Has membership of the EU encouraged FDI in the UK?

Introduction

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 'Foreign firms might hesitate to continue investment in Britain. Foreign loans to help finance our trade deficit might be harder to get.'[1]

Over time this suggestion has hardened into a confident claim. In 2002, a pamphlet published by *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 '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 euro-zone.' They went on to warn that 'this situation would worsen further if Britain were to stay out in the long term.'[2]

The issue surfaced again in December 2011, when Mr Cameron declined to agree to a new EU treaty to rescue the stricken currency. BBC newsreaders, correspondents and invited guests greeted the decision with dismay and horror, on the grounds that it would leave the UK' isolated' and 'marginalized' within the EU, and therefore put at risk the inward flow of foreign direct investment (FDI), and the jobs that flow from it. Referring to conversations with unnamed 'business leaders', Robert Peston, the 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.' [3]

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 of the EU. Among them was the former Prime Minister, Sir John Major, who asked in his contribution at Chatham House in March 2013, 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.'[4]

The europhile press chimed in with sympathetic coverage, and editorials. The *Financial Times*, for instance, a long time fervent supporter of the EU project, 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.'

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[1] 'http://www.harvard-digital.co.uk/euro/pamphlet.htm The argument long precedes the 1975 referendum. It was often mentioned in the early 1960s. pp.83-84,156,164, Lionel Bell, *The Throw that Failed: Britain's Original Application to join the Common Market*, Lionel Bell, 1995.

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

[3] an enlarged version of his report appeared on his website. *'Big Business Deeply Troubled By Cameron's Veto*' Robert Peston, December 11th 2011,

[4] Sir John Major, *The Referendum on Europe: Opportunity or Threat?* Chatham House, Chatham House 14 February 2013.

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 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 news story was born: ‘Britain warned by Dublin over Europe exit’ [5]

It would not be difficult to find other political leaders and media who support EU membership using this same argument. It has become a favourite standby, but none of those who have made use of it over the years seem to have felt that they needed any evidence to support it, and none, so 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.

It was perhaps understandable that once the referendum of 1975 was won, the Labour government of the day, felt little need to confirm its suggestion, but it is curious that over the subsequent thirty eight years no subsequent government has made any attempt to collect and analyse evidence to see if there was any substance to the idea. The big business pressure groups *Britain in Europe,* and its successor *Business in New Europe,* have funds to commission research to make their case, and have done so, as we will see, but they have also done so without ever making use, or even mentioning, UNCTAD or OECD databases. The BBC’s Business Editor preferred his conversations with unnamed ‘business leaders’, and Sir John Major, though having ample opportunity over his seven years in office to ask for some research on the issue, decided his own intuitions were quite sufficient.

Why should this be? Why should hearsay, intuition and inference be preferred to readily accessible evidence? The answer seems to be that, in this instance, intuitions and inferences about how foreign investors will or must behave in the future seem so utterly reasonable, and such plain common sense that no one feels any need to spend, or 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? Almost without noticing it, however, all these arguments slip beyond reasonable inference and common sense, and assume that they have identified the primary, or even the sole determinant of foreign investors’ decisions. This assumption is far from a reasonable, and leads to conclusions that are not at all obvious or commonsensical.

[5] ‘Britain warned by Dublin over Europe exit’ *Financial Times*, March 10th 2013.

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 making commenting on the determinants of investors' decisions. They often say 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 have been improving and amending their 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 which came closer to size of market: 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'.

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, some of which they recognized would vary over time. In amongst these 70 variables, they at last included some that might relate to the debate about EU membership in the UK, notably exchange rate stability, tariff rates and market size and growth.

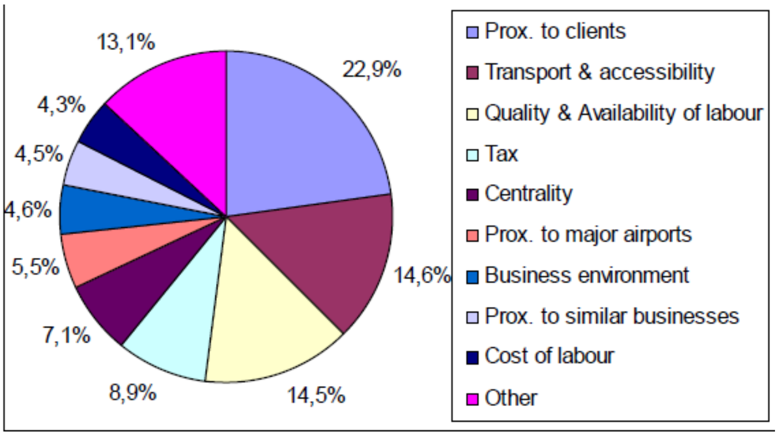
For these, and many other specialist analysts, the task of identifying the determinants of FDI is evidently an arduous, intellectually challenging task, and still very much a work in progress, in startling contrast to the EU-supporters quoted above, for whom it is all a doddle, a no-brainer, and self-evident.

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

[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

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, their 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 98 multinational enterprises the decision 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, but what we can do is to look back over the historical evidence to see just how well the inferences, intuitions, private conversations of politicians and journalist help us to understand the decisions of foreign investors with regard to the FDI in the UK.

This is what we will do in this paper. Focusing on the three events which we have led to expect some impact, positive or negative, on FDI in the UK we will us the available evidence to try to answer three questions.

Did entry to common market in 1973 help FDI in the UK?

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

Did UK decision not to join the euro adversely affect FDI in the UK?
Has the single market attracted FDI in the UK?

However, before reviewing the evidence, we must say something about the limitations of the data on FDI, and about the methodological problem facing every investigation of the EU.

Readers who already familiar with the UNCTAD and OECD databases, who are not interested in methodological problems and caveats, or why certain countries may have been omitted from some analyses should jump to page 11, where the investigation proper begins. Those who do not wish to hear of arguments with previous research, and require no explanation of the context of successive steps in this inquiry, should jump directly to page 37 for a reasonably succinct summary of the results.

The problem of Special Purpose Entities

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, while OECD's basic, aggregate FDI data for the majority of member countries starts from 1990. Because of its more comprehensive coverage over time, the UNCTAD database is the primary source in this investigation. If one hopes to identify the impact of UK membership of the EEC one must have evidence for some years 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.

In other kinds of inquiry, those requiring breakdowns of 'partner countries' of origin and destination of inward and outward FDI flows and stocks, as well as the industries in which the investment start only from 2001, the OECD database is the primary, and indeed only, source as long as one is happy to work over shorter, and more recent, time periods. This investigation, however, makes little use of 'partner country' or industry breakdowns. The OECD database is therefore used mainly as a complementary source to cross check UNCTAD entries when it is possible to do so.

Occasionally, the two sources differ, but my attempts to discover whether there a consistent, systematic disagreement, and with luck, the reason for it, failed. One agency is not, for instance, consistently higher than the other. Inflows reported by one were higher than the other in roughly half of the years. When comparing their differences between groups of countries with graphs drawn from one source against the other showed that they were indistinguishable or too small to be of much concern, though for individual countries the differences may occasionally be considerable and disconcerting.

In the course of these comparisons, the UNCTAD data for Iceland revealed large discrepancies over the years 1989 to 2011 with that issued by the Central Bank of Iceland. Both were approached for clarification. The Central Bank insisted its figures were correct, and after lengthy consideration, and 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, but those published on the Central Bank of Iceland's website.[10]

In the present context however, the differences between the UNCTAD and OECD databases are less important than the one serious flaw from which they both suffer. This deserves some attention so that the results of this investigation, or any other making use of them, may be properly evaluated. Put simply, it is that neither of them currently state with certainty how the FDI is used by the recipient country, or even whether the country first named as the recipient was the ultimate destination of the investment.

Most discussions of FDI tend to 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. Most 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 hold capital, which is actually intended for later onward investment in some third country, and 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'.

In recent years national banks have begun to distinguish between FDI in the strict sense, and these financial transactions which may be recorded as such. In 2008, *De Nederlandsche Bank* disclosed that only 27% 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% and 73% over the years 2004-2010. Drawing on information published by the Luxembourg Central Bank, he went on to estimate that SPEs formed between 92% and 93% of FDI in Luxembourg over the same years.[11]

In 2011, 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 €491.9b, which is just over a fifth of the total FVC assets in the eurozone[12] It is also more than two and a half times the €189.5b 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, but exactly how many are included is not known.

[10] http://statistics.cb.is/en/data/set/ Foreign direct investment position in Iceland: Total FDI position & Total FDI flows. Position is synonymous with stock

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

[12] http://www.centralbank.ie/polstats/stats/fvc/Pages/fvc.aspx Since it began reporting these figures Ireland's share of which the total assets of all 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/

Switzerland is commonly seen as the home or fortress of secret bank accounts, and might be thought to be similarly hospitable to SPEs. Its National Bank now identifies the industrial destination of FDI by industry, and this shows that over the years 2005-2010, 47% went to manufacturing and service enterprise and the remainder to banks, and 'financial intermediaries', which a step towards identifying SPEs perhaps, though it is still not clear what proportion of the remaining 53% may have been long-term job-producing, service industry investments in its substantial financial sector, and what proportion may have been to SPEs.[13] 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 is' it declared 'a major host country for FDI on a global scale'…. and the 'banking industry, including private banking, represents 7.8% of the inward flow of FDI.'[14] Hmm.

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 International Investment Position has varied between 15% and 32% (in 2011) of the total.[15] It was 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% *below* that of ONS, suggesting that the UK FDI stock figures include few SPE's. 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 6% over the 21 years.[16]

One can perform 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 Pink Books, on average over the 21 years, 4% lower, though this average hides rather large discrepancies from 1991 to 1997, hitting 17% in 1994. After 1997, they remain within a percentage point of one another for most years until 2011 when the ONS was 5% 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 particular about the UK data recording, on the contrary, the ONS proudly announces that it is following European and international standards.[17] If there is anything distinctive, it is merely accessibility of the details of UK public finances. If the same exercise was conducted with the other 23 countries discussed below, we might of course be able to take remedial action, 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 and IMF to persuade them to distinguish

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[13] http://cdis.imf.org and http://www.imf.org/external/NP/ofca/OFCA.aspx
[14] *Investment Country Profiles: Switzerland*, UNCTAD, Oct 2011.
[15] 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.
[16] p.104 Table 8.1, p.106. Table 8.3, row HBWI, Office of National Statistics, *The Pink Book 2002*, HMSO, London, 2002.
[17] p.1 Pink Book 2012. *op.cit.*

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.[18] The Netherlands, for instance, has no entries at all under the CDIS heading 'Resident Financial Intermediaries'.

Over many years, the OECD has organized meetings and encouraged collaboration amongst of all reporting agencies and other interested parties in an attempt to agree common global standards for FDI reporting. The results of these deliberations appeared in the fourth edition of their *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.[19] Currently, most countries do not appear to do this, though Austria and the Netherlands have begun reporting their FDI to OECD free of SPEs, apparently since 2007, and others are expected to do so by 2014.[20]

For the moment, we may fairly say that FDI reporting is in a state of transition, but even if, as hoped, all countries followed 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.[21]

Since that is unlikely, we have little choice but to continue with the UNCTAD and OECD databases as they stand, while recognizing 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, they appear to be flawed for some countries more than others. But which ones in particular?

A search for hidden SPEs

One clue to the presence of SPEs existence is abnormally high FDI inflows, which are barely credible as reflecting a long-term interest by investors in the recipient country, and/or by extremely high volatility of inflows with precipitous falls leading to net disinvestment over one or two years, which lead one to suspect a sudden withdrawal of funds from an SPE.

[18] 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, but almost 100% to SPEs, but we are here concerned with SPEs within normal trading countries.

[19] *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

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

[21] Since 1996, the data collected by E&Y European Investment Monitor offer 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 intended 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.

The barely credible, and the incredible, can be identified by considering the total annual FDI inflow as a proportion both of the gross fixed capital formation (GFCF) in the recipient country, and of its GDP. These are presented in Table 1 for all 23 countries that appear at some point in the following inquiry. 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, though in Luxembourg's case, data was available only for ten years, with a single year of net disinvestment.

Table 1. Search for SPE Suspects:
Mean annual FDI inflows of 23 countries
over 19 years of the single market 1993-2011

	1.as % of gross fixed capital formation	2. As % 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	19	19
Ireland	57.2	10.8	15	15
Sweden	31.8	5.6	18	18
Netherlands	28.7	6	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	18	18
Canada	15.4	3.3	18	17
NZ	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	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

Such information cannot, of course, provide reliable information about the proportion of FDI destined for SPEs, but it may serve as a rough guide to countries most likely to be recording inflows to SPEs as FDI, which may be helpful to know when, as occasionally happens in this search, comparisons are made between individual countries, which may be a slight improvement on popular impressions.

If, we take, Luxembourg first, for example, 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 conclude that much the greater part of its recorded FDI is not 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 offshore financial centres (OFCs), with FDI inflows far greater than GFCF, though most OFCs have in fact provided rather more details of their apparent FDI whereas Luxembourg was unable or unwilling to do so until 2002. On both counts therefore, the implausibility and the incompleteness of the 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 some of the time at least, also of its Parliament. Is it plausible to suppose that foreign investors have been providing, on average over the 18 years, just over 80% of Belgium's GFCF? For several of these years, they have of course provided 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 several other years 2000, 2001 and 2008. The inward FDI flow to Belgium in 2008 recorded by UNCTAD was \$193.95b (and by OECD as \$193.57b), a total which makes its FDI over \$50b greater for that year than the total inward flow of FDI to all the other ten eurozone countries combined, which was $141.46b. Moreover, this FDI inward flow was just over half of Belgium's entire GDP in the same year.[22] 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.

But not from all, principally because it goes against the grain to eliminate countries from small samples without a clear, defensible rule applied consistently in every case, and there is no such rule. To avoid the risk of tilting the analysis one way or the other, or 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 its reported FDI flows were not incredible like those of Belgium, but might nonetheless be regarded as suspicious. In 2007 its FDI inflow peaked at 117% of its GFCF, and in 2008 was an exceptionally high 33% of its GDP, which amounted, by its own Central Bank figures, to 40% of the combined total of the three independent European countries in that year. [23]

Singapore, the third country on the list, shows how difficult it is to determine the proportion of GFCF that FDI should be to be considered credible. Singapore's FDI inflows have constituted about 60% of its GFCF, a comparatively high proportion, but given that its declared strategy, over the nearly 50 years 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 GDP has grown by steady increments since 1970, and has only exceeded 100% twice, briefly and by small margins, and 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, more than any other country. However, since it has also adopted a Singaporean strategy of economic development, this may simplify reflect the sudden repatriation of profits to foreign-owned multinationals or have some other entirely legitimate explanation.

The remainder of 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 the list, 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 net disinvestment.

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[22] An 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 not risk free.

[23] UNCTADstat Inward and outward foreign direct investment flows, annual, 1970-2011 US Dollars at current prices and current exchange rates in millions.

The unpalatable conclusion of this little DIY foray on SPEs is that the best FDI data in the world is still 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 most important ones at least, are comparisons of the weighted means of groups, non-EU versus EU, non-euro versus 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 eight 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 we do so, it will be clear, whenever graphs of the two kinds of data are juxtaposed, that inflows are far more volatile than stocks. FDI inflows record transient annual movements of capital, whereas FDI stock records the accumulation of 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 that country, rather than SPEs. There is, however, no 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 2 as a rough guide to the presence of SPEs is anywhere near the truth, then it seems that FDI inflows to EU countries are 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 comparison of some kind. Laboratory sciences surmount this problem relatively easily by reproducing multiple experimental groups that are subjected to the 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 therefore not possible, and we have to find some other way.

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. But what countries can serve as a control group, with whom comparisons can be made so that we may observe whether they respond in a similar or different manner to the experimental group of EU members. Ideally, we would like a group of European countries, similar in size, number, GDP, 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 and individually and collectively too small (in 2010 their populations totalled just 13 million), or for one reason or another they are deemed 'special cases', which cannot provide a fair comparison, and are therefore not suitable as control cases. 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% of Switzerland's GDP, 56% of Iceland's, and 42% of Norway's, and a mere 29% of the UK's.[24] Currently, therefore, the UK is rather less of a trading nation than any of them.

The only occasion that I have found when the reason for thinking these countries are not comparable with the UK has been spelt out is an internal report of HM Treasury *EU Membership and FDI*, apparently written in 2004. 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 on pharmaceuticals and financial services, distorting any comparison.' [25]

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

[25] 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

This is a lazy and tendentious comment. All trading nations necessarily differ as they discover the comparative advantages that enable them to trade profitably with others. 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 was discussing, but he/she does not say in what respects 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 making any comparison that might challenge his interrupt his journey to his intended conclusion.

Are perhaps 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 without anyone complaining that the UK is too small to make meaningful comparisons, since the standard method of making fair comparisons between countries of different sizes, converting gross to *per capita* data, is routinely adopted without any thinking 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 these three countries 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 of doing so. These three countries will therefore be used as a 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 EU 11, 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 was 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

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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

removed from any large markets.[26] 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. 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.

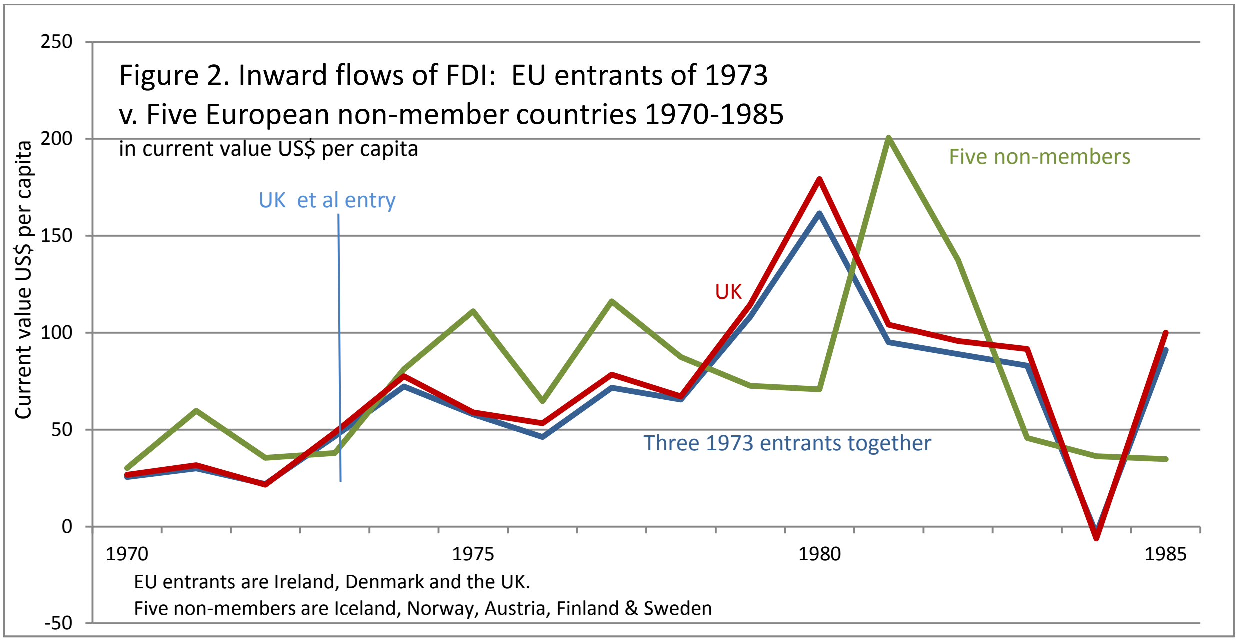
Part I. Did entry to common market in 1973 help FDI in the UK?

The first step in this investigation is to see whether joining the EU in 1973 had a beneficial impact on FDI flows to the UK, though because the UNCTAD data on inward FDI flows only begins in 1970, it can only be conducted with a rather limited before/after comparison.

In this instance, we have an entirely satisfactory control group of five 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.

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 alone, and together with the weighted mean of the UK and the two countries which at the same time as the UK, Denmark and Ireland. If EU membership had a positive impact on FDI they must have shared it.

[26] 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.



Source: UNCTADStat Inward and outward foreign direct investment flows, annual, 1970-2011 Measure US Dollars at current prices and current exchange rates *per capita*

Given the relative sizes of Ireland, Denmark and the UK, the FDI of the UK alone, and the weighted mean of the three 1973 entrants, in red and blue respectively, follow each other closely.

FDI in the three entrant countries can be seen to have increased after entry, but since the FDI flows into the five non-members increased even faster, and over a longer period, one could hardly attribute their modest increase to EEC membership.[27]

Over some 40 years successive governments have, as already noted, failed to provide to provide the data that might confirm the claims various Prime Ministers and others have made on this topic. However, in response to an FOI request, in 2010 some internal Treasury documents of five internal analyses of 'third party assessments of the cost-benefits of EU membership' were released by HM Treasury. One of them, *EU Membership and FDI*, has already been mentioned and it is perhaps as close as we can get to an official view of the supposed consequences of accession to the EEC. Its summary leads with the comment 'The UK has seen substantial growth in both inward and outward FDI since accession to the EU, although determining how far the EU was responsible for this is complicated by other factors – in particular the global surge in FDI at the same time. However, the stylised facts support the theory that membership of the EU is

[27] Obviously, I would have liked to corroborate this result with data on the growth of FDI stock since 1970, but the published versions only begin in 1980. UNCTAD will, however, run special analyses by request in return for a suggested donation. The suggested donation following my request was £7000, and I have thus far declined, not simply because I did not have £7000 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 Prime Ministers about the EU, the ordinary voter might nevertheless obtain it from readily accessible sources.

a key factor in attracting investment to the UK, and demonstrates the importance of this investment for the UK.'[28]

Unfortunately, the subsequent analysis is rather muddled and is mainly concerned with the benefits of FDI to the UK, and with possible future gains from 'further integration' and 'the liberalisation of services industries'. As a result, the key issue of whether or not FDI increased as a result of EU membership is entirely forgotten, a strange oversight, for though it is undated, this paper appears to have been written in 2005, when the UNCTAD data quoted above was, of course, as available to HM Treasury as to everyone else. Why they should prefer 'stylised facts', to real facts is never explained.[29]

Another HM Treasury research paper amongst the five, entitled *The Economic Effects of UK membership for the UK: revised storyboard August 23rd, 2005*,refers to an Institute of Directors paper which estimated the value of FDI to the UK, cites a 2004 paper which sought to assess the costs to FDI if the UK withdrew, mentions the increase in FDI in Sweden since its accession in 1995, then, still without having made any reference to primary data about FDI in the UK before or after accession, it asserts that 'Foreign Direct Investment flows into the UK have been substantially boosted by EU membership.'[30] It then continues, without citation, that 'econometric studies suggest significant inward flows to the UK are linked to EU membership', and that 'many firms restructured through FDI…to exploit comparative advantage across the EU' and then adds, citing only the 'European Commission', which makes it difficult to trace and check, a prediction that 'liberalisation', meaning the Lisbon Economic Reform Strategy agreed in 2000, 'would boost UK… inward FDI stocks by 20%', a fairly safe bet since no timeline was given.

In its overall assessments of the four 'flows' resulting from EU membership, the others being trade, labour and fiscal flows, are each awarded one tick, but FDI flows are awarded, indicating that the author considered them 'the most certain and most beneficial' of the four flows to the UK. How they could be 'most certain' about FDI flows when they did not bother to examine them is a mystery. And why anyone could be certain about volatile FDI *flows* is another.

The recently-published *Review of the Balance of Competences between the United Kingdom and the European Union: The Single Market* refers repeatedly to the importance of FDI to the UK, a proposition with which few would care to argue. Whilst it gives some data of the amount of FDI, reports the opinions of a number of large British companies that EU membership encourages FDI in the UK, it provides no new evidence on the critical questions whether EEC accession in 1973 helped FDI, or whether membership of the EU's single market might have done so.[31] Nonetheless, it finds

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[28] fn 25, *supra* HM Treasury, *EU Membership and FDI*. undated. The five papers are available at https://www.gov.uk/government/publications/treasury-analysis-of-third-party-assessments-of-cost-benefit-analyses-of-eu-membership

[29] The stylised facts on which the paper depends are never presented, nor are we told who did the styling

[30] *The Economic Effects of UK membership for the UK: revised storyboard August 23rd, 2005* Without telling us how, it estimated that 'as much one third of investment into the UK could be attributable to membership of the EU' p.20 *ibid*.

[31] HM Government 2013 https://www.gov.uk/government/consultations/call-for-evidence-on-the-governments-review-of-the-balance-of-competences-between-the-united-kingdom-and-the-european-union

time to refer, yet again, to the 2004 study mentioned several times in the second Treasury paper which sought to estimate the loss of FDI to the UK were it to leave the EU.

This is a pretty good indication that there have been no analyses within government of the determinants of FDI in the UK, and that claims of ministers and prime ministers on this subject should be taken with a pinch of salt.[32] Limited as the data presented in Table 2 may be, it seems to tell us more about FDI in the UK following accession than UK governments have managed to collect in 40 years.

Did membership help FDI in later entrant countries?

Although we have found no evidence, among the limited amount presently available, to suggest that EEC membership in 1973 had any beneficial impact on FDI inflows to the UK, this does not mean, of course, that it has also had no beneficial impact on FDI in other later entrants. So we will now examine their experience to see if their FDI benefited from entry, making use of course of the fuller UNCTAD data that becomes available.

There are six of them: Greece which joined in 1981, Portugal and Spain which joined in 1986, and Austria, Finland and Sweden which joined in 1995. We will compare the FDI in these countries in the decade that preceded their entry to the EU with the decade that followed, to see whether there is an increase that might reasonably be attributed to the impetus or attractions of EU membership.

In an attempt to provide a yardstick by which we may judge whether the increase after joining the EU is exceptional, and therefore may plausibly be attributable to EEC/EU entry, or just normal, regional manifestation of worldwide FDI growth, the FDI in the six new entrants is compared with that of two sets of non-member control group countries over the same decades.

The first set consists of European non-member countries, and when Greece, and then Portugal and Spain entered, there were still five of them: Norway, Iceland, Austria, Finland and Sweden, though there was still no data for Switzerland. When Austria, Finland and Sweden themselves entered, our control group shrinks obviously, but to three, not two, since Swiss data became available in 1985. The second set consists of the five countries scattered around the world: Australia, Canada, Israel, Singapore and New Zealand, the additional control group mentioned earlier. So that inflation is not confused with growth, the data has been converted throughout to 1970 US dollars.

In each case, that of the entrant country, and of the two sets of countries with which they are compared, the *sum* of all the *per capita* FDI inflows received in the decade prior to entry is given

[32]The estimated losses were one third of FDI inflows from outside of Europe and 2.25% of UK GDP ‘over time’. The Treasury papers do not give a full citation for this paper, but it appears to be fn 26.

in column 2 of the table, and in column 3, the *sum* of all received in the decade following entry, both in US(1970) dollars.[33]

Table 2. Real growth of total inward FDI flows *per capita* to six new EU entrants during the pre-entry v post entry decades

	Total FDI *per capita* over 10 years PRE-ENTRY In US(1970)$	Total FDI *per capita* over 10 years POST ENTRY In US(1970)$	% growth
Greece 1971-1980, 1981-1990	168	215	28
v.5 European non-members	509	665	31
v.5 world-wide non-members	788	725	-8
Portugal 1976-1985,1986-1995	64	429	570
Spain do.	168	670	299
v.5 European non-members	427	1341	214
v. 5 world-wide non-members	593	993	67
Austria, 1985-1994, 1995-2004	275	1203	337
Finland do.	299	2095	601
Sweden do	805	4566	467
v. 3 European non-members	748	2329	211
v. 5 world-wide non-members	861	1865	116

Source; UNCTADstat Foreign direct investment stocks and flows, annual, 1970-2011 http://unctadstat.unctad.org/UnctadStatMetadata/Classifications/Tables&Indicators.html

Even though, as column 2 shows, all the new entrants, apart from Sweden, started with much lower FDI *per capita* than the non-member countries, this evidence makes a strong case for the argument that EU entry has encouraged FDI. Greece is the exception, since the growth of the five European non-member countries increased at a marginally faster pace over its post-entry decade. But the increase in FDI inflows in the five other new entrant countries over their post-entry decade, exceeded that in the two control groups of non-member countries. In the cases of Finland, Portugal and Sweden it was more than by twice as much as either set of non-member countries.

There is therefore a marked contrast between the post-entry FDI of the 1973 entrants- UK Ireland and Denmark, and the other later entrants Greece in 1981, Portugal and Spain in 1986, and Austria, Finland and Sweden in 1995. For the moment, we can only speculate about the reason for this difference. The low amount of FDI in these late entrant countries prior to entry, apart from Sweden, suggests that they might previously, for one reason or another, have been seen as *terra incognita* for major international investors, and entry into the EU served for them as an introduction, and credit reference, in international capital markets. But that is only a guess.

[33] A first attempt to compare the growth of FDI flows *per capita* by the first and last years of the two decades showed that for all six new entrants growth had *declined* in the post-entry decade. I took this as a lesson in what might happen when measuring highly volatile FDI flows over time. Sums of each decade avoid this problem.

There is one important point to be drawn from this sharp contrast between the UK experience and that of most of these later entrants. It is common practice, which HM Treasury follows, to take projections of future possible gains for the EU as a whole in GDP, or employment, or FDI or whatever, if there is more integration amongst its members or if some other proposed policy is realised, and then claim the same possible future gain for the UK alone. Arguing from the whole to the part, as if the EU were already a single country may be acceptable to eurocrats, especially if they wish to sell a particular policy to an uneasy member country. It is not an acceptable, I would submit, for those responsible for defending the UK's national interest, or for those informing the British electorate about the benefits or costs of EU membership.

We may now turn to the second stage of this search, the launch of the euro in 1999.

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

Three years after its introduction in the eurozone, in 2002-3, 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% were of the UK population were against joining the euro and 32% thought it 'a very bad thing', while 31% were in favour.[34]

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', and 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'.[35]

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 of the convergence of the UK economy with that of the eurozone which had to be passed before he would contemplate agreeing to UK entry. In a thorough reassessment of the five tests in 2003, they were still not passed, and thereafter the campaign for the UK to join the euro fizzled out and lapsed from public awareness.[36] The very idea that the euro

[34] 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

[35] 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.

[36] 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

cause could no longer rest on faith, bright hopes and optimistic promises and would henceforth have to withstand close and continuous scrutiny and empirical verification, and seems to have undermined the enthusiasm of its supporters.

The leaders of this campaign to join the euro have declined to reflect on their failure, but it is instructive to do so, not to decide whether the decision to remain outside it was right or wrong, which is far beyond the scope of this research, but to evaluate the arguments about FDI used by those who favoured joining the new currency.

The warning from the 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 cause, for which we should be grateful. Huhne and Canning, the authors of their report, claimed that 'Foreign investors want to serve the European market free of the risk of exchange rate movements.' By failing to join the euro when it began, they argued, the amount of 'foreign investment (in the UK) has declined fairly dramatically', and is 'destined to decline still further'.[37]

Quotes and anecdotes were added to convey the impression of official and multinational consensus on the issue. The official *Invest in Britain Bureau* had, they said, warned that further investment in the UK carries an unnecessary risk of 'meltdown' in FDI, a view that they thought their research has 'proved justified.' The UK ambassador to Japan 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 the 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 is more of an endorsement, intended to convey the impression that right-thinking people are pretty much agreed that entering the euro is a good thing than independent research which arrived by at the same conclusions. They add nothing by way of insight, evidence or argument to Huhne and Canning, so we will confine our attention to their work.[38]

They relied on two measures to show the adverse effects of the decision not to join the euro:, the first referred to the UK *share* of FDI flows to the EU which they claimed had declined since

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ambiguous…If the economics had changed, I would have gone for it. They didn't. And for me that was that.' p.536, Tony Blair, *A Journey*, Hutchinson, London, 2010. He fooled everybody, one is tempted to say, including his fellow campaigners and supporters.

[37] Huhne & Canning, *op.cit*.

[38] 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

the launch of the euro, and the second to a fall in the *value* of the inward flow of FDI to the UK up to 2001. We will consider them in turn.

The post-euro fall in the UK share of FDI in 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 countries.[39] Ernst & Young's *European Investment Monitor*, they said, reported that 'Britain's share of new European foreign investment projects has fallen from 28% in 1998 to 19% in 2001', and of new EU projects from 36% to 25% in 2001. The *Economist Intelligence Unit* had, they said, found that the UK's 28% share in 1997 had fallen by a percentage point in each of the following years and had predicted that it would decline to 21% in 2001.[40] They then quoted an OECD press release that the UK share had fallen from 28% in 1998 to 17% in 2001, and the *UN World Investment Report* that it had fallen from 27% in 1998 to 16% 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 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 had fallen from 31% in 1998 to 19% in 2001. However, we now have up to thirteen years of post-euro evidence which may be compared with thirteen pre-euro years, and hence may see how well their argument stands up over a longer time span.

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, even reckless, method of analysis.

In the first instance, we will look back at just nine pre-euro years, because the OECD database 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 European Union was 26.18%. Over the following nine years 1999-2011, it was 26.64%. Hence, over the nine years after it declined to join the euro, the UK share was fractionally *higher* than it was in the pre-euro years. UNCTAD, reports a significantly larger increase over these same years, from a mean UK share of 21% over the nine years before the launch 1990-1998, to 25% over the nine years following it. If we were to follow the *Britain in Europe* team's *post hoc ergo propter hoc* reasoning, we would say that the UK increased its share of FDI in the EU because it declined to join the euro.

But we won't. Apart from anything else, we know better, for when we compare the thirteen pre-euro years with the thirteen post-euro years as the UNCTAD database allows us to do,

[39] p.24, *ibid.*

[40] 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.

the mean UK share falls from 29% to 26% –as shown UNCTAD 2 in the last row of Table 3, which summarizes all the measures mentioned above.

Table 3. UK share of inward FDI flows into EU countries before & and after launch of the euro in 1999			
Percentages quoted by *Britain in Europe* 2001[a]			
Citations	pre/post time span	Pre €	Post €
Ernst & Young, all FDI projects in Europe	1998 v. 2001	28	19
Ernst & Young, all EU projects	1998 v. 2001	36	25
Economist Intelligence Unit	1997 v. 2001	28	22
OECD press release	1998 v. 2001	28	17
UNCTAD World Investment Report*	1998 v. 2001	27	16
Percentages from OECD & UNCTAD databases 2013[b]			
OECD single years	1998 v.2001	31	19
UNCTAD single years	1998 v.2001	31	19
OECD nine years	mean 1990-1998 v. mean 1999- 2008	26	27
UNCTAD 1 nine years	mean 1990-1998 v. mean 1999- 2008	21	25
UNCTAD 2 thirteen years	mean 1986-1998 v. mean 1999-2011	29	26
Sources a.Huhne & Canning, *op.cit.* *b.* UNCTAD, UNCTADstat Inward and outward foreign direct investment flows, annual, 1970-2012; 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 and misleading 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 an increase in the UK share after nine years, and then a fall after thirteen, though not on the scale of the figures given by *Britain in Europe*.

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, the *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%, from $33.2b to $118.8b, and then perhaps they would have written about how the UK decision to remain outside had been triumphantly vindicated. Or perhaps not. The point still holds.

For what it is worth, at the time of writing, UNCTAD reports for 2012 were published and showed the UK share of FDI in the EU15 for the year had jumped to 28.4%, and the figures from OECD for the first three quarters of 2012, shows the UK share has jumped back to 29.39%, its mean over the pre-euro years.[41]

Shares of FDI inflows to Europe pre & 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 eleven eurozone for which we have complete data might 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 from this comparison.[42]

Obviously, it goes against the grain to remove any countries from small samples, though it goes even more against the grain to include data that is blatantly unbelievable. In group analyses, with weighted means, the small size of both these countries means that one can overlook any misgivings since they cannot have a large impact on the final result. However, in the present comparison of *per capita* shares of individual countries, their presence produces distracting, headline-grabbing, results.

We are therefore left with ten countries to represent the eurozone, and five non-euro countries. Table 4 presents their 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) and as *per capita* shares (columns 3 and 4). Column 5 gives the percentage of the total EU population of each the 15 countries in 1999, and Column 6 provides a simple index of post-euro FDI over and underperformers by dividing the post-euro mean share of the total value in column 2 by the share of the total population in 1999. 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 6, over performers score more than 1, in red, and under performers less than 1.

[41] 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/
[42] See p.10 above.

Table 4.Shares of the total value of inward flows of FDI to 15 European countries Eurozone v. non-euro countries 1986-2011						
	Mean % share of total value		Mean % share *per capita*		5. % share population of the 15 in 1999	6.Over & under performers: ratio value col 2/ pop'n col 5
	1.Pre € 1986-1998	2.Post € 1999-2011	3.Pre € 1986-1998	4.Post € 1999-2011		
Austria	1.9	2.2	4.3	5.1	2.2	1
Finland	2.1	1.3	7.0	4.6	1.4	0.9
France	18.3	14.9	5.5	4.5	15.6	1.0
Germany	6.9	13.7	1.5	3.2	21.8	0.6
Greece	1.1	0.5	1.9	0.9	2.9	0.2
Ireland	2.1	3.5	10.4	16.1	1.0	**3.5**
Italy	3.6	4.8	1.1	1.5	15.2	0.3
Netherlands	11.5	9.0	13.2	10.6	4.2	**2.1**
Portugal	1.7	1.5	3.0	2.6	2.7	0.8
Spain	10.1	9.6	4.6	4.2	10.6	0.9
Eurozone total	**59.2**	**60.1**	**52.5**	**53.2**	**77.5**	**0.8**
Denmark	2.6	1.9	8.9	6.7	1.4	**1.4**
Sweden	7.0	5.3	14.2	11.1	2.4	**2.2**
UK	25.9	24.9	7.9	7.8	15.6	**1.6**
Norway	2.0	2.4	8.1	9.5	1.2	**2**
Switzerland	3.3	4.6	8.4	11.7	1.9	**2.6**
Non € total	**40.8**	**39.0**	**47.5**	**46.8**	**22.5**	**1.7**

Source: UNCTADstat Inward and outward foreign direct investment flows, annual, 1970-2011.
US Dollars at current prices and current exchange rates in millions

If we first consider the euro and non-eurozones collectively, we may see that the ten eurozone countries have marginally increased their share of the total value of inward FDI since the launch of the euro from 59.2% to 60.1%, and *per capita* from 52.5% to 53.2%. 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 demonstrates the benefits of the euro, though given that the eurozone is more than three quarters (77.5%) 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 0.7 between the eurozone's *per capita* and real population shares indicates, it is, as a whole, a long-term underperformer. To have increased their share in the total value of inward FDI by 0.9% and *per capita* by 0.7% over thirteen years could hardly be considered success. At this rate of increase, they would not equal the non-euro countries until well into the 22nd century.

Within the eurozone, four countries have increased their share in the total value of inward flows of FDI –Germany by 6.8%, Ireland by 1.4% and Italy by 1.2%, and Austria by 0.3%, so 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. However, when measuring *per capita* shares, Ireland is away out on its own, having increased its *per capita* share to 16%, with a population which is just under 1% of the total population of the fifteen countries. The other six eurozone countries have lost share by both measures, the main losers being, in total value, France, with a fall of 3.4% in its share of the total value of FDI, and 1% in *per capita* value, and then the Netherlands, with a falls of 2.5% and 2.6%.[43]

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, and *per capita* share more than 16 times as much. The other over-performers are all small countries, Austria, Finland and the Netherlands. Portugal's share of the eurozone's FDI is almost exactly proportionate to the size of her population.

The large eurozone economies are all under-performers. In descending order, measured by the ratio of FDI share *per capita* to real population share, they are Spain, France, Germany and Italy. As the outstanding beneficiary of FDI inflows since the euro launch, Germany has it seems been catching up fast with its partner countries since the launch of the euro, and been increasing its share at their expense, most notably at the expense of France.

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, in contrast to the three percentage points fall recorded in Table 3, which was calculated with the highly suspect returns from Belgium included. In *per capita* terms, the UK share has fallen by 0.1%.

Apart from the UK, the non-euro countries have all been outstanding over-performers since the euro launch. Measuring again by the ratio of FDI share *per capita* to real population share, Norway is the best, followed by Switzerland, Denmark and Sweden. Whilst in the company of the other non-euro countries the UK is a striking under-performer, it has performed slightly better than any of the large economies in the eurozone.

Seen as a whole, and noting that both euro and non-euro countries are to be found with rising and falling shares of post-euro 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 European countries over the past 13 years.

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

When measuring FDI inflows over time, one has to be prepared for sudden fluctuations, which prompts one to be cautious when drawing conclusions from such data. It helps of course, if one takes, as we have already done, means of inflows over several years, and it is still more if we

[43] The Netherlands is rather high on the list of countries suspected of having had a rather high proportion of SPEs, but it has recently 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 decline..

One can, however, get some reassuring if we also have data of the inward FDI stock held, and of its growth over time, a less erratic figure than FDI inflows which probably provides a better measure of the attractiveness of countries to foreign investors.

In Table 5, 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, both in terms of total value and *per capita*. In the event, it does not reveal many marked discrepancies with the the mean inward FDI flows given in Table 4.

Table 5. Shares of inward FDI stock held in 15 European countries 1986-2011 Eurozone v. Non-€ countries

	Mean % share of total value		Mean % share *per capita*			
	1.Pre € 1986-1998	2.Post € 1999-2011	3.Pre € 1986-1998	4.Post € 1999-2011	5. % share population of 15 in 1999	6.Over & under performers: ratio value col 2/ pop'n col 5
Austria	1.8	2.4	3.5	4.6	2.2	**1.1**
Finland	1.9	1.3	2.5	4.4	1.4	0.9
France	17.9	14.5	5.9	5.1	15.6	0.9
Germany	7.0	14.1	3.1	2.4	21.8	0.6
Greece	1.0	0.5	2.0	1.0	2.9	0.2
Ireland	1.9	2.8	24.8	17.5	1.0	**2.8**
Italy	4.22	5.3	2.2	1.6	15.2	0.3
Netherlands	11.2	9.6	11.5	11.8	4.2	**2.3**
Portugal	1.9	1.3	3.0	2.8	2.7	0.7
Spain	10.6	9.7	4.1	3.7	10.6	0.9
Eurozone total	**59.3**	**61.6**	**62.5**	**55.0**	**77.5**	**0.8**
Sweden	6.4	5.4	6.1	8.5	1.4	**3.9**
Denmark	2.4	2.2	5.1	9.1	2.4	**0.9**
UK	26.6	24.6	6.8	5.4	15.6	**1.6**
Norway	1.9	1.9	7.3	7.5	1.2	**1.6**
Switzerland	3.4	4.3	12.3	14.6	1.9	**2.3**
Non € total	**40.7**	**38.4**	**37.5**	**45.0**	**22.5**	**1.7**

Source: UNCTADstat Inward and outward foreign direct investment stock, annual, 1980-2011
US Dollars at current prices and current exchange rates *per capita*

If we first consider the percentage shares of the total value of the FDI stock held in each country (columns 1 and 2), we can see that over the thirteen years since the launch of the new currency, the ten eurozone countries have increased their share, from 59.3% to 61.6%, a gain of 2.3%, which is more than double the 0.9% increase in their share of the total value of annual flows.

This is another modest point for the euro cause perhaps, though once again one must add, that since the eurozone is 77.5% of the total population of the 15 countries, and has only 61.6% of the total FDI stock, it is more of a consolation goal than a convincing vindication of the pro-euro argument. At this rate, the eurozone still has a long way to go to catch up with the non-euro countries.

Within the eurozone, the big winner, by this measure, was once again Germany, more than doubling its share of the 15 countries' FDI stock since the launch of the new currency. Ireland and 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%, and it is again followed by the Netherlands with a fall of 1.6%.

In *per capita* terms, only Austria and Finland have gained within the eurozone. All the other countries have lost ground, including Germany and Ireland. While Germany has been overhauling its euro partners in terms of the total value of its FDI, and will one imagines shortly overtake France to have the largest stock of FDI within the eurozone, the growth of its FDI has not, it seems, quite kept pace with the sudden jump in its population as a result of reunification in 1990, hence the fall in its share *per capita*. Ireland remains a remarkable and exceptional case. Even though its *per capita* share has fallen by more than that of any other country, the fall is from the dizzy heights of the 80s and 90s. To put it another way around, if all 15 countries had identical populations, Ireland's present share would equal 17.5%, of their total FDI stock, with only Switzerland's 14.6% and the Netherlands 11.8% coming within shouting distance.

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 held by the 15 countries. Norway held its share, while Switzerland increased its share by 0.9%, but the share of all three EU non-euro countries declined, the UK's most of all, by 2%, far more than the 0.1% fall in its share of FDI inflows.

In *per capita* terms, (columns 3 and 4) however, there is quite a sharp contrast with that presented for annual flows, since four of the non-euro countries gained markedly, with Denmark registering the largest gain, of 4%. The UK was the only non-euro to lose share in *per capita* terms, falling from 6.8 to 5.4 per cent. And four of the non-euro countries are over performers by the index of over and under performers, with Denmark being the marginal exception.

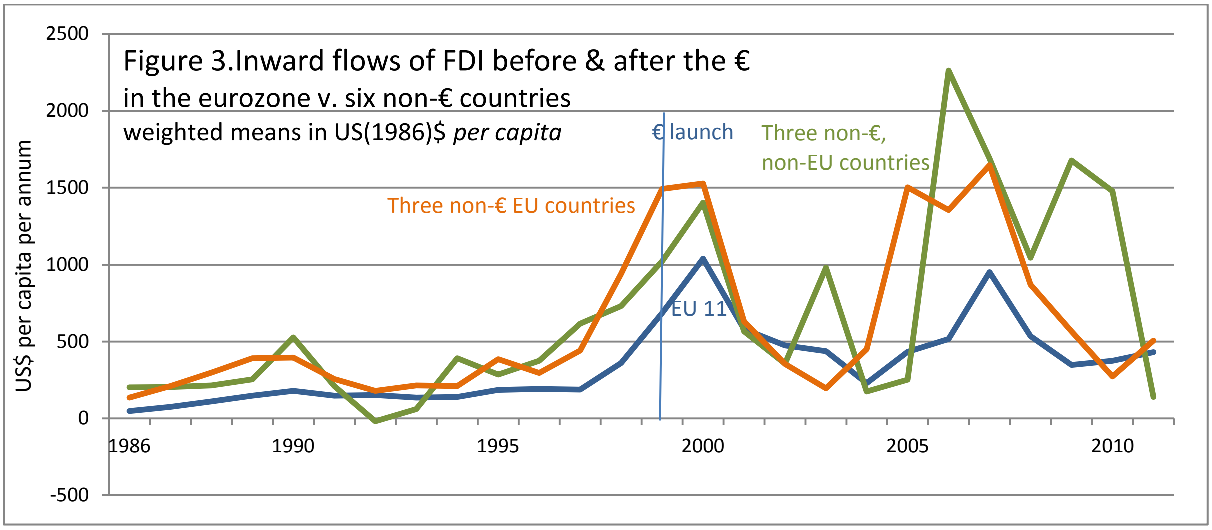
Comparing the two groups collectively there are gains on losses on both sides, but the non-euro countries have the edge, and more than a slight edge. While, as we saw, they have lost marginally in the percentage share of post-euro FDI inflows, they have increased their share *per capita* substantially, by 7.5%, a larger shift than that found by any other collective measure.

Growth of FDI inflows to Europe pre & 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 sponsors about the overall growth of FDI in the eurozone, and decline outside it. They meant growth of inflows, so we are back in dangerous territory.

They referred to 'official European Commission figures', unfortunately with further identifying their source, which they said, showed 'a dramatic 384 per cent increase in the value of foreign investment in the euro-zone 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 seldom prove an argument so emphatically.

Thus far, I have failed to find the 384% 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 $316.7b and in the following year $498.2b, a substantial increase of 57%. Over the same two years the inflow to the non-euro three, Denmark, Sweden and the UK also rose, but only from $165.9b to $175.0b, an increase of just 6%, which might be the 'eighth as much' they referred to, and might even be an understatement, 57% versus 6%. 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 3, the euro's 'dramatic' success has all but vanished.



The graph does indeed show the post-euro ascent of the 11 eurozone countries which so impressed Huhne and Collings, and that FDI flows to them climbed rather more rapidly 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 started 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 'dramatic' achievement which Huhne and Collings hailed. Moreover, the post-euro bounce of the three non-EU countries of 43%, from $18.6b in 1999 to $26.5b in 2000, was not that far short of the eurozone's 57% increase. Even the UK, measured on its own, enjoyed something of a post-euro bounce of 35% from 1999 to 2000, or 37% according to the OECD.

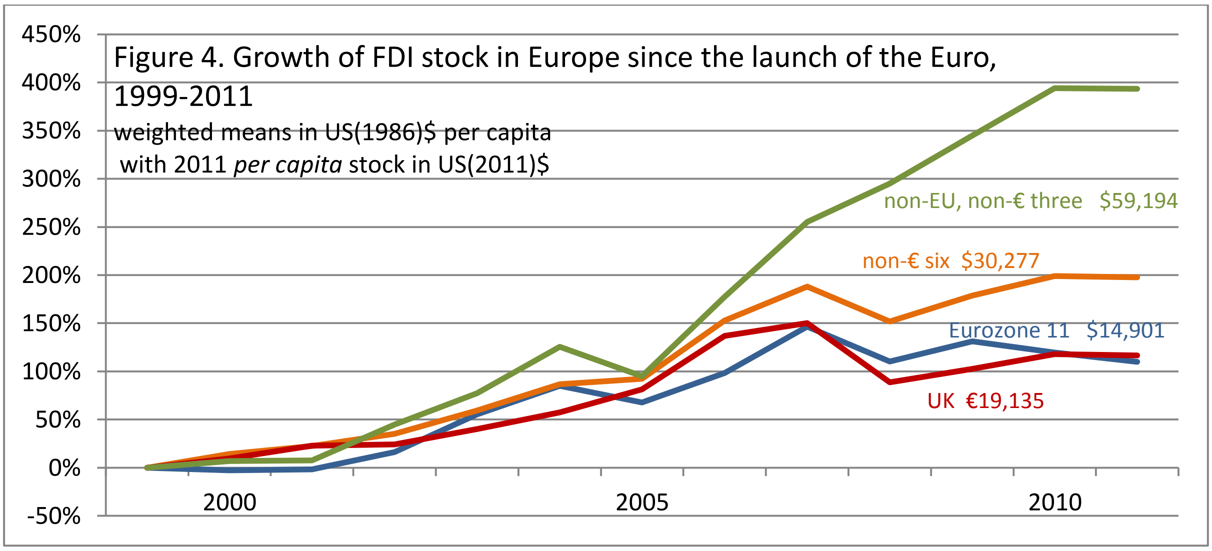
After 2001, the inward FDI flows to all countries declined, euro and non-euro alike, with the euro offering no special protection or it seems, having any extra appeal to foreign investors. As one can see, over the most of the thirteen post-euro years, FDI inflows to the euro countries have generally been lower than those to the non-euro countries. The eurozone 11 did not again approach the surge of 2000 when they hit $1635 *per capita*, until 2007 when they reached $1801 *per capita* (and $571b 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, the decline of the three independent countries 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. However, this is one occasion when there are quite sharp differences with OECD, which show less of a decline, but since nothing hinges on the difference we will let it pass.

Overall, this evidence does not support the view that the euro has helped the growth of inward FDI flows in its member countries or proved particularly attractive to foreign investors when compared with independent European countries. However, we still have to examine the growth of inward FDI stock, which, as noted earlier, would appear to provide a more secure indication of a significant shift in the appeal of a country to foreign investors.

Growth of FDI stock in Europe pre & 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 the UK), with the three of these six countries that are members neither of the euro nor of the EU also given separately.



Source: UNCTAD http://unctadstat.unctad.org Inward FDI stock, annual 1980-201

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% in real terms. Seen as a whole the six non-euro countries, including the three non-EU members, appear to have been the reasonably successful countries, with real growth of nearly 200% over these 13 years, but then their mean rate of 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 eurozone 11 as a whole, with growth of 110% has performed comparatively poorly, and the UK, on its own, hardly better with growth of only 117%. In the light of this evidence, it is still just possible for euro supporters to argue that while the advantages of the euro may not have been quite on the scale they imagined, or as impressive as *Britain in Europe* portrayed them, the UK would have been better off joining.

Whether this is a plausible argument can be seen by comparing European countries individually over the thirteen years before and after the launch of the euro. The results are presented in Table 6 below, with countries divided into euro and non-euro groups, and listed in the order of the rate of growth in the 13 pre-euro years.

Table 6. Growth of inward FDI stock *per capita* in Europe before and after launch of the € in 1999
measured in constant US(1986)$
listed in order of growth during the single market

Original Members	**1.PRE € % Growth 1986-1998**	**2.POST € % 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
Wtd mean	**352**	**110**	**861**	**7162**	**14901**
Non-members					
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
Wtd mean	**207**	**198**	**1404**	**13205**	**30277**

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

At first glance, the UK entry on this table might seem to add still further support to the *Britain in Europe* argument, since it shows that the 187% growth of FDI stock of the UK over the thirteen years prior to the launch of the euro was markedly higher than the 117% over the thirteen subsequent years. Add this to the earlier evidence, that growth of FDI in the UK was lower than the EU mean, and to the evidence of its declining share in FDI in the EU presented in Tables 2, 3, 4, above, and euro enthusiasts might feel vindicated.

That feeling will not, I suspect, last for long, indeed only as long as it takes to look at the weighted mean of the eurozone 11 as a whole, since it shows their growth over the thirteen post-euro years is less than a third of that in the thirteen pre-euro years, and contrasts quite sharply with that of the non-euro countries where the pre and post-euro growth is virtually the same. Moreover, the experience of individual founder members of the euro is less than reassuring. Only three of them, Austria, Ireland and Greece, have seen an increased rate of growth in inward FDI stock since its introduction. For the other eight, growth of FDI stock over the thirteen years since the launch of the currency has, like that of the UK, been less than in the thirteen pre-euro years, and for several of them the decline was greater than that of the UK, most especially France, with 549% pre-euro FDI growth to a mere 11% over the thirteen post-euro years.

The non-euro countries are more evenly split. In the three EU members that elected to keep their own currencies, growth declined, while in the three independent non-EU countries there was rather spectacular post-euro growth we saw in the graph. However, it is the bottom lines of each section of the table that provides the startling, even devastating, conclusion. The actual amounts in US(1986)$ both at the start and end of the period in columns, 4 & 5, allow us to conclude 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.[44] 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 much of the eurozone were no better, it would be difficult to argue that it lost anything by declining to join the euro, or for that matter, that the members gained much by joining it.

A snow job for the euro

In their few pages on FDI, the *Britain in Europe* team throw a number of other assorted items of evidence at the reader, so at times it seems more like a blizzard rather than a considered argument. For one reason or another, it does not seem worth testing each one of them at length. Here are some examples.

[44] 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)$6301 in every inhabitant in the eurozone and $11801 in ever inhabitant of the non-euro European countries.

- They claimed that 'Investment into the euro area has risen most sharply *from* (my italics) 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, when in all probability the Netherlands figures included SPEs. 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.[45] So yes, while as they said, the Netherlands did overtake the UK in 2001, it does not have quite the significance they wished to attach to it. It has only happened once since then, in 2008.[46]

- 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 bits of evidence add little the *Britain in Europe* argument. If anything, they discredit it. However, they were incidental to the two main empirical planks of– the decline in the UK share of FDI in the EU and the fall in the flow of inward FDI to the UK.

Telling the truth while misleading 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 could only cover a short period of time, was

[45] By $37b and $39b to be precise. See www.oecd-ilibrary.org./statistics/Databases/International Direct Investment Statistics/Dataset: Foreign Direct Investment: flows by partner country/ Netherlands and the UK.

[46] The six distinguished figures who put their names to the second *Britain in Europe* publication also reproduced these bizarre figures in bold face, much as if they were scoring a particularly powerful point. They either did not read what they were endorsing, or are all completely unfamiliar with the FDI evidence, or perhaps both.p.13, Layard et al, *op.cit.*

sometimes presented in a reckless manner, and they occasionally forgot to include relevant items or caveats, it conveyed a wholly misleading impression.

On the UK's declining share of FDI post-euro There *was* a decline in the UK share of FDI inflows to the EU. However, they compared single years before and after over a short time span which allowed to report falls in the UK share of FDI in Europe of 9, 11, 6, 11 and 11 percentage points (Table 3). However, comparisons of mean of shares over nine years before and after the euro launch indicated an increase of 1% in the UK share, and comparisons of mean shares over thirteen years before and after, showed falls of 4 and 3 percent in shares of FDI inflows (Table 3), of 1.0 and 0.1 percent (Table 4), and of 2 and 1.4 percent (Table 5), rather less, in other words, than *Britain in Europe* claimed.

On the UK's declining FDI inflow post-euro There *was* a fall in the flow of inward FDI to the UK after the launch of the euro, though it was preceded a brief jump immediately after the launch, and the subsequent decline in the inward flow of FDI to the UK was accompanied by a similar decline in every European country whether in the euro or not(Figure 3).

On investors' preference for a stable exchange rate The *Britain in Europe* case pivoted on the proposition that 'investors prefer to invest without the risk of exchange rate fluctuations.' This proposition is wholly unaffected by any of the evidence above.[47] It is surely true, *ceteris paribus*.[48]

There were three main defects in the *Britain in Europe* argument. The first, obviously, was the assumption that everything that followed the euro must have been due to the euro, the *post hoc ergo propter hoc* fallacy. The second, was the inadequate evidence from before the launch of the currency, and the third was the failure to include comparative evidence from the other euro and non-euro countries both pre and post euro. The comparisons over time presented in tables and figures above demonstrate the dangers of singling out the euro as the prime determinant of subsequent FDI performance, and the cross-societal comparisons that demonstrate the dangers of singling out the UK and claiming its relatively poor post-euro FDI performance is due to the decision not to join the euro. Both types of comparison, the historical and cross-societal, will therefore play a central role when considering the impact of the single market on FDI.

[47] A survey by the Department of Business, Innovation and Skills confirmed it. Only a minority of one third of a sample of UK exporters said stable exchange rates were of 'no importance'. However, the researchers repeatedly point out that 'the effect of exchange rate depreciation should not be over-estimated or over-simplified' and that 'exchange rate effects on trade are not straightforward, and can be relatively weak.' pp.xii, 11, 83-92, BIS Economics Paper No. 8 *UK Trade Performance: Patterns in the UK and global trade growth*, November 2010.

[48] Nevertheless, it is odd, given that the importance they attached to a stable exchange rate, that they did not mention the findings of the Calmfors Commission on Swedish participation in the euro. It decided that 'Many empirical studies have been conducted on the effects of exchange-rate fluctuations on the volume of trade. The somewhat surprising, but fairly unanimous conclusion is that these fluctuations seem to influence foreign trade very little, if at all. This conclusion must be regarded as fairly robust because the various studies have been done with different methods….different countries….different time periods….different exchange rate systems.' Lars Calmfors et al, *EMU: A Swedish Perspective*, Kluwer, Norwell, 1997.

Part III: Has the single market attracted FDI in 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 or in other member countries. Everyone, it seems safe, to say thinks that it has, at least until very recently. 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. So no evidence is required to demonstrate such an obvious point, but let us consider it anyway, an unnecessary waste of time as it may be.

A revived pro-EU business lobby gives another 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, folded. [49] However, in the following year, one of its board members, Roland Rudd, a PR consultant, launched *Business in New Europe*, which has resumed the fight on behalf of many large British companies for continued UK membership of the EU.

Their 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 unlike its predecessor, it argues, that Britain's, and 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. In a sense, *the Britain in Europe* argument 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 growth of FDI in the UK, and try to determine whether this has been due to membership of the EU. Has the pro-EU business lobby got it right this time around?

To support this line of argument, it commissioned 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 in 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 every country on the planet trades disproportionately with their near neighbours.[50] Hence, the evidence assembled by Oxford Economics only confirms that the UK follows the general rule. 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 that membership of the EU is, as the title of the *Business in New Europe* pamphlet puts it, 'indispensable'.

[49] http://en.wikipedia.org/wiki/Britain_in_Europe

[50] I refer again to the mountain of evidence assembled by Pankaj Ghemawat with Steven A. Altman, *DHL Global Connectedness Index* of 2011 see fn 22.

Let us briefly consider one of the 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% 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%. By contrast, over the same period, the proportion going to the three remaining independent countries of Europe increased from 6.0% in 1973 to 10.7% in 2012.[51]

In other words, the UK had a close trading relationship with EU countries before it joined the EEC, and forty years later, it still has an equally close trading relationship with them of almost exactly the same relative proportions. 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 entails no direct costs, has risen fairly steadily from 7% to 10.7% in 2012.

How, we may ask, could the 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, could be the benefits of EU membership, or for that matter of the single market, for UK trade if our trade with European non-member countries has increased at a faster rate? Oxford Economics' research 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 to the EU, but we will put them aside since the main interest here is their argument about FDI. This is based on their repeated claim that 'Access to the single market is one of the main reasons why companies decide to invest in the UK.'[52] They also mention a number of other factors that make the UK 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 measuring their importance relative to that of EU membership and the single market, they put them all to one side and concentrate on membership and access to the single market.

By way of explanation, they claim that '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% of non-EU companies have their European Headquarters in the UK.' [53] This idea, that the UK has been the 'gateway' to investment in Europe, is however an ancillary,

[51] *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 an unpublished paper *Has the UK enjoyed an 'insider advantage' in the single market? A search in the OECD database 1960-2011*. Available on request to michaelburrage@telefonica.net

[52] The source they cite for this claim is UK Invest, "A guide to Foreign Investment", London, 2005.
[53] p.43, *An Indispensable Relationship*, *op.cit*

supportive part of their argument, so it will be examined later, after we have tried to identify the benefits of the single market for FDI in the UK.

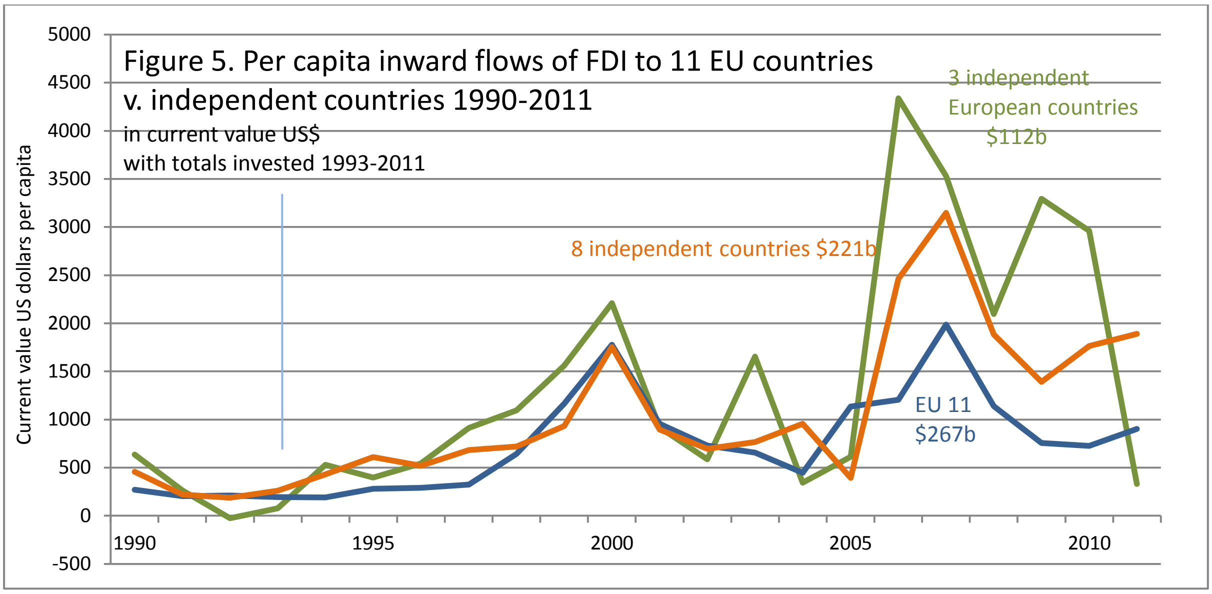
Since the euro and the single market have been concurrent developments of the European project, and the euro is seen, in the words of the European Commission, as 'a logical complement to the single market', we will of course be covering much of the same ground as in the preceding discussion of the euro, 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.[54] 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 seems to have passed into history.

Growth of FDI flows and stock during the single market

We may begin by examining the growth of inward flows of FDI to the 11 of the member states of the single market when it began in 1993, the twelfth, Luxembourg, having to be 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 was 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 the EU 11 of founder-members of the single market, 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 implemented at an earlier date, and there may well have been 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.

[54] 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 those countries that were doubly-blessed, meaning members of both euro and the single market, would be doubly-easy to distinguish from the rest..



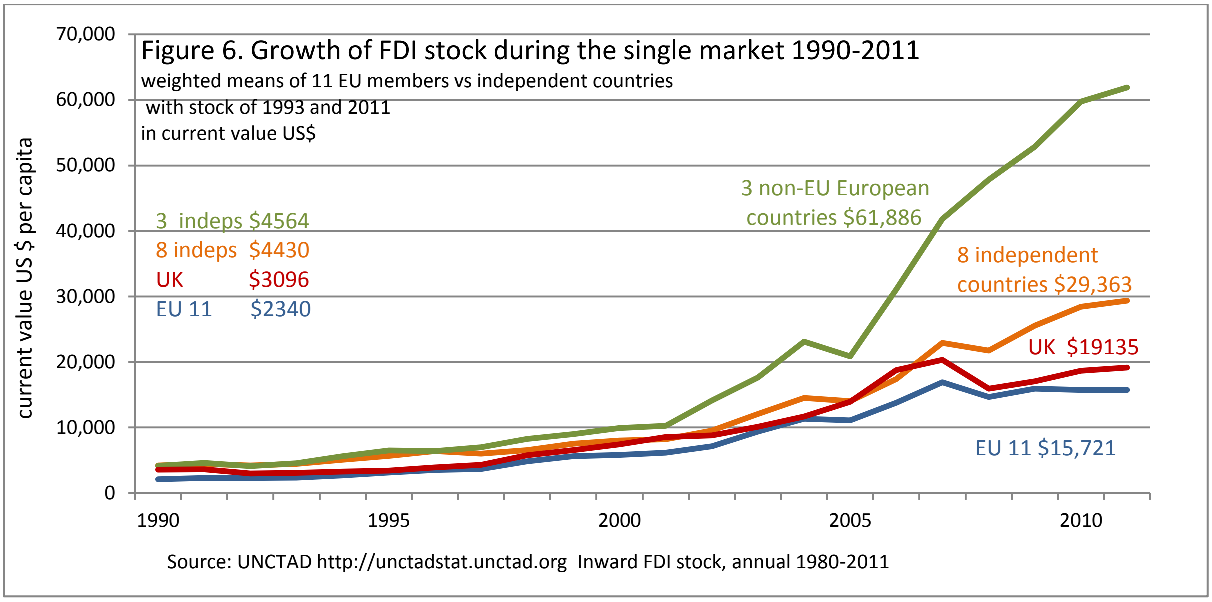
Source: UNCTAD UNCTADstat http://unctadstat.unctad.org Inward FDI flows, annual 1970-2011

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 inward flow *per capita* in four of these 19 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 above that of the mean for the 8 independent countries.

Over the 19 years of the single market for which we have data, 1993-2011, the three independent countries have received $27,999 *per capita*, the eight independent countries have received $22,305 *per capita*, and the eleven founder members of the single market have received $15,507.

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 19 years. The result is shown in Figure 6 below, along with weighted means, in current value dollars, of the actual amounts of *per capita* FDI stock held by each group of countries, along with the UK alone, both in the year the single market began, and in the most recent full year for which we have data. Since this graph is plotted in current value dollars, and therefore exaggerates the real rate of growth somewhat.

Over the 19 years of the single market to 2011, by subtracting the FDI stock amount invested at the start of the single market from the 2011 stock, we can see the amount invested over 19 years of the single market in the UK and each of the other groups of countries. Foreign investors had invested $57,323 in every inhabitant of the three non-EU European countries, $24,932 in every inhabitant of the eight independent countries, $13,381 in every inhabitant in the EU 11 countries, and $16,039 in every inhabitant of the UK.



Yet again, the three European countries that are not members of the EU proved to the most attractive to foreign investors, so their FDI stock has 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 $4564 was about twice that of the 11 EU countries, but after 19 years of the single market, it has become nearly four times larger. As the years have rolled by, and the single market has 'widened' and 'deepened' as the EC likes to say, it has evidently proved increasingly less attractive to foreign investors, relative to the remaining three independent European countries,.

It has, however, held its 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 in 1993, and in 2011, it was still just under double, so there is only a marginal difference between them over the 19 years. Since these eight independent countries include the three European independent countries that we know to be high flyers, there can be little doubt that some of the eight must have 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% above the EU mean, but by 2011, it was only 22% higher.

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 7 countries are ranked in order of the rate of growth of their FDI stock which is given here in real terms, that is, in 1993 US$. 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 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 over the period, though the value of the FDI stock of all three remains above the EU mean.

Table 6 also allows us to see the differences between 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, subsidies along with its cohesion and other funds promote 'a level playing field' and 'fair competition' amongst its members, and that it in various ways it promotes the sharing the best practice amongst its members. Have foreign investors, one may wonder, sensed any greater harmony or convergence amongst members of the EU, and responded to it by treating them as equal, or increasingly equal, members of the world's single market?

As a simple measure of variations in the attractiveness of member countries to foreign investors, one may calculate the standard deviation of the distribution of FDI stock in all 11 member countries in constant value in US(1993)$. In 1993 was $4457. Since the gross value of the trade in current dollars of FDI stock in all these countries had increased 6.8 times by 2011, one would expect, if nothing at all had changed, a standard deviation in 2011 of $30,317, and if there had been any convergence that it would be less. In the event, it was $35,920. This suggests that in the eyes of foreign investors at least, these eleven countries have not been drawing closer together, but moving further apart.

Our attempt to identify the benefits of the single market for FDI, on which the *Business in New Europe* argument depends, has not been successful. In the light of this evidence, it is difficult to detect the appeal of the world's largest single market. Only three member countries 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 the 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, but have nonetheless preferred to invest outside it.

Table 7. Growth of FDI stock *per capita* over the life of the EU's single market 1993-2011
in 11 EU & 8 independent countries

	% Growth 1993-2011 in US(1993)$	*Per capita* value of current stock in US(2011)$
Iceland	5225	42,504
Switzerland	766	75,401
Norway	608	34,828
Denmark	525	27,428
Belgium	508	89,067
Israel	468	8829
Singapore	407	99,968
Netherlands	364	35,347
EU mean	331	15,721
Spain	328	13,659
France	315	14,799
Portugal	300	10,200
UK	297	19,135
Germany	289	8687
Italy	271	5472
Canada	199	17,322
Ireland	194	53,799
Australia	187	22,103
NZ	147	16,744
Greece	81	2409

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

Once upon a time, the European Commission used to boast of the advantages of the single market to foreign investors, and its supporters in the UK obligingly echoed their claims, though without checking the facts. Nowadays, the EC is less inclined to do so.[55] Indeed, the *European Competitiveness Report 2012,* acknowledged that 'the EU's share of global inward FDI has **declined significantly'** (their bold face) which it attributed to 'the crisis' and to the attractiveness of emerging markets. They then embark on their customary excursions predicting that further integration will solve the problem. From a research point of view, the absence of any attempt to understand why a few EU countries do rather well, while others do not, or why non-EU European neighbours also do well, is a disappointment. From a policy point of view, it is surely an unpardonable omission.

The UK as the gateway to the EU

To conclude, we may consider the curious ancillary argument of *Business in New Europe*, that the UK appeals to 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 their study they 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 rather attract European headquarters rather than vice versa.' If any country is the gateway to the EU, as the E&Y report repeatedly mentions, it is the non-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.'[56]

Why *Business in New Europe* should ignore this evidence, and introduce a source so unfavourable to their own cause, is puzzling. They represent, and are funded by, many of the leading British and foreign multinationals, but apparently never noticed that one of the preferred location of European headquarters for non-European multinationals is to be found outside the EU.
As it happens though, on this latter point at least, support 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.'[57] Unfortunately, it did not give a source, though given that English is the second language of the EU and of world trade it seems highly probable. Might it not be, one wonders, that the appeal of the UK have more to do with the English language than with the single market? Would it not be worth considering?

[55] for example, pp.9,10,119, *European Competitiveness Report 2012*, *Reaping the benefits of globalization*, European Commission, 2013.
http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/european-competitiveness-report/index_en.htm

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

[57] p.39, para 3.14 HM Government, 2013 fn 19 *supra*

A summary of the findings

Since we have covered a fair amount of ground, it may be helpful to recap the findings that emerged from these databases in all three stages of this search.

This search has made use of a variety of measures of FDI because debates on the subject have done so. FDI has been examined in terms of both inward flows and inward stocks of FDI, both of which have been presented as total and *per capita* shares of a group of countries, as well as individual countries. The years and the countries compared have varied along with the focus of analysis and the availability of data, but a preference was given to comparisons for thirteen years before and after the euro launch, and nineteen years before and after the start of the single market, simply because there were only thirteen years of post-euro data and nineteen years of post-single market data available when this search started.

A summary measure of FDI over-performers and under-performers in 10 euro countries and 5 non-euro countries, based on the ratio between their *per capita* share of a country's total inflows and stocks and that country's share of the total population of the 15 countries.

Answers to questions about FDI therefore vary according to the way in which it is measured, the countries which are included in the comparison, and the time over which it has been measured.

Part I On the impact of UK entry to the common market in 1973

Note: There is data on FDI inflows only for three years prior to 1973, and none, for the moment, on FDI stocks.

- After UK entry to the EEC in 1973, FDI in the UK and in Denmark & Ireland who entered with the UK, increased at a lower rate than five non-member countries of the time (Austria, Finland Sweden, Norway and Iceland). There is therefore no reason to think that entry had a beneficial impact on FDI in the UK. p.16

- However, data about FDI in six later entrants in 1981, 1986, and 1995, where more data is available, shows a post-entry increase in five, and in three of them FDI doubled, or more than doubled, over the subsequent decade suggesting that EU entry may have had a beneficial impact for these five countries. p.19

Conclusion: UK accession to the EEC appears to have had little impact on inflows of FDI to the UK, but other later EU entrants may have benefited considerably.

Part II On the impact of the UK's decision not to join the euro

Note: The analysis is based on 15 European countries over the thirteen years before and after the launch of the euro, ten from the Eurozone versus five non-euro countries. The former have 77.5% and the latter 22.5% of the total population of the fifteen. The results are presented first, for the *eurozone and non-euro countries collectively, then for individual countries within each bloc, and finally for the UK alone.*

Euro versus non-euro Europe

- The 10 eurozone countries increased their pre-euro share of the total value of FDI inflows by 0.9% to 60.1%, and their *per capita* share by 0.8% to 53.2% over the thirteen post-euro years. The share of the five non-euro countries correspondingly declined in total value by 0.8% to 39% and *per capita* by 0.9% to 46.8%. p.24, Table 4

- The 10 eurozone countries also increased their share of the FDI stock by 2.3%, from 59.3% to 61.6%, but their *per capita* share of this stock fell sharply, by 7.5%, from 62.5% to 55%, and that of the non-euro countries increased correspondingly by 7.5% to 45%.page 27, Table 5

- Over the thirteen post-euro years the FDI stock *per capita* of the five non-euro countries grew very much more than that of the eurozone, by 198% versus 110%, so that by 2011 the $30,277 invested by foreign investors in every inhabitant in non-euro countries) was almost exactly double that of the amount invested in every inhabitant of the eurozone ($14,901). p.30, Figure 4: p.31,Table 6.

- Only two of the eurozone countries are over-performers, meaning the value of FDI inflows to them over the post-euro years was larger than their share of the population would lead one to expect, while all five of the non-euro countries are over-performers. In terms of FDI stock, three of the ten eurozone are over-performers, but four of the five non-euro countries, Denmark being the marginal, exception. Tables 4 & 5.

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 by 6.8%, Ireland by 1.4%, Italy by 1.2%, and Austria by 0.3%. The shares of the other six all declined, that of France most of all, by 3.4%.p.25, Table 4

- *Per capita* shares of FDI inflows increased in the same four eurozone countries, though on this occasion Ireland, with a 5.7% increase, headed Germany with a 1.7% increase.[58] In six eurozone countries, *per capita* shares declined, most in the Netherlands by 2.6%, followed by France & Greece with a 1% decline. p.25, Table 4

[58] It must be remembered that, for reasons given above, Belgium and Luxembourg have been omitted from this calculation. Belgium's share of post-euro FDI inflows to the EU 15 (minus Luxembourg) are nearly double those of Germany, and *per capita* its share increased from 19.0% pre-euro to 33.3% post-euro, while Germany's only increased from 1.55% to 2.8%.Luxembourg's FDI inflows *per capita*, since it started reporting them in 2002, are substantially larger than the rest of the EU put together.

- Changes in shares of FDI stock were similar. Germany's share increased most, by 7.1%, meaning its share more than doubled in the thirteen post-euro years. It is followed by Italy with a 1.1% increase, Ireland which increased its already high share by 0.9%, and Austria by 0.6%. France share has fallen most, by 3.4%, followed by the Netherlands with a 2.5% fall. p.27, Table 5

- *Per capita* shares of FDI stock increased most in Finland by 1.1%, followed by Austria with a 0.9% increase, and the Netherlands with a 0.3% increase. They fell most in Ireland by 7.3%, from 24.8% to 17.5%, which is still by far the largest *per capita* share in the eurozone. It was followed by Greece with a 1% fall, and the remaining four all declined by less than 1%.. p.27, Table 5

- Ireland is the outstanding over-performer in the eurozone with a *per capita* share of FDI inflows 3.5 times more than its share of the population of the 15 countries, and a *per capita* share of Europe's FDI stock more than 2.5 times greater. The Netherlands is the only other over-performer in the eurozone, in both inflows and stocks. All the others are underperformers, Greece and Italy being the least attractive to foreign investors, measured by both inflows and stocks

Individual winners and losers in non-euro Europe

- The increase in the share of FDI inflows in Europe among the non-euro countries were made by the two countries that are also outside the EU: Switzerland increased its post-euro share of FDI inflows in Europe by 3.3% and Norway by 1.4% and they increased their share of FDI stock by 2.3% and 0.2% respectively. p.25, Table 4

- Meanwhile the shares of the FDI inflows of the three EU members that are not members of the eurozone, Denmark, Sweden and the UK, all declined: Sweden by 1.7%, the UK by 1% and Denmark by 0.7%, and *per capita* by 3.1%, 0.1% and 2.1% respectively. p.25, Table 4

- However the shares of the FDI stock of Denmark and Sweden both in terms of value and *per capita* increased, while the UK share of both declined.p.27, Table 5

- Growth of FDI stock of the three non-EU non-euro countries 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 pp. 30-31 Figure 4, Table 6,

The post-euro experience of the UK

- While the UK share of the inflows to the EU rose by 4% after nine years of the euro, it had fallen after thirteen years by 3%. Its share of the value of FDI inflows to 15 European countries declined by 1%, its *per capita* share of inflows by 0.1%, its share in the value of FDI stock by 2%, and its *per capita* share declined by 1.2%. Tables 2, 3, 4.

- However, it remains by far the largest recipient of FDI inflows, and holder of FDI stock, measured by their value of all fifteen countries, taking nearly a quarter of all FDI inflows, 24.9%, and of FDI stock 24.6% over the thirteen post-euro years. It is followed by France with 14.9% and 14.5%, and by Germany with 13.7% and 14.1%. p.25. Table 4; p.27. Table 5

- P*er capita* however, it was not a strong performer in the pre-euro years, being surpassed in both inflows and stock by two euro countries, Ireland and the Netherlands, and by four non-euro countries, Switzerland, Denmark, Sweden and Norway. There has been no change in this respect in the post-euro years, except that *per capita* inflows exceeded those of Denmark

Conclusion: the launch of the euro has not been a significant determinant of the inflows and stock of FDI in Europe. There is no evidence to suggest that the UK suffered by declining to join, or that those who did join benefited from doing so.

Part III On the impact of the single market

Comparison for the single market are confined to the eleven founding members with three remaining non-EU countries, and with 5 other independent countries.

- FDI inflows *per capita* to the 3 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. p.38,Figure 5

- The growth of FDI stock of the 3 independent European countries has grown almost twice as much as that of single market countries. The 8 independent countries have grown about one third more than the single market countries. p.39, Figure 6

Conclusion: as yet there is no evidence to suggest that the single market as a whole has been a magnet to foreign investors. A few of its members have attracted foreign investors, most have not. Over the life of the single market the FDI stock of five of the eight independent countries had grown more than that of the single market, and the per capita value of the FDI stock of seven of the eight independent countries is higher than the EU mean.

Final caveat: historical FDI data from both UNCTAD and OECD incorporate SPEs to an unknown extent. pp.6-12

On claims, insults and warnings in the FDI debate

The case for UK membership of the EU has relied on claims about the benefits of membership, by abuse of those who doubt them, and by warnings about the consequences of losing them. And all three have been on display in the discussion of FDI.

Claims that FDI in the UK would benefit from entry to the EEC find little support in the available data. There were no significant advances following admission in 1973 that might reasonably be attributed to membership, though by contrast considerable post-entry gains were clearly identifiable for other, later entrants to the EU.

Since the UK did not join the eurozone, it could not of course enjoy its benefits, but one can look to those that did join and see what benefits it might have missed. Germany and Ireland are perhaps the best examples, but there are other plausible explanations for their gains. Germany started with exceptionally low FDI inflows and stock, and over the post-euro years has continued to incorporate one post-socialist country and is a neighbour of several others. Ireland happens to have a helpful corporation tax, the appeal of which was evident long before the euro, its inhabitants speak English, and it can easily be treated by foreign investors as part of the domestic market of its large neighbour, much as many British firms are inclined to do. Elsewhere, the benefits of the eurozone are difficult to identify, while those of several non-euro countries are easy to spot. For the moment, most evidence suggests that the FDI benefits of the euro are imaginary.

The benefits of the single market for FDI, are similarly difficult to identify. There is no evidence that membership of the single market has helped FDI in the UK in the least. The rate of growth of FDI stock has been comparatively mediocre, but so has that of most of the other founder members, Denmark, Belgium and the Netherlands being the exceptions.

Meanwhile, the countries that have had the highest rate of growth of *per capita* FDI stock are the independent European countries. Their attractions to investors, relative to EU members of the single market, have been increased markedly over the life of the single market. If attractiveness is measured in dollars, we may say they were twice as attractive as the EU when the single market began, but by 2011 were almost four times as attractive.

The insults hurled at those who were sceptical of the future benefits of the euro before it was launched is an odd phenomenon, and a little beyond the normal cut and thrust and take of debate in democratic politics. Columnists of *The Guardian*, *The Independent* and *The Observer* appear to have competing with one in constructing collective stereotype of those with whom they disagreed as 'loony tunes', 'assorted maniacs' and so forth.

Why, one wonders, did they prefer to abuse those they disagreed with rather than debate this policy proposal with them? Probable answer: there was very little evidence available, and in its absence they could do little more than characterize or imagine the flawed personalities of those who were unable to see the wisdom of joining the new currency. Since there is no regular monitoring or audit of EU policies across the board, whether the environment or unemployment or cohesion funds or any others, this may well explain the rather poisonous character of EU debates across the board, about which Sir John Major complained, and which he hoped might be 'cleansed' by a referendum.[59] Arguments about the EU have to be driven largely by beliefs, claims, hunches, and prejudices, since they can seldom hinge on evidence one way or the other.

However this may be, the 'assorted maniacs' and loony tunes' , whoever they were, seem to have been vindicated by the assessments of the five tests of the UK government which came down on their side, by subsequent events in the eurozone, and they were supported throughout by public opinion. They do not need of further vindication or support, but for what it is worth, this research provides some, since it found no evidence to suggest that the UK lost FDI by remaining out, or that other gained by going in. More importantly perhaps, it also offers some support, from an FDI point of view, for the much smaller group of 'loony tunes' and 'assorted maniacs' who are sceptical of the merits of the single market.

Warnings about the loss of FDI have been a continuous theme of the EU debate**.** The 1975 referendum was preceded by a polite warning about a no vote, but during the euro debate, as we have seen, the warnings about the consequences of remaining outside the new currency became quite shrill, and the BBC adopted the same tone after the Prime Minister's veto in the Council of Ministers in December 2011, with its Business Editor claiming that foreign investors would flee, and the UK might become an 'isolated island'. More recently, the very idea that the UK might hold a referendum on the issue EU has prompted further warnings about the dire consequences for jobs and livelihoods of being outside the EU's single market, and losing the 'insider advantages' of helping to make its rules.

The warning about failing to join the euro can now be seen to be empty rhetoric, and the PM's veto does not appear to have prompted foreign investors to leave the UK. On the contrary, as noted above, the UK share of FDI inflows increased significantly over the following year, while that of France and Germany fell sharply.[60] The single market has not encouraged any FDI in the UK or any of its other founder members, indeed the FDI stock of independent countries has grown almost twice as fast as that of the single market's founder members.

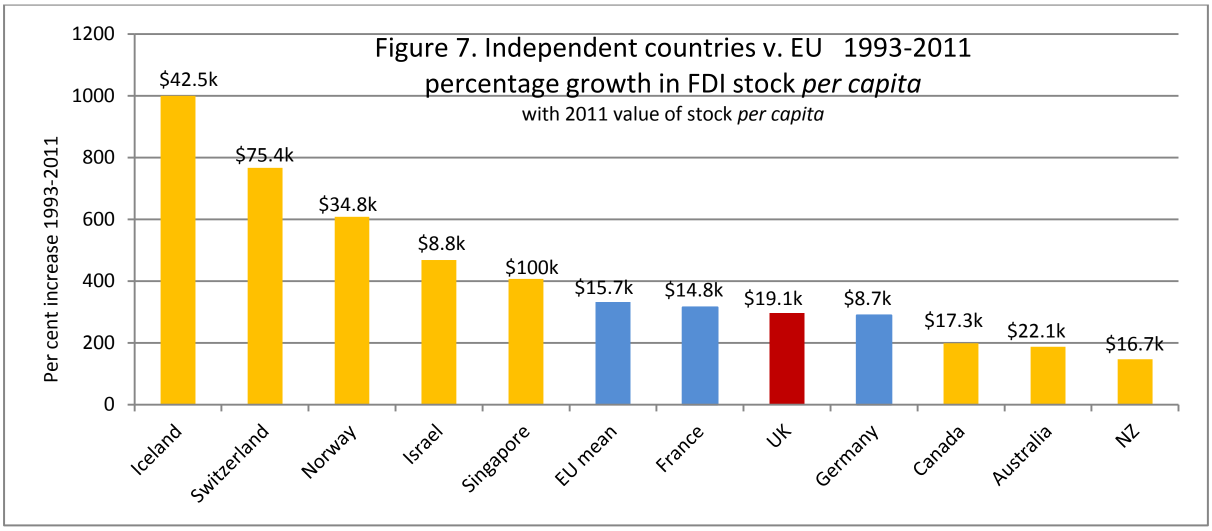
If the UK does hold a referendum on membership, we may nonetheless expect warnings about the perils of independence to increase, and the UK political elite may be expected to make renewed efforts to persuade the British people that their country will be reduced overnight to a 'small', 'isolated' or 'lonely' island were it to leave the EU. Since our control groups consisted of 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 those who may be considering whether to take these warnings any more seriously than those they have heard over the past few years.

Figure 7 gives the growth of the FDI stock *per capita* in these eight independent countries over the 19 years of the single market, plus the amount of FDI stock held *per capita* in 2011,

[59] p.2, Major. *op.cit*

[60] See fn 40 supra. As yet, I have been unable to find any apology or correction from the BBC Editor whose report after the Prime Minister's veto in 2011 conveyed such a wholly misleading impression about FDI in the UK, nor even any comment on the euphoric UKTI report in 2013 of the spurt in FDI in the UK.

alongside the mean growth and amount of the EU 10, with France, Germany and the UK also shown separately. It is interesting to note that the FDI stock of the island that is certainly small, possibly isolated, and if you live in London at least, might be thought to be isolated, has grown most over the life of the single market, of which of course it is not a member.



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%. 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 throughout. All the other figures are, however, calculated from UNCTAD Inward and outward foreign direct investment stock, annual, 1980-2011 http://unctadstat.unctad.org

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