will Hutton, Peter Kenen and Adair Turner with a forward by Paul Volcker, *Why Britain should join the euro*, Britain in Europe, London, 2002:
www.britainineurope.org.uk

6 *ibid.,* p.24

7 These dates of the Economist Intelligence Unit are inferred. Since the publication has no date, and the text refers to 'this year', 'next year' etc.

8 Here, and in the section that follows, EU 13 will be used, and refers to the EU 15 of 2000, minus Belgium and Luxembourg. It is not clear what number of EU member states Britain in Europe was referring to − probably EU 14, since there was no data for Luxembourg until 2002.

9 The publication of the latter was followed by celebrations at UK Trade & Investment, the government agency responsible for promoting FDI. Its annual report for 2012 pointed out that the increase in FDI in the UK over the year meant that the UK not only 'retained its number one position in Europe', but contrasted sharply with significant declines in FDI in both Germany and France. UKTI, *Inward Investment Report 2012/13*:
http://www.ukti.gov.uk/

10 See p.10 above.

11 The Netherlands is suspected of having had a rather high proportion of SPEs in the past. However, it has recently become one of the first countries to report its FDI to the OECD

minus SPEs, so further research would be required to determine whether this is a real or nominal decline.

12 This 1% fall differs from the 3% in Table 6 because the number of EU countries in the calculation differs, suggesting that the apparent decline in the UK share was influenced by the presence of Belgium, whose FDI returns were strongly suspected of being distorted by the inclusion of SPEs.

13 Table 1b Appendix. Moreover OECD shows an increase in 2011 for Norway, the other large independent European country. The three non-euro countries would therefore have ended comfortably ahead of the other two groups.

14 If we had measured the growth, in US$(1986), from 2000 instead of 1999, to 2011 it would have been 75% which is still below the weighted mean of the Eurozone 11, but not as far below as 11%.

15 If the weighted means of column 3 are subtracted from those of column 4, it may be seen that, over the life of the euro, foreign investors invested US$(1986)6,301 in every inhabitant in the eurozone and US$11,801 in every inhabitant of the non-euro European countries.

16 Some other bits of evidence mentioned in the Britain in Europe pamphlet are discussed in the Appendix C.

3. Has the Single Market attracted FDI to the UK ?

1 en.wikipedia.org/wiki/Britain_in_Europe

2 I refer again to the mountain of evidence assembled by Pankaj Ghemawat with Steven A. Altman, *DHL Global Connectedness Index* of 2011. See note 28, p.88, supra.

3 *Monthly Statistics on International Trade, Dataset: trade in value by partner countries, United Kingdom*. Since exports to Belgium and Luxembourg were not recorded from 1960–1993, imports from the UK recorded by the Belgium and Luxembourg Economic Union were substituted over these years. Both databases are at:
www.oecd.ilibrary.org
I have examined this data in more detail in my paper *Where's The Insider Advantage? A comparative study of UK exports to EU and non-EU nations between 1960 and 2012*:
http://www.civitas.org.uk/pdf/insideradvantage.pdf

4 The source they cite for this claim is UK Invest, 'A Guide to Foreign Investment', London, 2005.

5 *An Indispensable Relationship, op.cit*, p.43,

6 Obviously, if both parts of the EU project, the euro and the Single Market, had performed as their supporters claimed, the task of this investigation would be much simpler, since the benefits for those countries that were doubly-blessed, meaning members of both euro and the Single Market, would be doubly-easy to identify.

7 The contrast between these figures on the growth of FDI stock and those on the preceding page on the value of inflows over the same period suggests the ratio between the two varies enormously in different destination countries (UICs). In Switzerland, for instance, the per capita value of the inflow 1993–2011 was a mere 39% of the increase in the value of the stock over the period, while in Germany it was 123% and in the UK 138%. The reasons for this difference are unknown. At first glance, it suggests that investments in some destination countries are more profitable than investments in others and/or that some countries are more likely to attract re-investment of earnings, while in others earnings are speedily repatriated. There is, as far as I am aware, no research on this important aspect of FDI.

8 Eurosceptics will no doubt notice the irony in this finding, and draw comfort and encouragement from it. When similarly measuring UK's per capita FDI growth as an outsider since the launch of the euro (in Table 9, p.50), UK growth was *higher* than the eurozone mean, while here, measuring growth as an EU insider, alongside other founder members of the Single Market, growth is lower than the EU mean.

9 In US$(1993), the mean was $16,345 and the standard deviation $15,834.

10 It went on to say that 'EMU, like 1992, (meaning the Single Market) is a positive sum game', pp.9 & 31, *One Market, One Money: an analysis of the potential benefits and costs of forming and economic and monetary union*. European Economy, No.44, Commission of the European Communities, D-G for Economic & Financial Affairs, October, 1990: http://ec.europa.eu/economy_finance/publications/publication7454_en.pdf

11 For example, pp.9,10 & 119, European Competitiveness Report 2012, *Reaping the benefits of globalization*, European Commission, 2012: http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/european -competitiveness-report/index_en.htm

12 *European headquarters: Location decisions and establishing sequential company activities*, Final report, Ernst & Young, Utrecht, 2005. Switzerland has other advantages. It can sign its own trade agreements. After signing a free trade agreement with China in May 2013, it also signed 'a raft of cooperation deals… including… financial sector ties.' In response to speculation that selected offshore centres could be chosen (by China) as currency trading hubs, the AFP correspondent speculated that Switzerland '…hopes to be picked'. Since the EU has not even begun free trade negotiations, it probably has a good chance, he thought. 'Swiss free trade deal underscores China's globalisation: Li' by Jonathan Fowler, AFP, 24 May 2013: https://uk.news.yahoo.com/swiss-free-trade-deal-underscores-192815812.html#seotJwc The merits of Switzerland's bilateral trade agreements are examined in detail in *Where's The Insider Advantage?* by Michael Burrage:

http://www.civitas.org.uk/pdf/insideradvantage.pdf pp. 41-46.

13 In 1999 the National Institute of Economic and Social Research (NIESR) published a report saying that 3 million jobs in the UK are involved in exporting to the EU. This was, in Christopher Booker's account, ' picked up by Britain in Europe as the basis for its slogan "out of Europe, out of work", and its claim that if we left the EU… 3 million jobs would be lost. This was such a travesty of what the NIESR actually said … that its director called it "pure Goebbels… in many years of academic research I cannot recall such a wilful distortion of the facts".' Christopher Booker 'Even UKIP misses the key point in this tired debate over Europe', *Daily Telegraph*, 29 Mar 2014. A contributor to the NIESR report, Professor Iain Begg, has also commented on the misuse of the report's finding that 'three million jobs were associated with EU demand,' adding that this is not 'the same as saying that these jobs would disappear if we left the EU'. *Daily Telegraph*, 23 Jan 2013.

14 p.39, para 3.14 HM Government, 2013, note 19 supra. The CBI recently added some supportive comments about the UK as a gateway on the strength of a E&Y survey of actual and potential investors in 2012 which found that the 'ability to use the UK as a base to export to other markets' was the second most mentioned factor of nine influencing the decision to invest in the UK. Confederation of British Industry, *Our Global Future: The business vision for a reformed EU*, London, 2013, p.64. This would have been a little more persuasive if the E&Y survey had referred to other EU markets rather than simply to other markets. In the 2013 E&Y attractiveness survey of the 14 factors that make the UK attractive for existing or potential investors, the export base for other markets is not mentioned, nor the UK as a gateway, nor indeed anything that relates, even vaguely, to the EU. *Ernst & Young's attractiveness survey, UK 2013: No room for complacency*, London, 2013, p.26: http://www.ey.com/Publication/vwLUAssets/Ernst-and-Youngs-attractiveness-survey-UK-2013-No-room-for-complacency/$FILE/EY_UK_Attractiveness_2013.pdf

4. A summary of the findings with short answers to the three questions

1 pp.13–20, above

2 Though by two other measures, comparing nine pre- and post-euro years, the share of UK FDI inflows to the EU remained virtually the same, according to both OECD and UNCTAD. Perhaps at this point, it should be remembered that the OECD records inflows for the UK which are, on average over the years 1990–2011, eight per cent higher than those reported by UNCTAD. p.13, above and Appendix A, Table 11, pp.77–8.

3 One possible explanation is that in post-World-War-II decades, outward FDI was overwhelmingly from the US and its preferred destination was, also overwhelmingly, the UK. Initially, at least, the second major source of FDI in Europe – Japan − seems to have followed the American example. The decline in UK share may therefore simply reflect the

later emergence of other sources of FDI, and the gradual recognition of other acceptable destinations. But this is guesswork. Obviously, it is a subject worthy of research.

4 Evidence consistent with this conclusion is to be found in Ernst & Young's *Attractiveness Survey* for 2013. They note that their 'parallel research study on Germany's attractiveness suggests that investors worldwide are not convinced that membership of the Eurozone makes Germany more attractive as an FDI location. Only 42% of investors say that the euro currency is a positive strength for Germany's attractiveness, while 35% are neutral and 20% regard it as a weakness. While just over half (52%) of existing investors into Germany rate the euro as a strength, only a quarter of investors not established in Germany share this view.' Ernst & Young, *Attractiveness Survey*, UK 2013, *op.cit,.* p.35. These responses may, of course, be time sensitive.

5. On claims and warnings about the FDI in debates about the EU

1 There was, as far as I can discover, rather little media coverage of the euphoric UKTI report on 23rd July 2013 of the spurt in FDI in the UK. See note 9, p.90, supra

Afterword

1 Andrew Rose, *EMU's Potential Effect on British Trade: A Quantitative Assessment*, 2000, p.13.

2 OECDStat database, 'Unemployment Rate Key Tables from OECD, No. 1.doi: 10.1787/unemp-table-2012-1-en

3 A splendid demonstration of its work on video and paper by one of its main instigators, Dave Ramsden, Chief Economic Adviser to the Treasury, is to be found in the website of the Mile End Group, MEG 98, 25 June 2013: 'The Euro: 10th Anniversary of the Assessment of the Five Economic Tests'

4 Tim Congdon, *How much does the European Union cost Britain?* UK Independence Party, London 2012.