Where's the Insider Advantage?

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A review of the evidence
that withdrawal from the EU
would not harm the UK's exports
or foreign investment in the UK

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Table of Abbreviations

BCC	British Chambers of Commerce
BIS	Department for Business, Innovation & Skills (UK Government)
BIT	Bilateral Investment Treaty
CAGR	Compound Annual Growth Rate
CBI	Confederation of British Industry
EBOPS	Extended Balance of Payments Services Classification
EC	European Commission or European Community
ECM	European Common Market
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EMU	European Monetary Union
EU	European Union
EU 11 (12)	EU members before 1995: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain (UK)
EU 13	EU members before 2004 less Belgium and Luxembourg, i.e. Austria, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, UK
EU 14 (15)	EU members before 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden (UK)
Eurozone 11	The first EU members to use the Euro currency: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain
FCO	Foreign and Commonwealth Office (UK Government)
FDI	Foreign Direct Investment
FTA	Free Trade Agreement/Area
GDP	Gross Domestic Product
GDP(PPP)	GDP by purchasing power parity
GFCF	Gross Fixed Capital Formation
HMG	Her Majesty's Government
IMF	International Monetary Fund
IPPA	Investment Promotion and Protection Agreement
Mercosur	South American common market
MiFID	Markets in Financial Instruments Directive
NAFTA	North American Free Trade Agreement
NTBs	Non-tariff barriers
OECD	Organisation for Economic Co-operation and Development
OFC	Offshore Financial Centre
ONS	Office for National Statistics
SPE	Special Purpose Entity (financial instrument)
TTIP	Transatlantic Trade and Investment Partnership
UIC	Ultimate Investment Country
UKIP	United Kingdom Independence Party
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

Preface

The two papers that constitute this report were written by a voter who has grown tired of the case being made for continued membership of the EU, or in defence of the Single Market, by members of the UK political elite who have declined, over many years, either to collect or to present any convincing evidence to support their arguments.

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

Since the sources of data that might demonstrate whether their arguments have any merit are readily accessible, I decided to look at them, in my spare time, in the hope of finding evidence that might corroborate their views. These two papers are the result. As will be clear, I failed to find much support for those who repeat two of the more well-trodden themes in the EU debate: that the Single Market has been of immense benefit to UK trade; and that, outside it, foreign investors would desert this lonely little island.

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

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

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

There are, of course, a few contrary spirits who have been and are determined that the EU debate should not proceed as a debate without evidence. One of the more notable is the former Chancellor and Prime Minister Gordon Brown, who initiated the process for the evaluation of the five tests which should be met before the UK joined the euro, a constitutional tweak for which he deserves great credit. Launched from within the Treasury but open to any interested parties who had something to say that was worth hearing, the process was impartial, extremely thorough, and as a result its recommendation was wholly convincing.[3] A private initiative worthy of note is Tim Congdon's study of the costs of EU membership for UKIP.[4] Which of the major parties, one may ask, has conducted as serious, as thorough or as knowledgeable an analysis? Which of them has even attempted to promote debate by publishing a rejoinder? The *Balance of Competences Review* of the FCO may be another useful contribution. At first glance, it may appear to be more of an expression of informed opinion rather than a mine of research, but nonetheless it deserves careful analysis.

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

PART I

A comparative study of UK exports to EU and non-EU nations between 1960 and 2012

1. A 39-year-old argument

In 1975, when Harold Wilson's Labour Government sought to make the case for a Yes vote in the 1975 referendum on membership of the European Common Market, one of the arguments in the pamphlet sent to every household in the country was that:

Inside, on the improved terms, we remain part of the world's most powerful trading bloc. We can help to fix the terms of world trade… Outside, we are on our own… We would have to try to negotiate some special free trade arrangement, a new Treaty… But… until it was in force, Britain's exports to the common market would be seriously handicapped. Britain would no longer have any say in the future economic and political development of the common market. We would just be outsiders looking in… Other countries have made … special arrangements with the Community. They might find Community decisions irksome, even an interference with their affairs. But they have no part in making those decisions.[1]

It has proved to be a remarkably durable argument. It might be said perhaps to have stood the test of time, though of nothing else it must be added, since it has been subject to rather little critical scrutiny or revision over the intervening years. Instead, Mr Wilson's successors have been content to reprise his arguments, and often his words, occasionally elaborating on them by contrasting the insider advantage that the UK has enjoyed as a member of the EU with the disadvantages of those outside it who have taken no part in the making of the rules, whether half outside such as Norway and Switzerland, or those fully outside in the wider world who face the remaining tariff barriers of the EU.

Over the past eighteen months or so, unsettled by the prospect of a referendum and rising opinion poll support for UKIP, members of the UK's current political elite have sought to rally support for membership of the EU in terms very similar to those used by Mr Wilson, almost as if nothing that the EU has done since 1975, and nothing that the UK has experienced as a member, could provide a more convincing, appealing, or contemporary argument for continued membership than the uncertain, and possibly difficult, prospects of life outside it. In the peroration of his contribution to a conference of the Confederation of British Industry (CBI) in November 2012, the leader of the Labour Party, Ed Miliband invited his audience to sympathise with 'voiceless, powerless' Norway, and raised the spectre of the UK 'standing alone' while 'the terms of trade would be dictated by others'. In the edited version of his speech, his argument was rephrased as follows:

Those in favour of leaving the EU say we could still be part of the Single Market. They may be right. But who would set the rules? Not us. It would be those within the European Union. We would live by rules that we have no say in making ourselves. Still contributing to the EU Budget, as Norway does, but voiceless and powerless. Unable to change the terms of trade… The best place for Britain is to be at the table, seeking to shape the economic direction of Europe. Do we want to be inside the room? Or do we want to guarantee ourselves a place outside the room? And then think about the world trade talks. If we left the EU, be under no illusions, it would be the United States, China, the European Union in the negotiating room, literally eating our lunch, and Britain in the overflow room.[2]

Two weeks later, at the end of November, in a speech at Chatham House, organised by the big business pro-EU group Business for New Europe, the former Prime Minister, Tony Blair, contrasted the past and present 'rationale for Europe'. Sixty-six years ago 'when the project began… it was peace. Today it is power… in this new world, to leverage power, you need the heft of the EU.' This led him to conclude that one of the three major disadvantages of leaving the EU was that 'we would be out of the decision-making process determining the rules of the Single Market'.[3]

On 10 December 2012, in a speech to the Parliamentary Press Gallery, the present Prime Minister warned of the 'Norway option'… of being 'governed by fax' from Brussels and 'unable to influence the EU's laws'. Six weeks later, 23 January 2013, when outlining his plans for a referendum on British membership of the European Union, he repeated the warning. 'Norway has no say at all in setting (EU) rules. It just has to implement its directives.' He then stressed, more emphatically than any of the others, the critical importance of the insider advantage. 'Our participation in the Single Market, and our ability to help set its rules, is the principal reason for our membership of the EU.'[4]

In May 2013, in an article in *The Daily Telegraph*, Peter Mandelson, a former EC commissioner, added his contribution. He sought to discredit what he chose to call the 'anti-Europeans' argument… that we can continue trading at will in Europe, with the same privileges as now, without being part of its policy-making, its regulatory rules and its policing of the market's openness. This is a grave deception.'[5]

These and other speeches and articles appear to have been part of an orchestrated campaign, with the same arguments and often the same words in all of them. Unfortunately, they also seem to have agreed that no evidence at all would be required about specific insider advantages, or about any benefits or 'privileges' that the UK has obtained from the rules it has helped to make.

Mr Miliband's reference to the 'terms of trade' was as close as he came to a specific example, but much as the EC might have wished to do so, it seems unlikely that the EU has ever been able to 'dictate' or 'change' the terms of trade, at least as these are normally understood.[6] One would have thought that Mr Blair's years in office might have given him a few telling illustrations to help his case, but he declined to mention any. And none at all are worth mentioning in the 700 pages of his autobiography. Mr Cameron only gave an example which rather contradicted his argument, where the UK was not voiceless but was nonetheless powerless. He was referring to the EC's Working Time Directive. 'We cannot,' he said, 'harmonise everything… it is neither right nor necessary to claim that the integrity of the Single Market, or full membership of the European Union, requires the working hours of British hospital doctors to be set in Brussels, irrespective of the views of British parliamentarians and practitioners.'[7]

One might at first, without thinking, take Mr Mandelson, as a former EU commissioner, to be an informed witness, or even living proof, of the UK's insider advantage. However, like all commissioners, he has sworn before the European Court to act 'in the general interest of the Union' rather than the UK, so he may well be among the less informed and less reliable witnesses to any insider advantages , or 'privileges' as he put it, obtained by Britain. In any event, he felt no need to say what these 'privileges' might be, or how UK exporters had benefited from them.

Constant repetition of an argument by apparently informed past and present office-holders no doubt helps to embed it in the public mind, but it does not make it any more correct, nor does it mean that no evidence is required to support it. The advantages the UK has obtained by being an EU insider, and helping to set the Single Market rules, remain in the dark. In this paper, I will try to identify them.

2. How can we identify insider advantages?

The most direct way in which these insider advantages might be identified would be to pick one or more regulations or directives where the UK has taken a distinctive position which other members were initially not inclined to support, but where, by making alliances, by force of argument and weight of evidence, doughty British insiders eventually prevailed, to the benefit of UK trade with other members and to the disadvantage of outsiders.

The chances of doing this with any precision seem remote. The UK Permanent Representative in Brussels recently sought patiently to explain the extraordinarily complex web of relationships that form the EU legislative process to members of the Commons European Scrutiny Committee.[1] They are at best opaque, and parts are of course confidential and completely hidden, so it seems doubtful whether any researcher could identify who was responsible for any of the more than three thousand EC directives and regulations that together form the Single Market, let alone determine what the advantages for insiders might have been.[2]

As it happens, a recent report by Europe Economics for the Department for Business, Innovation & Skills (BIS) analysed the British influence on EU efforts 'to create/ deepen the Single Market' during the Financial Services Action Plan 1998–2006. It focused specifically on the Markets in Financial Instruments Directive (MiFID).[3] In this instance, policymakers had decided that British practice was best, and the MiFID therefore 'closely reflected British norms and policy theories', and in many respects 'mimicked UK practice'. It might therefore be considered as a perfect example of the UK's insider advantage. If the UK had not been a member of the EU, it hardly seems likely that the EU would have been inclined to follow British practice quite so closely.

However, as Europe Economics point out, it was able to exercise such influence largely because of favourable circumstances at the time: the EU was then seeking to liberalise the financial services and the UK was then thought to embody international best regulatory practice. Since the financial crisis, circumstances have changed fundamentally. The EU is now seeking to restrict and control the financial sector, and is no longer looking to the UK for inspiration or guidance. Far from it. Hence, the second half of Europe Economics' analysis largely consists of explaining why UK influence is likely to be insignificant or negligible in the foreseeable future, and why the UK should probably expect to be overruled or outvoted, as it already has been on the bonus cap, though it might yet win on that issue in the European Court. The UK may still be the leading player in financial services within the EU, but its insider advantages have not merely disappeared, but turned into disadvantages. A bonus cap is not being proposed in New York, Zurich or Hong Kong.

Financial services is the most closely watched and best reported sector of the British economy. The idea that we could conduct similar analyses of the waxing and waning of the insider advantages of a representative sample of other sectors to determine the net balance of insider advantages and disadvantages from UK participation in EU rule-setting, even with the full-hearted collaboration of Messrs Miliband, Blair, Cameron and Mandelson and others convinced of their existence, seems improbable.

Maybe the best evidence will eventually come from outsiders who feel that EU members' insider advantages have worked to their disadvantage when competing in EU markets. Such an opportunity might occur now that the EU has opened negotiations with the United States about a Transatlantic Trade and Investment Partnership (TTIP). An American negotiator might perhaps, in due course, identify the insider advantages or 'privileges' that they consider protectionist, and would like to see removed. We will have to wait and see.

At present, the only circumstance where responsibility can be clearly identified is when a country exercises its veto, but that, of course, is only to prevent something, presumably a potential disadvantage, from happening. On every other occasion, the rules simply emerge, as the Prime Minister put it when referring to the Working Time Directive, from 'Brussels', without anyone being quite sure which pressure group or party or country, or group of countries, or committee, or official or commissioner, should be held to account. In practice, one wonders if, from the point of view of the average person, and in terms of participation in debate in the media, blogosphere, pub or living room, Norway's 'government by fax' feels so distinctive.[4]

Every member country of the EU seems to be governed for much of the time in much the same way, not knowing what their representatives said or did, or how or when or why a particular directive or regulation was debated or agreed. As one expert, whose career is devoted to understanding and teaching EU governance, and who is 'very strongly supportive of the European Union', put it: 'It is not clear who is responsible for what. It is not clear what coalitions governed on what issues, what the majority was on what issues, or who were the winners and losers.'[5]

The regulation on how restaurants within the EU may serve olive oil provides an instructive example. Suddenly, seemingly out of the blue, the people and governments of the EU were informed by an EU official, and the Norwegians presumably by fax, that: 'From the first of January next year, we can guarantee the quality and authenticity of olive oil… And we do that by having new rules on labelling, concerning the category and origin of olive oil.' After explaining that the new rules will force restaurants to serve sealed, throw-away bottles of oil to customers instead refillable flasks or bowls, he concluded by saying that: 'This is good news for consumers in Europe.'[6]

Who instigated or devised this particular ruling, its precise legal status, and what debate or expressions of public concern might have prompted it, remained unreported. Since the sealed, throwaway bottles were to replace bowls and refillable jars of olive oil in every café, bar and restaurant across the EU, it is a fair bet that the Brussels lobbyists of companies who bottle, label and distribute olive oil or other sauces and condiments must have been involved, since it would transfer the business of thousands of local olive oil growers and family-based supply chains into their hands.

Three days later, in the face of Europe-wide media ridicule, the regulation was revoked, and the lobby groups supporting the measure emerged from the shadows to express their dismay.[7] This might look like a rather reassuring sign that the EU is after all accountable to its citizens. But that is not quite the end of the story. Who, one wonders, has the power to reverse, at a stroke, a regulation that had passed through all the EC approved decision-making processes? Was it Dacian Ciolos, the Agricultural Commissioner, all on his own? What part did the European Parliament play, either in the original decision or in its reversal? For the moment, no one knows, and the British and everyone else seem no better informed than the Norwegians − perhaps less well informed.[8]

The direct route of assessing insider advantages by tracking debates and discussions through to actual benefits for UK trade would appear to be impassable at present, and perhaps indefinitely. In this search, we will therefore have to adopt a second, less direct but much simpler method, and that is by trying to identify the outcomes and results of the insider advantages. This is the method by which schools and universities, hospitals and ambulances, and many other public services in the UK, are routinely judged, as well, of course, as private companies, so there seems no good reason why the same method should not be applied to the Single Market. That means, above all else, measuring the rate of growth of UK exports against that of non-members since it began. The main promise of the Single Market was, as it still is, to increase trade between member countries, and since it was hardly needed to increase UK imports, this means to increase exports.

Growth of exports as such is nothing to celebrate or write home about, since it is the normal occurrence. Absence of growth is a rather unusual and exceptional event, as may be seen from UNCTAD's records of export growth in 237 countries since 1950.[9] Hence, if the insider advantage exists, it must primarily be sought, and show itself, in an increase in the rate of growth of UK exports over the life of the Single Market, compared with either EEA and EFTA states who may adopt the rules but are not insiders who had a part in formulating them, as well as states in the rest of the world who follow only those rules that apply to the sale of goods or services within the Single Market.

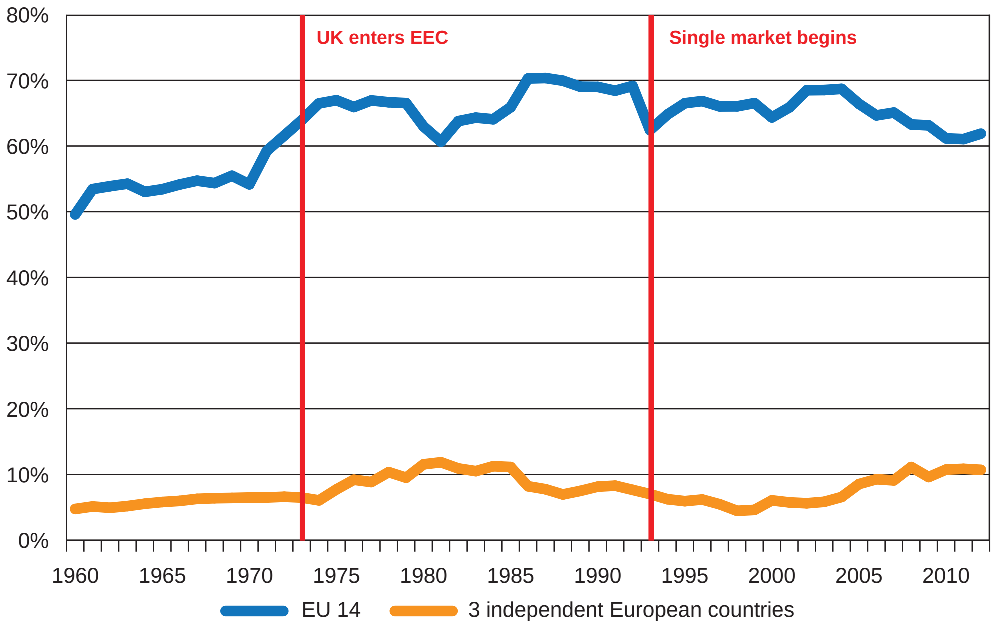
As far as I am aware, this is the first attempt to identify insider advantages by searching historical and cross-national export data, so it must be considered an exploratory investigation, a search for clues worthy of closer scrutiny and analysis at some later date. It will make use of evidence in the OECD databases, long the primary source of trade data, with the decided advantage of being readily accessible to anyone. With a few clicks, therefore, anyone can corroborate the findings of this search, and for that matter, amend, supplement and update them.

3. A view of the half-century 1960–2012

Perhaps we may best begin by examining UK exports to the members of the EU over a very long time span, that is to say from 1960, the earliest date that we have records for exports to most of them, and well before the UK joined the Common Market, until 2012, the latest year for which records are available, a span of more than 50 years.

Figure 1 presents the UK exports to 14 countries that were to become members of the present EU from 1960 to 2012, as a percentage of total UK exports to all 22 of the OECD countries for which we have data over this half-century. To provide a comparative marker, it also gives the proportion going to the three European countries that opted to remain independent.

Figure 1
UK export of goods to 14 present EU member countries as a percentage of exports to 22 OECD countries, compared with exports to three independent European countries, 1960–2012



The three independent European countries are Iceland, Norway and Switzerland.
EU 14 are the old countries of the EU (before 2004) other than Britain, i.e. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and Sweden. These are the only EU countries for which there is data from 1960.
Source: *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

What it shows is that the proportion of goods going to the future EU member countries grew rather sharply, by 12 per cent, over the twelve years before the UK entered the Common Market, from 49.6 per cent in 1960 to 61.6 per cent in 1972. However, over the 40 years of EU membership, for all the costs and obligations incurred, for all the treaties negotiated, and for all the immense amounts of time and anguish spent arguing about various aspects of the EU project, the proportion of UK exports going to the UK's future EU partners has changed hardly at all. To be precise, it has fallen by two per cent, from 63.9 per cent in 1973, the year of entry, to 61.9 per cent in 2012, with 0.5 per cent of the fall occurring during the years of the Single Market, despite the insider advantages the UK was supposedly enjoying.

The overall impression of this graph is, surely, that EU membership and the Single Market changed nothing. Year by year, the proportion has, as the graph shows, fluctuated a little, near 60 per cent in 1981 and touching 70 per cent in 1986–87, and there is an ominous downwards slide since 2004, (some years before the financial crisis one may note), but there is no indication whatever, by this first simple measure, that the EU or the Single Market has had any impact on UK exports at all. It therefore gives no clue as to where the insider advantages might be found.

The orange line plotting the proportion of the exports of the three independent countries only makes matters worse. It also fluctuates, but overall it contrasts with exports to the present members of the EU. Instead of continuity and slight decline, exports to these three countries have increased during all three periods, before the UK joined the EU and was still a fellow member of EFTA, from 5.1 per cent to 6.5 per cent, over the Common Market years from 6.0 to 7.6 per cent, and most of all under the Single Market, despite a dip in 1998–99, from 7.0 per cent to 10.7 per cent. Over the half-century, therefore, the proportion going to the non-EU members has more than doubled, so the Single Market years have been rather good years for UK exports to them, even though they are not members of it, and had no part in determining its rules. By themselves, these figures suggest that the UK enjoyed more advantages trading with outsiders, albeit outsiders with which the UK or the EC had bilateral trade agreements, than with fellow insiders.

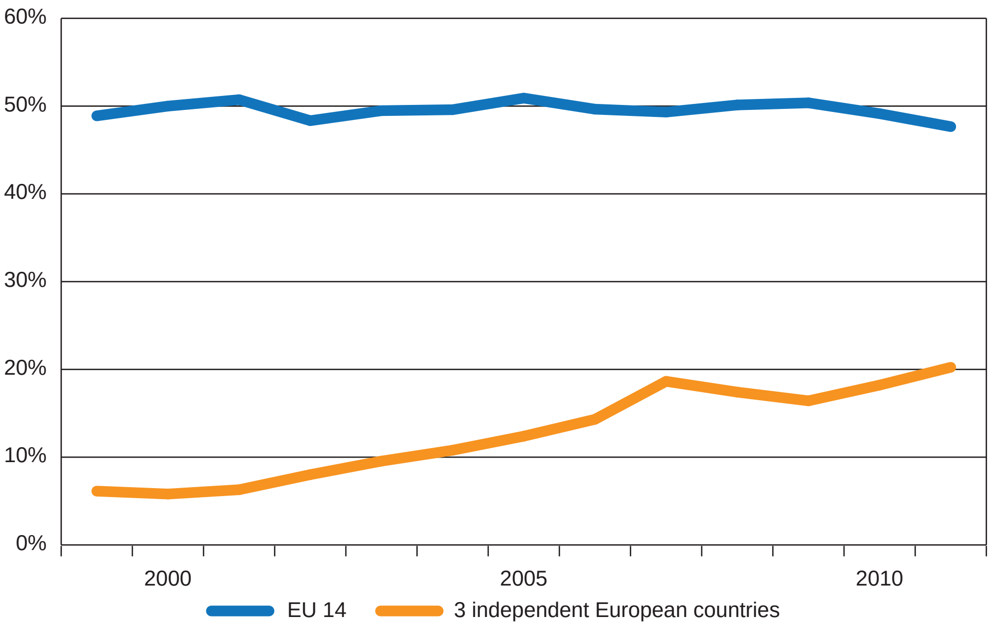
In volume and value, of course, there have been large increases in UK exports to both groups of countries, but those going to the non-EU members have risen faster. Since the inauguration of the Single Market, UK exports to the EU countries increased from \$9.2b to \$25.9b per month in 2012, a nominal increase of 180 per cent, (in real terms of 78 per cent) while those to the three independent European countries from \$1.0b to \$4.5b per month, an increase of 331 per cent (in real terms 171 per cent).

One wonders, of course, whether this could be the result of the focusing on the export of goods. As often observed, the UK has become a predominantly service economy, and it might be that services exports would show a quite different picture.

It is not possible to present a similar half-century diorama of services exports since the collection of systematic evidence about them is a relatively recent. The OECD has been publishing returns from some countries since the mid–1980s, but comprehensive figures for EU countries and the three independent countries of Europe date only from 1999, and hence can provide no more than an addendum to the evidence on the export of goods. Figure 2 (below) shows the proportion of UK exports going to 14 EU countries that were all members of the Single Market over the years 1999–2011, alongside the proportion going to the three independent countries of Europe. As the OECD has grown since 1960, they are here expressed as a proportion of 33 OECD countries.

Figure 2

UK exports of services to 14 present EU member countries as a percentage of UK exports of services to 33 OECD countries, compared with exports of services to three independent European countries, 1999–2011



Source: Dataset: Trade in services by partner country – EBOPS 2002: United Kingdom. The missing entry for Australia in 2003 was taken to be midway between those of 2002 and 2004. www.oecd.ilibrary.org

The proportion going to the EU does not differ greatly from that of goods exports in that it has been fairly has stable, though with a marginal decline over the 13 years as a whole from 48.9 per cent to 47.7 per cent.[1] The big surprise in this chart is that the proportion going to the three independent countries has trebled in this relatively short period, from 6.1 per cent to 20.2 per cent. In real terms, US$(1993), UK services exports to them grew by 145 per cent, while those to fellow members of the Single Market grew by only 68 per cent, which is slightly less than the 72 per cent growth of UK exports to all 33 OECD countries.

Over 13 years of the Single Market, therefore, the growth of UK services exports to fellow EU members has not only been significantly lower compared with exports to the non-members in Europe, but also to the average growth of services exports to other OECD non-members scattered around the world. The surprise springs from the fact that over most of these years British prime ministers have been urging the European Commission to extend or deepen or complete the Single Market in services. One must conclude either that their efforts have had little effect or that the Single Market is not particularly helpful to UK services exports, or both.

These are puzzling and counter-intuitive findings. For all the insider advantages the UK has supposedly enjoyed, not to mention the other costs and obligations that EU membership has entailed, it is reasonable to expect that the proportion of its exports going to fellow members of the EU would increase, especially under the Single Market.[2] Correspondingly, it would be reasonable to expect that the proportion of UK exports going to countries which enjoyed no insider advantages, and only benefited from EEA or bilateral free trade agreements with the EU over some of these years, would decline, though whether they did or not would also depend of course on what was happening to exports to the other five OECD countries that are not included in this calculation.

The first step in this search has therefore drawn a blank. The insider advantage case might perhaps be saved by arguing that the proportion of UK exports going to fellow members would have fallen more than a mere two per cent, were it not for the UK's insider advantage. This argument, however, would require strong evidence to support it, especially as we have just observed that the proportion of exports going to EU countries grew most of all when the UK was not a member of the EEC.

4. The top 35 fastest-growing exporters to the EU

In a second attempt to identify the insider advantages, we will consider the UK as an outsider exporting to the other 11 founder members, and compare its performance with that of real outsiders, in the hope that the UK’s insider advantages might be revealed by the contrast with the export performance of countries who are without them.

To produce a manageable list, and exclude the absolute exporting beginners with tiny starting figures and therefore very high growth rates, a minimum requirement of exports to the EU 11 of at least $100m per month in 2011 was set for inclusion in the comparison. Thirty-four countries remained. So that we may compare like with like, the exports of these 34 countries to the UK were subtracted from their totals, since the UK cannot, of course, export to itself. Adding the UK as an exporter to the EU 11, we therefore have 35 countries.

The results are given in Table 1 in the form of a league table of the top 35 fastest-growing exporters to the 11 founder members of the Single Market over its first 19 years. The UK, it may be seen, is in 28th position, fractionally below Egypt. Twenty-seven non-member countries, without the insider advantages or ‘privileges’, have therefore increased their exports to 11 founder members of the Single Market at a faster rate than the UK. Once again, neither the advantages of being an insider, nor the disadvantages of being as outsider, are readily apparent. If we did not know, and were asked to identify the sole country to enjoy insider advantages, based on the rate of growth of their exports to the EU it seems doubtful if anyone would choose the 28th country on the list. The aggregate value of UK exports to our 11 founder member countries might perhaps be a clue, and we will return to examine it in a moment.

The objection to such a list is that it confuses ‘emerging’, ‘transitional’, ‘middle-income developing countries’ and ‘petroleum and gas producing countries’ to mention just a few of the distinctions made in UNCTAD’s classification of exporters, and places them alongside ‘major exporters of manufactured goods’, and that it does not therefore compare like with like. However, in the present context none of these distinctions are relevant. The aim is simply to try to identify insider advantages and outsider disadvantages, and it is not certain how the elimination of, say, emerging exporters or oil producers would help in that search. If the minimum requirement had been set at, say, $1b per month, the UK would have risen to 21st place, and if the three oil exporters had been excluded, the UK would move further up the list to 18th. Some British observers might feel a little better after these corrections, but it is difficult to think of any analytical benefit from such a shorter, more select, list.

Table 1
Top 35 fastest-growing exporters of goods to 11 founding members of the EU Single Market 1993–2011

Rank		% growth over 19 years measured In US$(1993)	Exports per month in 2011 In US$bn(2011)
1	Vietnam	544	0.4
2	Qatar	496	0.3
3	Ukraine	446	1.1
4	China & Hong Kong	429	15.3
5	United Arab Emirates	402	2.8
6	Russia	377	7.8
7	India	367	3.4
8	Brazil	357	3.4
9	Turkey*	295	6.2
10	Nigeria	250	1.1
11	Australia	243	2.6
12	South Africa*	224	2.1
13	Chile*	198	0.6
14	Korea*	197	3.0
15	Mexico*	176	2.1
16	Morocco*	170	1.5
17	Singapore	163	2.3
18	New Zealand	147	0.3
19	Canada	142	2.3
20	Bangladesh	129	0.1
21	Bahrain	129	0.1
22	US	126	22.2
23	Switzerland*	114	11.8
24	Saudi Arabia	114	2.3
25	Norway*	114	2.7
26	Kenya	99	0.1
27	Egypt*	96	1.1
28	UK	81	23.9
29	Israel*	51	1.5
30	Japan	51	4.7
31	Taiwan	50	1.5
32	Iceland*	48	0.1
33	Thailand	48	0.9
34	Kuwait	21	0.3
35	Indonesia	12	0.6

Source: www.oecd-ilibrary.org.OECD database Monthly Statistics of International Trade doi:10.1787/data-02279

There is merit in presenting, at least to begin with, as comprehensive a list as possible without prior editing out of countries by some arbitrary and debatable rule. In any case, since we are also hoping to observe the disadvantages of being an outsider, the smaller, newly-emerging exporter countries deserve to be included since, in addition to the disadvantage of not having taken any part in the rule-making of the Single Market, they have to surmount unfamiliar non-tariff, shipping and marketing obstacles of the kind sometimes mentioned to explain the poor performance of UK exporters in new markets. Hence, the fact that a number of them have nevertheless increased their exports to the Single Market more rapidly than the UK suggests that the disadvantages of being an outsider may have been exaggerated.

At the end of the day, whatever countries might, for one reason or another, be removed from the table, its message would remain exactly the same: in terms of growth the Single Market does not appear to have been a success story for UK exports, and the data does not provide any hint of where an insider advantage might be found.

Eleven of the countries in the table are starred to indicate that they enjoy trading advantages with the EU by virtue of Free Trade Agreements (FTAs) that they have negotiated with the EU, which came into force either before or at some point during the Single Market.[1] Their exports to the EU may of course have benefited from these agreements, but these agreements cannot be the insider advantages that those defending UK membership of the EU have in mind. If they were, they would not provide much of an argument for continued membership, since a country could enjoy them without being a member, and without 'sitting at the table', 'helping to make the rules' etc. The export performance of these countries can hardly help us to understand what the UK's insider advantages might be, or help to explain why the UK exports to the EU should have grown at such a slow pace.

Might the high gross value of UK exports provide part of the explanation? Perhaps UK exports grew rapidly in the past, (and we have reason to believe this was the case), when they were climbing towards their present high value and, having reached it, decelerated as the EU became a mature market for UK exports? Growth of any phenomenon, whether company sales or living organisms, would display the same characteristic.[2] UK exports might therefore be just one more instance of the same natural and inevitable process.

One must treat this argument with some caution. It is the standard defence of market leaders that are failing to respond to new competitors, and it seems an odd coincidence that the growth curve for UK exports flattens out at the very moment that new opportunities for trade were supposed to be opened up by the advent of the Single Market. As it happens, two competitors, the US and China, have been closing in fast on the UK in recent years, so perhaps, in a few years' time, we will be able to see whether their growth also declines naturally and inevitably.

In the meantime, if we try to discover whether there is such a natural growth curve which flattens out when exports reach a high value, we have first to decide whether high value should be measured in total or per capita. At first glance, the latter seems the more appropriate of the two. But in per capita value, UK exports to other members of the Single Market, of $387 per month in 2011, are not particularly high. They are comfortably exceeded by, among others, those of Norway ($541) and Singapore ($447). The per capita value per month of Switzerland's exports to the EU 11 ($1,505 in 2011) is four times higher than that of UK exports. This suggests either that the UK has a way to go before the flattening out should be expected to occur, or that every country has its own export growth curve, shaped by its own comparative advantages.

We may next try to discover whether the growth rates of any of the other founder members of the Single Market show a similar tendency, proceeding as we did with the UK by treating each of them in turn as an outsider, exporting to the other 11. These economies are, for the most part, as advanced as the UK, and have been trading with each other as long as the UK has been trading with them. They might therefore be considered a fairer assessment of UK export performance than the exporters from around the world given in Table 1.

The results are presented in Table 2 (overleaf), with growth in the total value of goods exports and their actual value in 2011 on the left hand side, and the per capita growth and value in 2011 on the right. In this league table, the UK, with growth of total value of 81 per cent over the 19 years, ends up in joint ninth place with Germany, both of them below the weighted mean growth of the 12 countries which is 92. In total value, it is in third place, and some way behind Germany and France. In per capita growth it is in ninth place, and again below the weighted mean, which is 75. In per capita value it is again in ninth place, but at US$(2011)387 per month is some way below the weighted mean of the 12 countries of $527.

The argument that the low growth rate of UK exports is only to be expected, given their high total value, does not receive much support from this data. Eight countries are clustered closely around the mean rate of growth, while the total value of their exports varies widely. German exports have a much greater total value than those

Table 2
Growth in the value of exports of goods of the 12 original members of the Single Market to each other, listed in order of their growth in total monthly value over the 19 years 1993–2011

Percentage growth in total value per month In US$(1993)	Total value per month In 2011 in US$bn(2011)		Percentage growth in per capita value per month In US$(1993)	Per capita value per month In 2011 in US$(2011)
133	15.5	Spain	98	336
107	3.9	Ireland	65	865
101	20.9	Netherlands	85	1250
98	2.0	Luxembourg	55	3911
95	20.6	Belgium	78	1863
88	19.6	Italy	76	325
93	36.9	France	70	583
82	4.5	Portugal	70	421
81	42.8	Germany	79	524
81	23.9	UK	69	387
79	3.8	Denmark	67	681
39	2.3	Greece	31	210
92	26.5	weighted mean	75	527

Note: Luxembourg figures should be treated with extreme caution, since its returns are, as usual, incomplete. However, in the interests of providing a complete set of figures, its exports to ten countries 1993–1998 and the Netherlands 1993–1999, to the UK 1993–2000, were taken from the *imports* of the Belgium-Luxembourg Economic Union database. Its missing 2011 exports to Denmark were estimated as six per cent of the total reported joint figure for Belgium & Luxembourg.
OECD annual figure for the value of goods export is an average of the 12 monthly values.
Source: www.oecd-ilibrary.org.OECD database *Monthly Statistics of International Trade* doi:10.1787/data-02279

of the UK, as do those of France, but they have not grown at a slower rate, as the argument suggests they should. There is in fact no inverse correlation between growth and value, $r = 0.089$.

On the per capita side, there are countries that have both higher rates of growth and far higher value, notably Belgium and the Netherlands, whose figures do not, according to the OECD, include re-exports, the so-called Rotterdam effect.[3] Ireland is another notable contrast with the UK, growing at almost the same rate, but with exports more than double the per capita value in 2011 of those of the UK. They all add weight to the Swiss example mentioned above, and suggest that the UK still has some way to go until it runs up against any natural and inevitable ceiling of export growth. Again, there is no correlation between growth and per capita value amongst all 12, $r = -0.11$.

Perhaps the more interesting result of this calculation, however, is that the growth in the total value of the exports of all 12 countries, with a weighted mean as we noted of 92 per cent over the 19 years, is rather low compared with that of non-member exporters shown in Table 1. All 11 of the other founder member countries, if they had been separated as outsiders like the UK, would therefore have been clustered near the UK, and towards the bottom end of any extended top exporters table.

This might lead one to think that advanced economies, exporting to markets in which they have been long-established, will, regardless of their value, tend to have rather low growth rates in a world context. However, as we have already seen in Table 1, exports from a number of non-member countries that are equally advanced as the EU 12, and have also been long established in these markets, have managed grow much more rapidly than the EU mean of 92 per cent. Exports from Norway and Switzerland to the EU 11 grew by 114 per cent, that is to say, by a greater amount than 11 of the 12 Single Market member countries to each other. Exports of the United States grew by 126 per cent, of Canada by 142 per cent, of New Zealand by 147 per cent, and of Australia by 243 per cent.

These four English-speaking countries, it must be remembered, have not only been suffering the supposed disadvantages of being outsiders who have taken no part in the setting of the Single Market rules, but are also at considerable distances from the Single Market, and therefore to varying degrees have to surmount the well-documented discouraging effect of distance on trade relations. One of the most popular theories of international trade, the gravity model, suggests that the flow of trade between two countries is proportional to their income, and inversely proportional to the distance between them. Having collected a vast amount of evidence to support the latter point, Ghemawat summarized the importance of distance in the phrase: ‘Other things being equal, doubling the geographic distance between countries halves the trade between them.’ [4]

Odd as it may sound, the Single Market therefore has been a low growth area for its own members, but a much better one for non-members. This curious, counter-intuitive conclusion does not quite fit the rhetoric often used to defend the Single Market, which claimed that trade and exports would intensify amongst its own members, at the expense of those left outside, a view that the present UK prime minister seems to share and which may account for his reluctance to contemplate leaving the EU. If growth of exports be taken as a measure of the intensification of trade relationships, and it is hard to think of a better one, this intensification of trade amongst members has not happened. If only, one is tempted to add, UK exports to the Single Market had a grown at the same rate as some of these disadvantaged outsiders.

More importantly, in the present context, these figures fail to give the least hint or glimpse of any insider advantages or outsider disadvantages, nor even a clue as to where we might look for them. If anything, they suggest the exact opposite: insider disadvantages and outsider advantages. The only two countries that might suggest the disadvantages of being outside ‘the world’s largest market’ are Japan and Taiwan, but then one is bound to wonder whether other factors might explain their poor performance, since their near neighbour Korea was able to surmount these disadvantages for many years before it signed a trade agreement with the EU in 2010, which came into force in 2011.

5. A backwards glance at the Common Market

Another way to assess the UK export performance under the Single Market is by looking back, and comparing it with what we might loosely call the Common Market decades, that is the years following UK entry in 1973 until 1992, the year before the launch of the Single Market. The high value of UK exports to the Single Market might lead one to think, as mentioned above, that the UK might, or must, have enjoyed a higher rate of growth at some point in the past. The 50-year view with which we began in Figure 1 suggested this higher rate of growth might have got under way before the UK entered the EU. Nonetheless, the comparison with the years of EU membership before the Single Market was initiated is useful, as it may tell us whether UK performance under the Single Market was above or below earlier UK experience with these same EU member countries. Obviously, if export growth under the Single Market was significantly above earlier UK experience, we might have stumbled upon the insider advantage of taking part in the setting of its rules.

There is a problem when making such an historical comparison, since the number of member countries increased from nine in 1973 to 12 in 1992 (Greece having joined in 1981 and Portugal and Spain in 1986) and, though a common practice, it is obviously misleading to measure growth in countries' exports while the number of countries included in the count is increasing. The number of EU countries will therefore be held constant by backdating the membership of the three later entrants as if they had been members of the EU since 1973, and measuring the growth of UK and other exports to the same 11 founding members of the Single Market.

Table 3 (overleaf) presents a list of the 35 fastest-growing exporters to the same EU 11 over the two Common Market decades, without any minimum level of exports for inclusion in the list.

It shows that UK exports grew at a markedly faster rate prior to the Single Market. Over the 20 Common Market years it increased by 171 per cent, putting it in 16th place overall in the Top 35, compared with 81 per cent increase and 28th place over the 19 years of the Single Market. Moreover, unlike the Single Market decades, virtually all of those above the UK on the list were either emerging exporting countries or oil producers. If these were eliminated, the UK would have been very near the top of the list, with Japan ahead, and only Singapore, China & Hong Kong, and possibly Turkey, as contenders for second place, depending on which of them we wish to exclude as start-up exporters.

However, far more important than the final, 'corrected' ranking of the UK is the fact

Table 3
Top 35 fastest-growing exporters of goods to 11 founding members of the Single Market over the 'Common Market' years 1973–1992

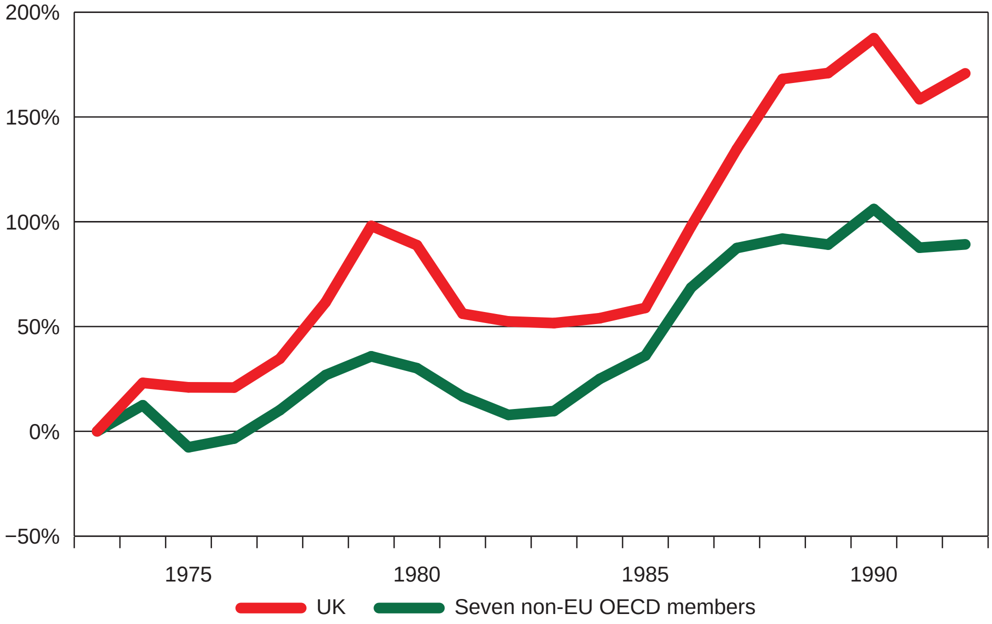
		% growth in US$(1973)	Exports per month in 1973 US$m(1973)	Exports per month in 1992 US$m(1992)
1	Korea	1219	14	584
2	Saudi Arabia	670	28	691
3	United Arab Emirates	590	14	311
4	Taiwan	494	29	551
5	Thailand	431	19	318
6	Bahrain	454	3	45
7	Singapore	393	30	465
8	China & Hong Kong	385	82	1262
9	Qatar	334	3	36
10	Indonesia	256	32	364
11	Japan	212	193	1902
12	Pakistan	203	15	141
13	Turkey	204	77	741
14	Mexico	199	57	540
15	Egypt	188	36	327
16	UK	171	1071	9177
17	Kuwait	149	17	131
18	India	136	40	298
19	Morocco	125	51	363
20	Chile	113	20	131
21	Israel	102	68	432
22	Vietnam	96	5	28
23	Australia	95	78	483
24	US	92	1006	6108
25	Nigeria	89	42	249
26	Argentina	89	45	858
27	Switzerland	87	643	3806
28	Canada	82	118	679
29	Iceland	75	10	57
30	New Zealand	62	14	71
31	Norway	51	182	873
32	Kenya	14	8	28
33	South Africa	−2	129	397
34	Bangladesh	−8	10	28
35	Brazil	−15	126	339

Source: www.oecd-ilibrary.org. OECD database Monthly Statistics of International Trade doi:10.1787/data-02279 that the growth of UK exports in these decades exceeded that of the US and several other countries that were reasonably well-established in the global trading networks at the time. In 1973 the average monthly value of UK exports edged ahead of those of the US at $1,006m per month for the first time since 1966, and continued to grow at a faster pace till 1992, when at $9,170m their value was just over 50 per cent higher than the $6,108m value of US exports. It thereby demonstrated, incidentally, that the country with the highest monthly average value need not invariably have a low rate of growth. UK exports also grew more rapidly over these years than those of Australia, Argentina, Canada, Switzerland, Norway, Switzerland and South Africa, all of which were well-established exporters of the day.

The performance of UK exports over these Common Market decades, therefore, contrasts sharply with their performance over the first 19 years of the Single Market, but in the wrong direction for those who wish to argue that the UK has enjoyed, or is enjoying, insider advantages in the Single Market. During the Common Market years, UK exports grew faster than those of the US and the other seven countries, while under the Single Market the exports of every single one of them grew faster than those of the UK. The United States is an especially illuminating example of the difference between the two eras. Over the 20 years of the Common Market, UK exports had, as just mentioned, grown faster than American exports and by 1992 were 50 per cent higher in value. That was, however, their high point relative to US exports, and they have never reached it since. Instead, the differential has declined, fairly steadily throughout the 19 years of the Single Market, and in 2011, for the first time since 1972, the value of US exports of goods to the EU 11 exceeded the value of UK exports. There cannot, therefore, be much doubt that the growth of UK exports has declined under the Single Market, and that it has failed, thus far, to live up to its promise.

The contrast between the two eras is illustrated in the figures 3 & 4 below. Figure 3 compares the growth in the total value of UK exports of goods to the countries that were to become EU 11 with that of a slightly different sub-set of countries, seven founder or long-standing members of OECD (Australia, Canada, Iceland, Japan, Norway, Switzerland and the United States) whose trade with EU countries was therefore well-established, and well-documented, before the UK entered the EU. Over all the Common Market years, as may be clearly seen, UK exports to the EU grew at a decidedly more rapid rate than those of these seven OECD countries, and by the end of the two decades had grown 75 per cent more than theirs in gross value.

Figure 3
Growth in total value of goods exports to 11 founding members of the Single Market over the Common Market years 1973–1992: UK compared with seven long-standing OECD members in US$(1973)



Source: Monthly Statistics on International Trade, Dataset: trade in value by partner countries, www.oecd-ilibrary.org. The seven non-EU OECD members are Australia, Canada, Iceland, Japan, Norway, Switzerland and the United States.

Over these years, therefore, it is possible to imagine that the UK might have enjoyed some kind of insider advantage. Indeed, this is a perfect textbook example of the kind of clue or *prima facie* evidence we have been searching for. But what kind of advantage was it? The directives and regulations which have 'harmonised' the member countries under the Single Market were barely under way, and indeed the entire EC institutional apparatus surrounded by lobbyists/stakeholders and its culture of comitology were still rudimentary. Apart from the much advertised bracing effects of competition within the Common Market, one possible explanation is strong economic growth in France, Germany and Italy. However, it is then not clear why the UK should have benefited from this growth more than the other OECD countries. We are therefore obliged to mention the other plausible explanation, the one distinctive characteristic of the EEC over all those years, its rather high common external tariff. Perhaps this tariff restricted the growth of the exports of the seven OECD members, to the advantage of the UK, which, as an EU member, was not subject to it?

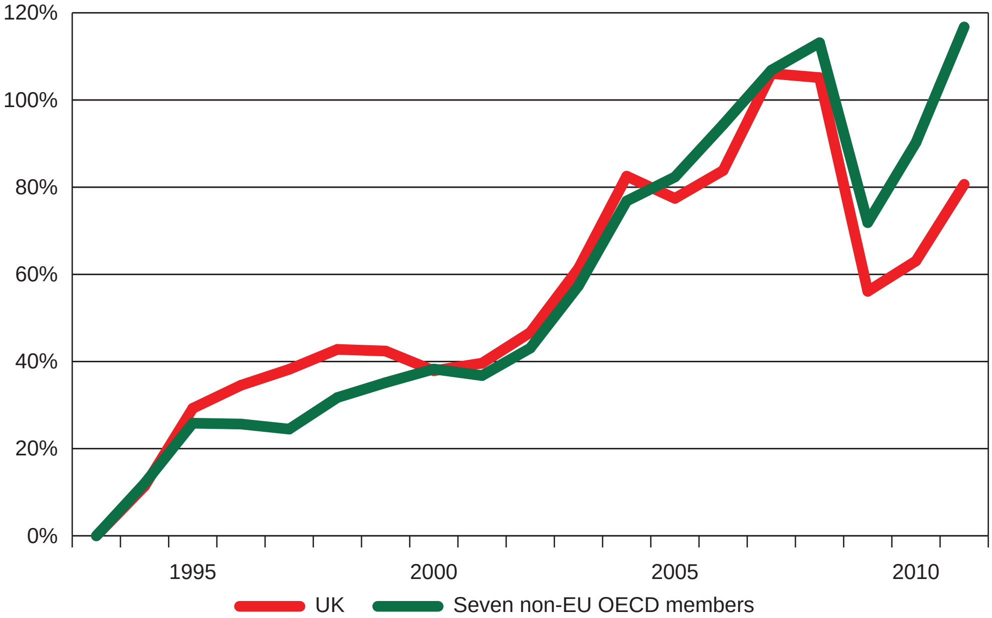
Until such time as the impact of that tariff has been definitively measured, we can only speculate. However, having raised the issue of tariffs over the Common Market years leads one to consider the possibility that those who today extol the insider advantages of EU membership might be referring to tariff protection offered by the EU, though they could hardly say so openly without embarrassment. It seems unlikely. Tariffs are, certainly, insider advantages, but EU tariffs on non-agricultural products have been falling steadily for many years. According to the UNCTAD, the EU weighted average tariff on manufactured products fell from 4.42 per cent in 1988 to 2.67 per cent in 2010.[1] Since many non-members avoid them altogether, they can hardly amount to prized insider advantages.[2]

Non-tariff barriers (NTBs) might, more plausibly, be considered as such since these have sometimes been estimated to be the equivalent of as much as 20 per cent of an external tariff. Member countries have not, however, been remarkably effective at eliminating NTBs amongst themselves, so the idea that they collude to maintain them against outsiders, and the UK must remain a member of the EU to enjoy these NTB insider advantages, seems rather far-fetched. Until we are told exactly what the insider advantages that count for so much actually are, we can only speculate, so we will return to the facts.

The growth in value of UK exports over the 20 Common Market years shown in Figure 3 may be compared with their growth over 19 years of the Single Market which is shown in Figure 4 (overleaf), alongside the same seven OECD non-EU countries. Over the first 12 years, from 1993 to 2004, the value of UK exports grew at a slightly faster rate, though with nothing like the same lead as it had enjoyed during the Common Market years. Then, in 2005, the UK slipped behind their rate of growth, and in 2009 dropped markedly behind, so that by the end of 19 years, in 2011, the exports of the seven OECD countries had grown 35 per cent more than the UK's.

The putative insider advantage therefore seems to have disappeared altogether. Once again, we can only rescue the claim if we take the view that, without the insider advantage, the growth of UK exports would have fallen still further behind these other OECD countries. However, that is only plausible if we have evidence explaining why it is reasonable to expect that to have happened, just after the exciting opportunities by 'the world's largest Single Market' were opened to UK exporters and over the years when the Single Market was being 'widened' and 'deepened'.

Figure 4
Growth in total value of goods exports to the EU 11 UK compared with seven long-standing OECD members 1993–2011



Source: Monthly Statistics on International Trade, Dataset: trade in value by partner countries, www.oecd-ilibrary.org. The seven non-EU OECD members are Australia, Canada, Iceland, Japan, Norway, Switzerland and the United States

The UK was not, one must add, entirely alone in experiencing a significant decline of fortunes after the Common Market became the Single Market. One of the seven OECD countries, Japan, kept the UK company, and indeed suffered an even greater reversal, having been the only advanced economy whose exports to the EU grew faster than those of the UK in the decades 1973–1992, and the only developed country to have grown slower than the UK in the two decades 1993–2011. While the UK fell from 16th to 28th place over these latter decades, Japan fell from 12th to 30th.

Japan's decline over this period has, of course, been widely noticed and discussed, but the UK's has not, as the Single Market has usually been seen as rescuing the UK from earlier decades of decline. The British political elite has been much too busy celebrating the merits of the Single Market, making unsubstantiated claims about the insider advantages that the UK enjoys as a member of it, and warning everyone of the fearful consequences of losing them. This has left little space for politicians or the media to notice and discuss the UK's decline within the Single Market.

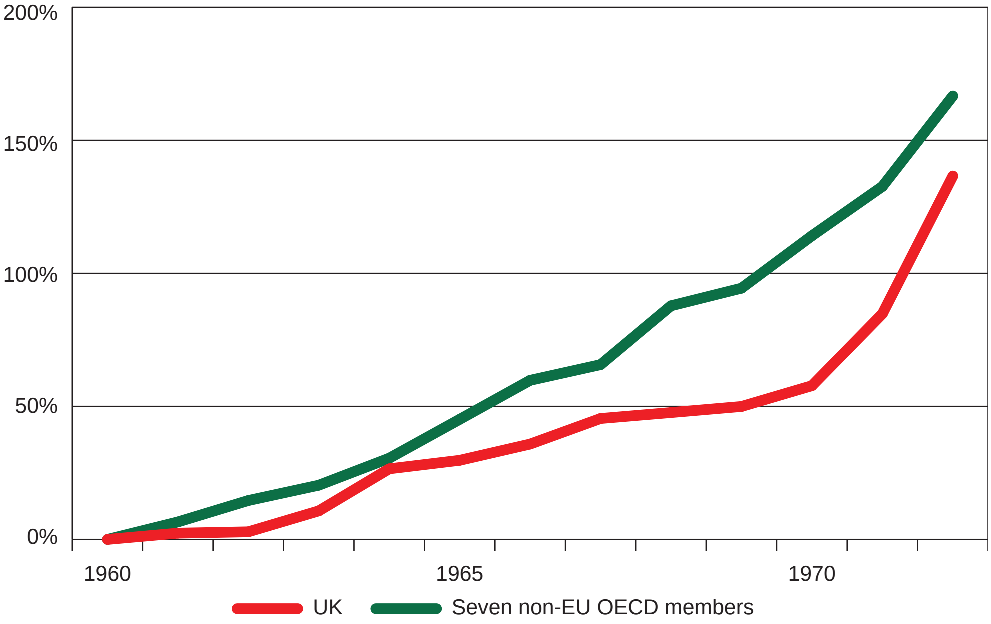
If it is true, to quote the Prime Minister again, that 'our participation in the Single Market, and our ability to help set its rules, is the principal reason for our membership of the EU', then plainly there are strong political reasons why the failure of the Single

Market, from the UK's point of view, should *not* be examined and discussed.[3] It cannot be allowed to be anything other than a resounding success. Hence, one is now more likely, *mirabile dictu*, to learn of its failings from Brussels than from London.[4]

6. And further back, to the pre-entry years

Having taken one step backwards, it is difficult to resist taking another, to examine UK export growth in the pre-entry years and to see just when the UK's rapid export growth may have begun. The OECD data allows us to go back to 1960. Figure 5 shows the growth of UK exports to the countries that were to become the EU 11 over the 13 years prior to the UK's accession in 1973. They are again presented alongside the same seven OECD countries as in Figures 3 & 4.

Figure 5
Growth in total value of UK goods exports to the future EU 11 compared with seven long-standing OECD members 1960–1972 in US$(1960)



The seven non-EU OECD members are Australia, Canada, Iceland, Japan, Norway, Switzerland and the United States
Source: Monthly Statistics on International Trade, Dataset: trade in value by partner countries, www.oecd-ilibrary.org.

Apart from 1964, the UK failed over the decade 1960–1970 to keep pace with the seven OECD countries, even though four of them could not benefit from close proximity to the EU 11. Up to 1970, therefore, these figures fit the conventional narrative of the era with the UK as 'the sick man of Europe'. However, from that year on, UK exports started to grow at a faster rate, and to close on the growth of those of the other OECD countries. The UK overtook the others in 1975.[1]

The conventional narrative seems to have missed this sudden surge. Most right-thinking people at the time, and most of the press, seem to have shared a deep pessimism about the prospects of the UK economy and, largely for that reason, favoured the efforts to join the Common Market, even though a steep upward trajectory in exports was under way.[2] As we have seen in Figure 3 above, this upward trajectory continued right through the two Common Market decades, with UK exports growing at a much faster rate than those of the OECD countries. The slowdown only begins with the Single Market, in the most recent years of which the OECD countries once more grew at a faster rate.

Neither of these historical comparisons, therefore, casts a particularly favourable light on the Single Market. Growth in the value of goods exports, in real terms, over the 13 years 1960–1972 came to 137 per cent; over 20 years of the Common Market to 171 per cent; and over 19 years of the Single Market to 81 per cent.[3]

7. Are services any different?

All the preceding tables refer only to the export of goods, but these now constitute only two-thirds of all UK exports, so it would be helpful to conduct the same kind of analysis for the export of services, especially as the UK enjoys greater comparative advantages for the export of services than for goods.[1]

This is not possible. Reliable data about services exports to partner countries covers a much shorter period and, though it has a wider coverage, it is also more erratic. It begins in 1999, which means that we cannot cover all 19 years of the Single Market.[2] And no backward glance to earlier decades is possible, though since we must begin in 1999, the three 1995 entrants to the EU will cause no distraction and may therefore be included in the calculations. Moreover, since the data on services exports of the 2004 and 2007 entrants are, for some reason, rather better than those of goods exports, the figures for those countries may also be included. We will therefore have a larger number of EU countries, but over fewer years.

Other difficulties arise because, after 1999, entries of exports from particular countries to particular EU countries are haphazardly missing. Thus, to make comparable calculations, we are obliged to use *imports to* the EU from these countries. One might imagine, on first acquaintance with this data, that these are pretty much the same as *exports from* these countries, that the exports country Y reports to country X will be much the same as the imports country X reports from country Y, or that they are reconciled by statistical agencies. But they are not the same, the OECD does not reconcile the difference, and the difference between them is not marginal. They therefore provide a sharp reminder that any data depends on the method used to collect it, and the time of collection and reporting. This might not matter too much if we could use the same *imports to* figures for every single country, but we cannot. For some unknown reason, there are no individual entries for the UK, or for other EU member countries, in the OECD database files of *imports to* the EU for the years 1999–2003. They resume in 2004 which means that, for the UK alone, over the years 1999–2003, we have to use the data of the UK *exports from* file.

To see whether with this makes a significant difference when measuring exports over time, two calculations of growth are given in Table 4: in column 3 over the twelve years 1999–2010 with UK growth alone calculated from exports to the EU 11, and in column 4 over the seven years 2004–2010 when, as just mentioned, figures for imports from all the EU member countries, including the UK, were recorded by OECD. Column 4 is therefore intended to serve as a check on the calculations in column 3. It allows us to see whether column 4's calculations, which include *exports to* only in the case of the UK, might have give a misleading impression of UK export performance.

Table 4
Growth in services exports of 27 countries to the EU 14–26 1999–2010

		% growth 1999–2010: measured in US$(1999)	% growth 2004–2010: measured in US$(1999)	Annual value in 2010 in US$bn(2010)
1	India	286	121	8.4
2	China & Hong Kong	250	86	25.3
3	Russia	256	66	16.2
4	Nigeria	189	87	2.0
5	Turkey	175	25	16.6
6	Egypt	148	44	7.8
7	New Zealand	141	42	0.9
8	Singapore	131	64	9.9
9	Korea	123	29	5.4
10	Israel	115	39	3.4
11	Thailand	112	54	6.0
12	Brazil	110	53	6.3
13	Switzerland	100	43	55.3
14	Mexico	95	9	3.4
15	Philippines	94	56	1.5
16	Taiwan	90	41	3.5
17	Australia	90	26	1.4
18	Argentina	82	64	2.4
19	Morocco	76	32	5.2
20	Norway	66	0.9	10.3
21	Canada	65	31	8.1
22	UK	53	14	97.6
23	South Africa	53	13	4.2
24	Japan	52	22	13.6
25	US	29	19	126.0
26	Malaysia	22	53	2.7

Note: Figures are calculated from files of imports by the EU 15 1999–2003 & by the EU 27 2004–2010, with imports by the UK subtracted from all, hence EU 14 and 26. OECD includes Bulgaria and Romania among the 26 from 2004, even though they did not actually join until 2007 (personal communication from OECD). Missing figures for the years 1999–2000 for Korea, Israel, Egypt, Singapore, Nigeria, S Africa, Taiwan, Malaysia, Thailand, Hong Kong and the Philippines were estimated by assuming they were the same percentage of world service imports as the mean of the three following years. The same method was used to estimate missing figures for Nigeria in 2001 and Malaysia in 2003. Missing figures for Norway and Switzerland for 1999 were estimated by assuming that they were lower than 2000 by the same proportion as 2000 was below 2001.
UK exports alone are taken from UK services exports files. Following OECD, exports to Bulgaria and Romania were included in EU 26 from 2004.
Source: www.oecd-ilibrary.org. OECD database 'Trade in Services by partner country' doi: 10.1787/data-00274

The results, given in Table 4, indicate that they did not. The UK ends up in 22nd place in growth over 12 years, and had we ranked the growth over the seven years, would have been in 23rd place. Although the countries with slower growth than the UK are not identical over the two periods, this is not a cause for serious concern. Since countries' growth fluctuates year on year, growth over a period may well vary according to the start and end dates.

Table 4 covers all 26 countries for which reasonably complete data of services exports exist, though for a good number of them, for some years, it was necessary to estimate by means indicated in the note. To qualify for inclusion in the table, exports in 2010 had to exceed $1bn per annum.[3]

The overall result is not remarkably different from that of growth of export of goods. The UK was 28th of 35 in the growth of exports of goods, and 22nd of 26 in the export of services to the EU. As with the fastest-growing goods exporters table, the results are given without any editing out of newly-emergent exporters, though given the annual value of their services exports in the far right-hand column, most of those above the UK might be deemed as such. Once again, therefore, the UK's final rank might be debated and corrected, though with equally little impact on the conclusions that we may draw from these results.

The main fact is that the value of services exports from 21 non-member countries to members of the Single Market has grown at a faster rate than that of the UK, even though these non-member countries have no insider advantages in their trade with the EU, and some of them at least may well have had to surmount the obstacles of newcomers to world trade and of distance from the Single Market.

The growth and the value of Norway's and Switzerland's exports deserve particular attention because the Director-General of the CBI recently decided to repeat the insider advantages argument. Norway, he told readers of *The Times*, had 'no clout over EU decision-making because it has no seat at the table' while 'Switzerland still has no agreement to ensure access to the European market in services – a major part of the UK economy'.[4] Nothing, therefore, is to be learned or expected from either country, according to the Director-General of the CBI, who went on to call for the UK's relationship with the EU to be assessed 'using hard facts and objective analysis, not emotion or hollow rhetoric'.

If one refers to the OECD's hard facts, it is strange to discover that, despite its 'lack of clout over EU decision-making', the total value of Norway's services exports to the EU has grown 13 per cent more than those of the UK over the years 1999–2010, and despite Switzerland having no agreement ‘to ensure access to the European market in services’, the total value of its services exports has grown nearly twice as much as the UK’s over the 12 years we can measure. The total value of the two countries’ services exports, $10.3bn and $55.3bn respectively in 2010, might seem modest by comparison with the $97.6bn of the UK, but per capita they are both much larger than the UK’s. In 2010, the UK’s exports were $1,591 per capita, while Norway’s were $2,073, Switzerland’s were $7,060 (well over four times the value of UK’s).

Not having ‘a seat at the table’ and not having ‘access to the European market in services’ begin to look like decided advantages. If the UK’s services exports to the EU had been as successful as those of Norway in 2010, they would have amounted to $127.2bn, and if as successful as those of Switzerland to $433.1bn; rather more, in other words, than the $97.6bn they actually reached. These two countries, one must conclude, are not good prospects for identifying the disadvantages of not taking part in the rule-making of the Single Market.

There are four slower-growing countries, but two of these are within one percentage point of UK growth, so not much is to be inferred from them, which leaves just the US and Malaysia. The latter’s services exports are diminutive, so, when looking for countries whose performance might put us on the track of the UK’s insider advantages, the United States looks like our best prospect. The total value of its services exports to the EU 14–26 exceeded that of UK exports by a considerable margin, but its slower growth might perhaps indicate that it suffered from an outsider’s disadvantages, while, correspondingly, the UK’s slightly better performance might indicate that it has benefited from insider advantages.

8. Do UK exporters need an insider advantage?

Another way of assessing the performance of UK exports to the EU under the Single Market is to compare their rate of growth with that of UK exports to non-member countries over the same period. Markets for UK exports are, of course, influenced by a great many factors that are not included in this search. However, a comparison of the rate of growth of exports to members and non-members might still be illuminating. If, for instance, the rate of growth to fellow members were faster than that of exports to non-member countries, it would be consistent with the claim that the UK enjoyed an insider advantage when exporting to fellow members of the Single Market, and provide some reassurance that we are on the right track.

The 33 fastest-growing markets for UK exports of goods over the 19 years of the Single Market are listed in Table 5. It shows that UK exports to the EU 11 were not faster than those to non-member countries. Far from it. UK exports to 25 non-member countries have grown at a faster rate, frequently very much faster. And these results have not been seriously affected by the on-going eurocrisis. If we set the clock back to 2008 and calculate the growth of UK exports only to that date, the EU only moves up two places. Growth of exports to the Single Market was slow throughout its sixteen pre-crisis years.

Since we are comparing the value of exports to 11 countries with those of single countries, the value of exports to the EU exceeds that of all the others. And if we adopt the habit of some EU partisans, including prime ministers, and conflate growth of exports to a fixed number of countries with growth to all EU countries as it expanded in 2004 and 2007, and therefore add the exports to the nine later entrants for which we have data, growth increases slightly to 112 per cent. This puts the EU in 24th place, just behind Brazil, and the mean monthly value in 2011 rises to $28bn. Individually, it must also be said, some of the EU 11 were among the highest value markets for UK exports. However, whatever way we present the evidence, it can only reproduce, from another angle, the Single Market profile with which we have become familiar. The EU is a high value market for UK exports, but a slow-growing one.

This data is, however, interesting for another reason. Anyone looking at the earlier tables will almost certainly have wondered whether UK exports to the Single Market have grown at a slow rate simply because UK exporters have not adapted nimbly or intelligently enough to take advantage of the opportunities presented by the Single Market. One may infer that those who claim that the UK must continue to depend

Table 5
Top 33 fastest-growing markets for UK exports of goods over the life of the Single Market 1993–2011

		% growth in 19 years measured in US$(1993)	Mean monthly value in $m (2011)
1	Qatar	16141	638
2	Vietnam	5043	222
3	Nigeria	1268	746
4	Turkey*	651	815
5	Bangladesh	628	199
6	Mexico*	545	180
7	Russia	508	974
8	China & Hong Kong	492	4021
9	Algeria*	446	199
10	Canada	428	1582
11	Kuwait	368	196
12	United Arab Emirates	413	252
13	Sri Lanka	286	107
14	India	269	784
15	Norway*	255	3601
16	Columbia	244	117
17	Egypt*	190	106
18	Argentina	186	79
19	Israel*	171	291
20	Australia	159	652
21	Thailand	121	332
22	Bahrain	113	218
23	Brazil	112	373
24	South Africa*	100	389
25	Korea*	92	414
26	EU11	81	23897
27	Pakistan	80	114
28	Switzerland*	66	933
29	Singapore	62	511
30	Taiwan	41	445
31	US	36	4664
32	Indonesia	27	174
33	New Zealand	22	101

* Denotes countries with which the EU has preferential trade relations.
Sources: www.oecd-ilibrary.org. OECD database Monthly Statistics of International Trade doi:10.1787/data-02279; Trade Policy Review EU, Table 2.2 page 32, Active free-trade agreements signed by the EU Dec 2012, www.wto.org

on an insider advantage provided by participation in the rule-making of the Single Market have already made up their minds about this and accepted that UK export performance will remain weak for the foreseeable future. Why else would they insist that UK exporters could not cope very well without this insider advantage? Why would they insist that the UK should at all costs cling on to it, and warn of serious consequences for jobs in export-oriented industries if it failed to do so?

The higher rate of growth of UK exports to 25 non-member countries suggests that UK exporters may not be quite as ineffective as their performance in the Single Market indicates, nor as much in need of an insider advantage as the Prime Minister and others think. Without it, they seem to have performed reasonably well. No doubt, not well enough. The UK trade in goods account has been in deficit in every year since 1980–82.[1] But trade policy and trade analysis is, above all else, about comparative advantage. The interest of these figures is therefore in the superior growth of UK exports in world markets compared with the EU's Single Market.

Moreover, this superior growth in world markets has been secured without all the various costs that the UK has incurred in the hope, apparently, of propping up its poor export performance in the Single Market. The direct cost to the UK taxpayer of the annual EU subscription might properly be seen as a subsidy to UK exporters to the EU, since their trade costs are lowered in return for the taxpayers' payment. No wonder, perhaps, that some of the large exporters are cheerleaders for the Single Market. They themselves may also, of course, pay direct costs in the form of EU regulations, but these costs are borne by all UK firms, whether or not they export to the EU, and hence do not affect the exporters' competitive position.[2] There are also opportunity costs of membership, because the UK, as a member of the EU, has to wait on the cumbersome and slow EU negotiating procedures, requiring the consent of all 28 countries, before trade agreements with fast-growing markets can be negotiated and put into force.

As an independent country, the UK might well have concluded free trade agreements long before the EU was able to do so. Iceland and Switzerland have already concluded agreements with China.[3] The EU has not even begun to negotiate. Its trade negotiations with India began in 2007, but have still not been concluded.[4] Mr Blair forgot to mention that the 'heft' he values so much comes at a price, possibly the high price of lengthy, even interminable delays to secure agreements which do not match the priorities, or the revealed comparative advantages, of UK exporters. However, we may best discuss these costs after we have completed the picture of the UK's fastest-growing markets.

Table 6
Top 20 fastest-growing markets for UK exports of services 1999–2010

Rank		% growth 1999–2010 In $1999	Total annual value in 2010 In $b
1	Iceland	256	0.2
2	Taiwan	231	1.7
3	India	189	3.1
4	Colombia	180	0.3
5	Switzerland	161	13.2
6	Australia	124	7.6
7	Morocco	114	0.2
8	China & Hong Kong	107	6.3
9	Turkey	104	1.7
10	Korea	99	1.7
11	Brazil	63	1.3
12	Thailand	61	0.7
13	EU 14	53	91.4
14	Norway	51	3.6
15	Egypt	46	0.8
16	Canada	44	4.3
17	Mexico*	40	0.6
18	Indonesia	39	0.5
19	US	34	49.7
20	Malaysia	31	1.1

* Denotes country with which the EU has preferential trade relations including services.
The missing entry for exports to Australia in 2003 was estimated by taking the mid-point between 2002–2004
Sources: www.oecd-ilibrary.org. OECD database 'Trade in Services by partner country' doi: 10.1787/data-00274; Trade Policy Review EU, Table 2.2 page 32, Active free-trade agreements signed by the EU Dec 2012, www.wto.org

Table 6 shows the fastest-growing markets for UK services exports, though, for reasons mentioned above, only for the years 1999–2010, and only for exports to 20 countries. Mexico is starred to indicate the EU had an FTA in services in force from 2001.

Overall, it does not differ greatly from the export of goods, though since the EU was 13th of the top 20 fastest-growing markets for UK services over these years, and only 26th of the 33 fastest-growing markets for the export of goods, it appears that UK exports of services to the EU have been growing at a relatively faster rate than those of goods. The main feature of the two tables is, however, the same: the EU is a high-value market but a slow-growing one. With a total value of $91.4bn, UK services exports to the EU 14 in 2010 constituted 37 per cent of the value of all services exports. Six of the top ten individual markets by value in 2010 were EU members, with those to Germany worth $15.3bn *per annum*, to the Netherlands $14.6bn, to France $12.6bn, to Ireland $12.1bn and to Spain $7.5bn.

If we again follow the common, rather misleading practice of measuring growth in all EU countries as it expanded in 2004 and 2007 from 14 to 26 other members, then UK exports to the EU would have grown by 63 per cent and risen to 12th place, again marginally behind Brazil, with the EU share of services exports rising to just over 39 per cent and their total value to $97.5bn.

In the search for clues about insider advantages, the exports to the US are once again of particular interest. The US is, by some distance, the largest single market for UK services, and yet growth to that market is slower than exports to the EU. It therefore repeats the pattern observed in the export of goods, where the US was also the largest single market, and again grew slower than the EU. To understand this difference, and the contribution that insider advantages may have made to it, is far beyond the scope of the present analysis, but we may note that it is consistent with the claim that the UK has enjoyed 'insider advantages' when trading with the EU which it does not enjoy when exporting to the US. It may therefore be a clue as to where we might look for insider advantages, not a strong one, because it is a solitary example, and one is bound to wonder why the absence of insider advantages helps to explain poor performance of service exports to the US but does not appear to be a handicap when exporting to Switzerland, Australia or China and Hong Kong. However, since we have few clues about where the insider advantages might be found, we should not let slip any that do appear, however unpromising they may seem.

9. A country with neither heft nor clout

In a recent policy document, the CBI referred repeatedly to what it called the 'clout' of the EU. It warned of the perils of the UK taking 'the Swiss option (which) would mean the UK negotiating global trade deals without the clout of the EU behind it'.[1] Clout, we may assume, is much the same as Mr. Blair's heft, and since this is the only insider advantage that has been identified by name, albeit rather vaguely, it deserves some attention.

Mr Blair spoke as if heft was an unalloyed benefit, while the CBI, to its credit, admitted that 'the value of the EU's clout in trade negotiations is partially offset by the cumbersome nature of negotiating as part of a bloc of 28 countries rather than as a single nation'. It then went on to give 'some downsides' of 'allowing the EU to conduct trade negotiations on behalf of the UK'.

First, there is the simple fact that, as one of 28 EU states, the UK cannot guarantee that its priorities will always be represented in trade talks and cannot fully dictate which markets are prioritised for FTA negotiation. Some argue that the UK could have been more nimble in negotiating its own trade deals – with the US or Commonwealth countries, for example. Moreover, the number of places to influence the negotiation process has resulted in competing national interests and defensive positions being pushed by sectoral lobby groups in some EU states, slowing down some FTA negotiations and reducing the scope for reaching agreement on contentious issues such as agriculture. For example, this has been a feature of recent negotiations involving both Canada and Mercosur. This is not helped by the institutional procedures involved in negotiating FTAs that can lengthen the process and present stumbling blocks to completion, including the need to square off interests in both the Council and the Parliament.[2]

However, after mentioning these downsides, it decided, by some instant process which it did not pause to document or explain, that these disadvantages were all outweighed by the benefits of the EU's 'clout'. Coming so soon after its Director-General's call for the UK's relationship with the EU to be assessed 'using hard facts and objective analysis', this sleight of hand was rather less creditable, since there are ways in which the benefits of clout in trade negotiations may be assessed. One is by examining the experience of a country that has neither heft nor clout – Switzerland.

Switzerland has long had a pro-active strategy of negotiating trade agreements according to two main criteria set by its Federal Council. These are the economic importance of the possible partner country and the disadvantage its exporters might suffer relative to its main competitors in that market.[3]

Table 7 lists the 26 Swiss agreements that the WTO records as currently in force, alongside the 25 of the EU, giving the dates they came into force. Both sides have a number of negotiations under way, a few of which have been signed, but for clarity’s sake we list only those currently in force.

There are several points worth noting in this table. The first is that 13 of the 26 Swiss FTAs came into force before the EU agreement and three came into force in the same year. All 16 are highlighted in red, with the three in the same year starred. This leaves 10 in black, which followed those of the EU. The Swiss have, in other words, been rather quicker than the EU in negotiating and activating FTAs.

The second point to note is that the Swiss have six agreements in force for which there are no EU counterparts: with Singapore, the Southern Africa Customs Union, Japan, Canada, Ukraine, China and Hong Kong. Correspondingly, the EU has five agreements in force for which there are no Swiss equivalents: with Syria, San Marino, Algeria, Central America and Andorra. Without citing evidence for the moment, it seems fairly safe to say that the Swiss, without the clout of the EU behind them, have been able to conclude agreements with rather more important trading countries.

Mr Blair and the CBI seem to share a rather distinctive view of trade negotiations, as if countries might be pushed or browbeaten by the EU into speedily concluding FTAs favourable to the EU. The CBI argued that ‘the quality of a deal depends on the balance of power between the parties’. Since the UK has less power or clout than the EU, it would by itself be unable to negotiate ‘deep and ambitious’ FTAs:

It is difficult to envisage how a country the size of the UK could succeed in breaking down the required regulatory barriers to trade with a major country in its own separate trade negotiation… At the very least, the UK would find itself in a long queue to sign deals with major economies on similar terms to those being signed by larger blocs such as the EU. It is likely that FTAs with the UK would take second place to agreements with the EU in the priorities of third countries.[4]

Lord Mandelson, the former EU Trade Commissioner, recently presented a similar argument to the British Chambers of Commerce’s 2014 annual conference. He predicted that countries like India would ‘just laugh in our faces’ and ‘walk away’ from negotiations if the UK chose not to operate as ‘a bloc with 500 million people behind us’. Britain would, he thought, be left ‘whistling in the wind’ in its free trade negotiations if it were no longer part of the European Union.[5]

Plainly, neither the CBI nor Lord Mandelson examined the WTO evidence. If they had, they would not have found it in the least difficult to envisage how a country the

Table 7
Switzerland compared with the EU: Free trade agreements in force in goods & services as reported to the WTO December 2012 and retrieved from its listings in December 2013.

Dates in red indicate that Swiss agreement preceded or was in the same years as EU agreement.

's' indicates agreement includes services with /date if later than goods

Year Swiss Agreement in force	Partner Country	Year EU Agreement in force
nil	Syria	1977
1992	Turkey	1996
1993s	Israel	2000
1995	Faeroe Islands	1997
1999s	Palestinian Authority	1997
1999s	Morocco	2000
2001s	Mexico	2000s
2002s*	Croatia	2002/5s
2002s*	Jordan	2002
2002	Macedonia	2001/4s
2003s	Singapore	nil
nil	San Marino	2002
2004s	Chile	2003/5s
2006s	Korea	2011
2006s	Tunisia	1998
2007s	Lebanon	2003
2008	South Africa	2000
2007s	Egypt	2004
2008s	SACU*	nil
2009	Japan	nil
2009s	Canada	nil
2010s	Albania	2006/9s
2010*	Serbia	2010
nil	Algeria	2005
2011s	Columbia	2013
2012s	Peru	2013
nil	CACM**	2013
2012s	Ukraine	nil
2012s	China & Hong Kong	nil
2012s	Montenegro	2008/10s
nil	Andorra	1991

*SACU, the Southern Africa Customs Union, consists of Botswana, Swaziland, Namibia, Lesotho and South Africa.
** CACM, the Central American Common Market, consists of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.
The EC also concluded agreements with members' overseas countries & territories in 1971. The WTO describes its agreements with Cariforum in 2008, with Papua New Guinea & Fiji in 2009, and with the Eastern and Southern African states in 2012 as: 'Dates of provisional application. Not yet entered in force'. Cariforum consists of the 15 Caribbean Community states, along with the Dominican Republic, but Guyana and Haiti declined to sign the Economic Partnership Agreement with the EU.
Source: www.wto.org Trade Policy Reviews EU & Switzerland

size of the UK could succeed 'in breaking down the required regulatory barriers to trade with a major country in its own separate trade negotiation', since they would have seen that Switzerland, with a GDP one quarter the size of that of the UK, has frequently concluded agreements before those of the EU, without apparently finding itself in 'a long queue' or taking 'second place' to 'larger blocs', or anyone 'laughing in their faces'.

The WTO evidence would, moreover, have given them still further proof that heft or clout is not quite the all-important factor in trade negotiations they imagine. The US has, I suppose, as much or more heft or clout than any country in the world, so if the CBI's fearful fantasy had any basis in reality, it would presumably have a very large number of FTAs. It doesn't. It currently has just 20, rather fewer than the 26 of the Swiss, and their FTAs, like those of the EU, do not include some of the larger trading nations.[6] When one looks at their agreements, there is little sign that heft or clout played a major part in securing them. Their agreement with Israel preceded that of Switzerland by eight years, and that with NAFTA partner Mexico by seven, and with Jordan by one, but their agreement with Chile was in the same year as the Swiss, while that with Singapore came a year later, and that with Korea, where one might suspect that heft played a part, came six years after the Swiss agreement. If there was a queue to sign FTAs, the United States does not appear to have been at the head of it.

The United States is, of course, the one glaring omission from the list of Swiss agreements, despite it being a very important trading partner for the Swiss. Since the EU has recently announced the start of negotiations for a free trade agreement with the US, might this be a case where the EU is a step ahead of the Swiss? No! It is not. The Swiss negotiations for an FTA with the US began in 2005, some eight years before those of the EU, and they were terminated in 2006 on one key issue. The small, heavily subsidized, but politically well-organized agricultural interest in Switzerland would not contemplate free trade in agricultural products, and the US would not contemplate an FTA without them. As very much a second best, the two countries concluded a Trade and Investment Co-operation Forum Agreement.[7]

The third point to note about the Swiss agreements in force in 2012 is that 20 of the 26 include services, whereas only six of the 25 EU agreements do so. It is no surprise, of course, that Switzerland, a country with a large service sector, should place such importance on securing agreements on services as well as goods, but it is surprising, given the emphasis British governments over many years have put on extending the Single Market in services, that the EU should have concluded so few. Presumably, since free trade in services between EU member countries is far from complete, negotiating agreement with other countries is not the easiest task, inherently far more difficult than negotiating goods agreements and at times, one suspects, insurmountably so.

It is also surprising that, after repeatedly expressing its concern that the Single Market in services be extended and deepened, the CBI did not rate this 20 to 6 disparity in the number of FTAs covering services a powerful consideration on behalf of independently-negotiated FTAs. It did not even think it worth mentioning, and pressed on regardless to argue that the EU can negotiate agreements which would be quite beyond the UK were it to negotiate independently like the Swiss. Its explanation is that:

The nature of the modern FTA, the quality of the FTA that UK industry requires to properly realise global business opportunities, and the size of market the UK offers to potential trading partners all indicate that the UK would struggle to match the deals it can achieve and the market access it can attain if it attempted to strike out alone with trade negotiations.[8]

The idea that the UK alone would be a small, inadequate, vulnerable country, quite unable to cope in a fiercely competitive world, has long been a standard theme in the EU supporters' repertoire. It reappears frequently in making the case for the EU and the Single Market, and at the time of the referendum in 1975 was a view that much of the country, or at least of its media, seemed to share. Why the CBI has chosen to repeat it in the context of negotiating FTAs is puzzling. What evidence do they have that leads them to believe that the UK alone 'would struggle to match' the quality of EU deals?

In the nature of things, one would expect an entirely UK negotiating team to have a rather better understanding of the priorities and needs of British industry, and better command of their special requirements, than the multinational appointees of the European Commission. After all, UK representatives of all kinds in Brussels, including the CBI, must at times struggle to make themselves heard and understood by EC negotiators, if only because representatives of 27 other nations are, at the same time, trying to do exactly the same thing. And one imagines that a single nation team would not be distracted by multiple priorities, and that the feedback during their negotiations would be more continuous, precise and intelligible than the multi-national, and multi-sectoral inputs that accompany EU negotiations.[9]

Over many years the UK has, all by itself, negotiated Investment Promotion and

Protection Agreements (IPPAs), more generally known as Bilateral Investment Treaties (BITs), which are often seen as the preliminary to full-blown FTAs. Currently, the UK has 94 IPPAs in force, though the negotiation of new or revised ones has lapsed of late since responsibility for them has been passed to the EU, which is progressively incorporating them into its future FTAs.[10] It almost certain that, when these 94 IPPAs were being negotiated, the CBI was consulted frequently. Hence its current strong preference for multinational appointees of the European Commission to defend British interests in the negotiation of future IPPAs, along with future FTAs, naturally raises the question of whether the CBI has found some of these 94 FCO-negotiated IPPAs inadequate. Maybe this is why they decided that the UK on its own lacked clout, or perhaps FCO negotiators were out-smarted by partner countries, and therefore signed badly-framed agreements that have worked to the disadvantage of CBI members.[11] If the CBI has any evidence of this kind, it should have been mentioned. Their argument would then hang together rather better than it does. As it stands, we have to accept on faith the idea that multinational teams appointed by the European Commission would always do a better job for UK exporters than teams appointed by the FCO.

On the specific issue of the 'quality' of the 'modern' FTAs that it requires, the CBI is still more reticent. Not only does it decline to give any evidence of pre-modern FTAs that have, somewhere or sometime, fallen short of its quality standards, but it has also declined even to identify the criteria by which it rates the quality of EU FTAs.[12] This makes it rather difficult to evaluate their argument. Until the CBI conducts a clause-by-clause, tariff-line-by-tariff-line, analysis of FTAs to show that the clout of the EU has enabled it to negotiate agreements of greater quality or depth than those of Switzerland (a task that it is well within its capabilities, and one that it should surely should have conducted long since on its members' behalf), we are reasonably entitled to take the inclusion of services as an initial measure of an FTA's quality and depth. By this simple measure, the EU FTAs are inferior to those of the Swiss, and the clout of the EU has been a handicap and a cost, not an insider advantage.

There is, however, a second, more persuasive and compelling way in which the quality of FTAs may be measured, and that is by examining their results. They are intended to increase UK exports, along with those of other members. Have they done so?

10. Measuring the benefits of the EU's trade agreements

This is a simple question, but fiendishly difficult to answer, since the impact of the FTA has to be distinguished from the many other factors that may affect trade flows. However, the Swiss State Secretariat for Economic Affairs (SECO) made a start in 2009. On the back of an academic study which had suggested that, on average, FTAs doubled members' bilateral trade after 10–15 years, it sought to discover whether, and how far, Swiss experience thus far corroborated this finding.[1] It found that whereas between 1988 and 2008 Swiss worldwide exports increased annually by 5.7 per cent, exports to countries with whom they had concluded agreements at least four years previously had increased by 10.5 per cent annually. Perhaps a still more interesting finding of its study was that, while trade was increasing, the share of the top five Swiss export industries in those markets with which agreements had come into force declined. This suggested, they argued, that the FTAs had helped other Swiss firms and industries to increase their exports to those foreign markets, and hence to diversify the Swiss export effort. [2]

For many years the EC seems to have been content to make predictions about the gains for the EU as a whole that would, it thought, follow their FTAs, just as it routinely does with other policies, and allow these predictions, over time, to morph into established facts, from which individual member countries were free to scale down the supposed collective gains in exports and jobs to fit their own dimensions and circumstances. This is, as Table 2 above suggests, a rather dangerous practice. In any event, for a long time, there were no follow-up studies of FTAs, even though the EC has, since 1999, been conducting *ex ante* 'sustainability impact assessments' of proposed FTAs which focused on the environmental consequences of the proposed agreement in the partner country.[3] The breakthrough came in 2010 when the EC decided it should 'step up a gear in embedding impact assessments and evaluations in trade policy making', and 'carry out *ex post* evaluation (of existing EU trade agreements) on a more systematic basis'. This more systematic basis meant that they would henceforth be evaluated not only for their environmental effects, but also to see if they met their primary purpose of increasing trade.[4]

There have been two assessments for the EC thus far. The first, in 2011, compared the impact of EU agreements in force with six countries and sought to isolate the impact of the FTAs by two approaches, one relying on the gravity model and the other on a so called 'matched pairs' approach, leaving the reader to decide between them.[5] The second assessment, in 2012, is a much more detailed, sectoral, tariff-line-by-tariff-line analysis of the EU FTA with Chile which came into force in 2003.[6] It was therefore able to measure the impact of tariff reductions on each sector, as and when they were phased in, rather than taking an aggregate trade flows from the formal starting date of the agreement.

There are, however, certain common methodological characteristics between the two studies. Both make use of the gravity equation, though because the Chile study thought ‘the accuracy of the gravity model’s predictions is limited’, it preferred to use its own ‘transformed gravity equation’.[7] Both make use of extensive comparisons with other trading countries, attempting to reproduce the logic of a controlled experiment by matching the FTA partner, as far as possible, with other trading countries and hopefully leaving the FTA whose impact is to be assessed as the sole differentiating factor. Both use general equilibrium models of the partner economy so that they can trace the knock-on effects across the economy, though the authors of the Chile study constructed their own model of the Chilean economy which included the elasticity of substitution of EU imports, by sector, with those from other countries. It could thereby measure the impact of Chile’s contemporaneous FTAs with other countries on its FTA with the EU.

Both studies required comprehensive data series of numerous variables, since a trustworthy gravity equation requires that every variable and eventuality that has significantly affected trade between countries over time can be identified and measured, and a trustworthy controlled experiment requires numerous other comparable trading countries, similar to the subject country except that they are without the FTA being analysed. Both, therefore, often had to be resourceful in finding such data or devising acceptable substitutes. And both were, of course, handicapped by the limited number of post-agreement years available to observe the FTAs’ impact.

Perhaps the most significant result of these studies was that they agreed that the extent of post-agreement trade was not, as far as they could tell, a good indicator of the effectiveness of the FTA.[8] For instance, the six-nation study decided that the impact of the EU FTAs with South Africa and Mexico was statistically insignificant, despite high post-agreement growth of EU exports to both countries.[9] Similarly, though EU exports to Chile recorded only modest post-agreement growth, both the gravity approach of the six-nation study and the transformed gravity approach of the Chile-only study agreed that the EU FTA with Chile had a strong positive impact on EU exports, though their estimates of the amount of growth differed. The six-nation study estimated that the FTA had increased EU exports by 148 per cent (though its alternative 'matched pairs' approach estimated that it had 'an insignificant negative effect that was trivially different from zero') while the Chile study reckoned it was between 40 per cent and 60 per cent.[10] Despite these differences, they could agree that the FTA with Chile had been effective, and that, without it, EU exports would have grown much less than they actually did, and that the EU share of Chilean imports from 2003 to 2008 would have fallen still further than they actually did, from 23 per cent to 16 per cent according to the IMF.[11]

In the present context, the main conclusion to be drawn from both studies is that these are still early, exploratory days of attempts to isolate the impact of FTAs.[12] Hence simple descriptive statistics, evidence about what has actually happened to UK exports after the FTAs that the EU concluded on its behalf have come into force, have a role to play, both in analysis and policy. They may be only the first step in trying to assess what the impact of these agreements might have been, but they are nonetheless an essential one. Why the UK government, or the CBI for that matter, has been unwilling to take this first step is puzzling. European Commission studies invariably amalgamate all the countries of the EU, with their several currencies, languages, GDPs, RCAs and growth rates into a single trading unit. The resulting statistical artefact is of limited relevance when trying to determine what the impact of the EU FTAs might have been on UK exports. Hence, the government and the CBI can have not the least idea of how effective or ineffective EU FTAs may have been for UK exporters, and seemingly they have no wish to find out. Ignorance, it seems, is bliss, and evidently no reason to hold back confident claims about the benefits of EU FTAs.

In any event, these two pioneering European Commission studies provide a salutary preface to the presentation of the pre- and post-agreement exports of the UK. They remind us that FTAs do not mark an overnight transition from high to nil tariffs, but normally phase in reductions, over shorter or longer periods of time, which are differentiated by sector and leave some tariffs or quotas altogether unaffected. They should, more accurately, be called freer rather than free trade agreements. Also, of course, they hammer home the point that post-agreement exports, whatever they may be, tell us nothing about the impact of an FTA until we have agreed a way in which its impact can be distinguished from the multiplicity of factors that affect trade-flows.

The evidence about UK exports presented in Table 8 refers to the 15 countries with which the EU has an FTA which had been in force for at least five years prior to 2012, and for which the OECD publishes adequate data. It shows the annual rate of growth

Table 8
The impact of the EU's Free Trade Agreements on UK exports: a preliminary measure

Real growth of UK exports of goods pre- and post- an EEC/EU agreement with 15 countries, 1960-2012, calculated in US$(1960) from data of imports from the UK by the 15 countries

			Before agreement		After agreement	
Partner country	Date of FTA	Years Before & After compared	Total growth %	Compound Annual Growth Rate %	Total growth %	Compound Annual Growth Rate %
Syria	1977	17	4	0.2	**312**	**9**
Turkey	1996	17	386	9.75	368	9.5
Tunisia	1998	15	168	7	**286**	**9**
Mexico	2000	13	58	4	29	2
Israel	2000	13	48	3	**57**	**4**
Morocco	2000	13	368	13	−21	−2
South Africa	2000	13	144	7	30	2
Macedonia	2001	8	−66	−13	**−19**	**−3**
Croatia	2002	9	129	10	105	8
Jordan	2002	11	90	6	58	4
Chile	2003	10	46	4	−3	−0.3
Lebanon	2003	10	24	2	**122**	**8**
Egypt	2004	9	75	6	44	4
Algeria	2005	8	391	22	284	18
Albania	2006	7	86	9	−16	−3

Korea, Peru, Columbia and others were omitted since their agreements were too recent to observe their effects. San Marino, Andorra and the Faeroe Islands were also omitted because the data was incomplete.
Sources: www.wto.org Trade Policy Review EU; OECDiLibrary stats (2013), "Trade in value by partner countries", Monthly Statistics of International Trade (database) doi: 10.1787/data-00279-en

of UK exports of goods to these 15 countries over an equal number of years before and after the agreement came into force, covering as many years as the date of the agreement and/or the availability of the data will allow, since the impact of such agreements may take many years to be felt. The number of years in each case is shown in column 2. The total growth of UK exports over the years before and after the agreement is shown (in columns 4 & 6), though since this figure depends on start and end dates, and there are considerable annual fluctuations, the compound annual growth rates (CAGR) over each period (columns 5 & 7) may be the more helpful measure, and are therefore tinted. Since the OECD data for UK exports to several of these countries is inadequate for all the years included, the fuller data of imports from the UK was used throughout on the grounds of consistency. Growth is measured in US$(1960) and is therefore real growth.

In the five of these 15 countries that are highlighted in red, both the total growth and the CAGR of UK exports increased after an EU FTA came into force. In the remaining ten countries both the total growth and the CAGR fell over the post-agreement years. The total value of exports, in 2012, to the five countries where growth has increased did not make up for their small number. It was $0.4bn per month, which is just short of 20 per cent of the total exports of $2.2bn per month to the 15 countries in that year, except for Egypt where 2011 was the latest year available.

On the face of things, these EU FTAs do not seem to have helped UK exporters very much. However, to get an initial indication of how typical or remarkable these results may be, we have conducted a similar analysis, according to exactly the same rules, with 14 Swiss FTAs, before and after they came into force. As in the UK analysis, the duration of the before and after periods is as long as the date of the particular agreement and/or the availability of the data permit. Also as in the UK case, adequate export data over the years being compared is available only for a minority of countries included, so we again have to use *imports from* data for all 14 countries in the interests of consistency. The results are presented in Table 9.

The striking difference from the UK analysis is the number of entries highlighted in red in column 7, which indicates those countries where the annual average rate of growth of Swiss exports increased after the agreement came into force. There are nine of them among the 14 countries, and the same nine also record an increase in total growth over the post agreement years. This is in sharp contrast with the UK where, as we have just seen, the average annual rate of UK export growth increased in only five of the 15 countries with which the EU had negotiated an FTA.

A second contrast with the UK results is that the post-agreement increases in Swiss exports appear to be rather larger than those of the UK. Overall, they do not quite match the *average* annual doubling reported by SECO, but then the figures in Table 9 differ from those of SECO study, in that they cover longer periods of time, include the economic crisis 2008–9, the subsequent skyrocketing Swiss franc and other disturbing events in some Swiss export markets. Nevertheless, since Swiss exports have more than doubled their average annual rate of growth in seven of the 14 countries after their agreements came into force, these results do not contradict the SECO findings. By contrast, the UK managed to double its rate of growth to only two small export markets, Syria and Lebanon, after EU FTAs.

Odds ratios provide another way of showing that the Swiss agreements are more likely to be followed by growth. The odds of them doing so are 9:5, while the odds

Table 9

The impact of the Switzerland's Free Trade Agreements on Swiss exports: a preliminary measure

Real growth of Swiss exports of goods pre- and post-agreements with 14 countries, 1971-2012, calculated in US$(1960) from data of imports from Switzerland by the 14 countries

			Before agreement		After agreement	
Partner country	Date of FTA	Years Before & After compared	Total growth %	Compound Annual Growth Rate %	Total growth %	Compound Annual Growth Rate %
Turkey	1992	21	149	4	**348**	**7**
Israel	1993	20	56	2	25	1
Morocco	1999	14	164	7	**282**	**10**
Mexico	2001	12	143	8	**521**	**16**
Croatia	2002	9	−29	−4	**181**	**12**
Jordan	2002	11	47	4	**1336**	**27**
Macedonia	2002	9	−6	−1	**72**	**6**
Singapore	2003	10	−10	−1	**211**	**12**
Chile	2004	9	−42	−6	**42**	**4**
Tunisia	2006	7	47	6	**407**	**26**
Korea	2006	7	89	10	21	3
Lebanon	2007	6	152	17	59	8
Egypt	2007	6	85	11	80	10
South Africa	2008	5	87	13	33	6

Sources: www.wto.org Trade Policy Review EU; OECDiLibrary stats (2013), "Trade in value by partner countries", Monthly Statistics of International Trade (database) doi: 10.1787/data-00279-en

of UK agreements following suit are 5:10, giving a decisive ratio of 18:5 in favour of the Swiss agreements. One can also see the difference in magnitude of the Swiss post-agreement growth by simply adding together, in US$(1960), the total value of all exports by the two countries pre- and post- their agreements. The total value of all Swiss post-agreement exports to all 14 of their partner countries was 67 per cent greater than their total value over the pre-agreement years, while the total post-agreement value of UK exports to its 15 partner countries was just 14 per cent greater.

One may finally note that the high post-agreement growth rates of Swiss exports have continued over reasonable periods of time, over 14 years in the case of Morocco, 11 for Jordan, ten for Singapore, nine for Chile, Croatia and Macedonia. They appear, in other words, to be mark a step-change in Swiss exports rather than a short-term response to some newly-negotiated concessions in the FTA.

What are we to make of these findings? They cannot tell us, we have already agreed, to what degree FTAs might have been responsible for any increase or decline in the growth of UK or Swiss exports. Perhaps their greatest value is the strong case they make for continuous monitoring and analysis of the impact of EU FTAs, which would allow us to distinguish their impact from other factors affecting export growth. However, pending such analyses, these figures provide *prima facie* evidence that Swiss FTAs have been more successful than their EU counterparts have been for UK exporters. Until we identify the other factors that might explain the sharp contrast between the post-agreement export performance of the two countries, we have to give these results considerable credence, especially as no other evidence of any kind has been collected by HMG, by the CBI or by anyone else.

They complete, one may observe, a fairly consistent picture on the impact of the EU's heft and clout in trade negotiations. We have already discovered that they do not ensure speedier FTAs, do not take the EU to the front of the queue with larger trading countries, do not help to extend their coverage to include services, and we have now found that, in most cases, ten out of 15, the CAGR of UK exports has actually declined after they came into force. It therefore seems highly unlikely that either heft or clout have improved the 'quality' of EU FTAs, or that they have much bearing on the successful outcome of trade negotiations. It is therefore hard to believe that they constitute a vital insider advantage for UK exporters.

Correspondingly, the Swiss evidence strongly suggests that independently negotiated FTAs may have considerable merits. The Swiss have been able to conclude FTAs more speedily than the EU, with more important trading countries, more often including services, and can reasonably point to the subsequent rate of growth of their exports as evidence that they have been able to negotiate effective agreements. The CBI may perhaps have some other standard of judging the quality of FTAs, but most of its members who export goods would, I suspect, for the moment at least, accept post-agreement export growth as the bottom line. With nine of their 14 agreements followed by an increase in exports, they would, it seems reasonable to suggest, rate the Swiss FTAs as being of rather higher quality than the EU-FTAs have been for the UK, with a score of five out of 15. And would the service industry members of the CBI accept their leader's claims that EU FTAs are of high quality? The EU score on their behalf is six out of 25, while the Swiss score for the inclusion of their industries is 20 out of 26. Are they expected to believe, without any further evidence, that the six the EU has negotiated are of such quality that they compensate for the 19 agreements from which they have been altogether excluded?[13]

Together, the discrediting of the heft and clout of the EU, and the vindication of independently negotiated agreements, raise doubts about the basic principle of the trade policy of the EU and the Single Market, i.e. that one set of negotiators can simultaneously accommodate and effectively promote the trade interests of 28 countries, each with their distinctive comparative advantages. That doubt must be especially strong in the case of FTAs in services.[14] The record thus far suggests that, in placing their hopes on the EC negotiating effective FTAs in services, British prime ministers are expecting the impossible.

11. On the opportunity costs of EU solidarity

The crux of the CBI argument in favour of outsourcing negotiations on trade with non-member countries from the FCO to the European Commission is that the (unmeasured) benefits and costs of doing so outweigh the (unmeasured) benefits and costs of negotiating as an individual country. In the previous two sections, we have sought to identify and measure the benefits for UK exporters of being insiders, and able to take advantage vicariously of the EU's heft and clout when negotiating FTAs. We will now try to complete the picture by adding a word about their costs.

Since they are opportunity costs which are invisible and therefore painless to those who pay them, they are extremely difficult to measure, and usually ignored in debates about membership of the EU and the Single Market, since there is no one to draw attention to them. The CBI has not, as far as I know, ever pointed out to its members what they might have gained if EU FTAs had included coverage of countries, and of services, to the same extent as those of the Swiss FTAs. However, a more striking illustration of the neglect of this issue is Tim Congdon's attempt to measure the costs to the UK of EU membership. As a spokesman for UKIP, he had reason to count every single cost, but he does not mention those incurred when a country delegates its trade negotiations to the European Commission.[1]

One day, prior to a referendum on membership perhaps, a UK government will decide to conduct a cost/benefit analysis of UK membership of the EU with the same rigour, openness and impartiality as the 'five tests' assessments which Gordon Brown set in train to evaluate the advantages and disadvantages of joining the euro. In the meantime, we will simply draw attention to the points at which these costs arise, try to get some idea of their scale, and, if at all possible, suggest how some of them might be measured, on the grounds that it is better that there be known unknowns in a debate rather than forgotten ones.

A country negotiating trade agreements on its own behalf sets its own priorities about the partner countries with which it wishes to have an agreement in the light of its own comparative advantages. The evidence presented suggests the Swiss have done this rather well, but, as an EU member, the UK has had to give way to priorities decided by the European Commission. We cannot know how the Commission's priorities have differed over the years from those of the UK government.

The EU FTAs in force suggest a slight bias towards Mediterranean and francophone countries. It seems improbable that the UK, left to itself, would have placed Syria, Morocco, Mexico, Algeria and Tunisia ahead of Japan, with which, as the prime destination of Japanese FDI in Europe, it has close trading ties, or ahead of Singapore, Canada and other Commonwealth countries. In particular, it seems hard to believe that, if the UK had set its own priorities, negotiations with the US would have waited until 2013. The UK would probably have been at least as enthusiastic as the Swiss, and they, as we saw, made a start eight years earlier.

A rough measure of the difference between EU negotiated FTAs and those that might have been negotiated independently by the UK can be obtained if we imagine for a moment that the UK had never joined the EU and had negotiated FTAs independently at the same rate as the Swiss. They would today not have access, under FTA auspices, to ten markets covered by five EU agreements (with Syria, Algeria, the six members of the Central American Common Market, San Marino and Andorra) since Switzerland has no agreements with these countries. In their place they would have access to ten markets with which Switzerland has concluded agreements while the EU has not (Singapore, Japan, Canada, China and Hong Kong, Ukraine and the four members of the Southern Africa Customs Union).

Table 10 shows that the UK, having exchanged one set of FTAs for another, would have gained FTA access to ten far larger markets, and at the same time a great deal more FTA coverage for its service industries, since nine of the Swiss-only agreements include them, while none of the EU-only agreements that the UK would have to abandon in the exchange do so.

Table 10
FTAs in force in the EU in 2012 but not in Switzerland & vice versa by market size in 2012

EU only	GDP(PPP)$b	CH only	GDP(PPP)$b
Syria	122	Singapore*	328.3
Algeria	327.7	Japan	4487
Costa Rica	62	Canada*	1484
Panama	63	Ukraine*	338
Honduras	33	China*	12471
El Salvador	45	Hong Kong*	372
Guatemala	77	Botswana*	34
Nicaragua	24.39	Lesotho*	4.0
Andorra	3.163	Swaziland*	6.5
San Marino	1.371	Namibia*	16.9
Total	$758.624b	Total	$19541.7b

* indicates the agreement included services
Source: http://data.worldbank.org/indicator/ accessed via http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)

We can, however, go further and count the costs and benefits of the exchange in dollar terms. The aggregate 2012 GDP, in purchasing parity terms, of the five markets in which UK exporters would have lost FTA assistance by not being a member of the EU was $758.624bn, while the aggregate GDP (PPP) of the six countries to which they would have gained FTA access by negotiating by themselves in the Swiss manner was $19,541.7bn. In other words, they would have gained FTA access to ten markets more than 25 times larger than the ten they lost. The figures are given in Table 10. China is, of course, much the largest part of this gain. Without China, the figure falls to $7,070bn, but the gain is still more than nine times the loss.

To return to the world as it is, with the UK a member of the EU, we must, of course, put the figures the other way around. By allowing the EU to negotiate FTAs on the UK's behalf, UK exporters have gained free trade access to markets with a GDP of $758.624bn, but have lost markets they might have had, if they had negotiated FTAs independently as effectively as the Swiss, with a GDP of $19,541.7bn, and the FTA coverage would, moreover, have included services in nine of these ten markets.

Another way in which the costs of these different priorities might be estimated is to accept Switzerland simply as a marker of the time or date when an agreement might have been concluded had the UK been negotiating on its own behalf, and then count the cost of the years waiting for the EU agreement.[2] If we do this, then we may begin to count the costs with the four years before the EU concluded its agreement with Turkey, the seven years before the agreement with Israel, and five years of delay before the agreement with Korea, and so on, measuring the additional growth attributable to the FTA, if there was any, after the EU agreement actually came into force, to estimate what might have been achieved had the UK been negotiating on its own behalf at the earlier date.

If we were willing to wait a while, we might do the same with the countries with which the EU has yet to negotiate or finalise an agreement. Hence there is already ten years' delay waiting for an agreement with Singapore to come into force, five years with Canada and Japan, and the wait for an agreement with China and Hong Kong is now entering its second year, while that with the US is now entering its ninth.

At the end, after offsetting the costs of these lost years against extra growth of UK exports in the six countries where the EU agreements preceded those of the Swiss, we might arrive at a total of 'the lost years of freer trade' with the 14 countries where the EU agreement followed the Swiss, which might reasonably be attributed to membership of the EU.

To these lost years of freer trade, however, must be added the lost years of freer trade in services with the 15 countries with which the Swiss already have FTAs covering service industries in force and the EU has been unable to reach any agreement. For a service-oriented country like the UK, the costs of these lost years of freer trade in service industries to these 15 countries, including Korea, Canada and China, are potentially very large indeed, and, of course, still mounting.

A grand total of the lost years of freer trade in goods and services would not, of course, include any estimate of the differences in the substance of the agreements that might be reached when a country negotiates for itself. Old hands in Brussels often observe that the EU is all about compromise, and individual member countries must inevitably compromise and sacrifice their own interests to enable EU trade negotiators to proceed.[3] These compromises or sacrifices are not merely gestures of goodwill and community spirit, though diplomats may care to present them in that manner. For the exporters involved, they are also costs, even though they are seldom aware that they will be paying them. They might perhaps be best described as solidarity costs, and they are quite distinct from the compromises that a country must accept to secure the signature of the other party to the agreement.

Switzerland does not in fact avoid them altogether, since some of its FTAs are negotiated under the auspices of EFTA, though the solidarity costs this entails are, one guesses, minimal compared with those required of EU members, since they only involve reconciling the interests of three other members: Iceland, Liechtenstein and Norway.[4] However, the critical difference between a free trade area and a single market is that member countries of a free trade area do not surrender their freedom of action with respect to trade policy and negotiations with other countries. The Swiss negotiations with the US did not involve Norway and Iceland, and the agreement that followed the failed talks did not mention them. NAFTA members have, likewise, proceeded independently with respect to agreements with the EU. Mexico has had an agreement in force since 2000. Canada has recently reached agreement on the ‘key elements’ of a Comprehensive Economic and Trade Agreement (CETA).[5] The Transatlantic Trade and Investment Partnership (TTIP) negotiations which have just begun are therefore with the US alone.

The UK, by contrast, has surrendered its freedom of action in trade negotiations to a supra-national entity, the EC, which must somehow reconcile the priorities and interests of 28 countries. This is only possible with compromise piled on compromise even before negotiations with the other side begin − indeed to enable them to begin. These compromises may become known, one by one, to affected insiders and lobbyists, but they seldom attract public attention, and, numerous as they must be, are therefore immeasurable. By chance, one that preceded the opening of the TTIP negotiations between the US and the EU did attract media and public attention and may serve as an illustration of an unknown number of others, not because it is typical − it certainly isn't − but because it illustrates the distinctive psycho-political dynamics of negotiations of FTA negotiations which are a sub-plot of a greater project.

For several months in the spring and early summer of 2013, it was uncertain whether these TTIP negotiations would go ahead at all, because France threatened to veto them unless 'cultural industries' such as television, movies and online and audio-visual entertainments were altogether excluded. However, on 15 June, EU officials suddenly announced that the French demand had finally been met. In her press conference after this breakthrough, the French Trade Minister, Nicole Bricq, graciously added: 'I am not talking about victory, because I don't want to. In negotiations we're not alone. I'm all about European solidarity.'[6] She could, of course, afford to be gracious since the solidarity costs in this instance would be paid by industries in those countries who had conceded to the French demand and whose television, movie and online entertainment industries might have gained had these things been included in the future agreement with the US.

Those countries were not identified, and understandably their representatives did not hold a press conference to explain why they conceded to French demands, and to explain or apologise to the sectors or industries directly affected that in the interests of EU solidarity the opportunities that freer trade with the US might have opened for them would not now be available after all. Since the UK has higher value exports to the US in television, movies and online entertainment than any other member, and the world trade in media goods and services is largely conducted in English, the chances are that the costs in this instance will fall primarily on UK media companies of all kinds. The French Trade Minister plainly knew which countries were most affected, since they had evidently sought to avoid these costs behind the scenes. After her comment on European solidarity, she went on to say: 'The only thing I regret is that, sometimes, I've been under the impression that some parties were negotiating directly with the United States.'[7] The parties to which she referred were not otherwise identified, and the costs they will eventually pay are never likely to be known.

No doubt, before these talks are brought to a successful conclusion, there will be more smaller concessions in the cause of solidarity, and the probability is that most of them will be towards less free trade, since vital national interests are more likely to be served by defending existing firms and industries rather than by the prospect of creating new ones. If the final briefings, tariff line by tariff line, given to the EU negotiators by the EU representatives of the member countries before the talks began, could be compared with their reviews of the agreement as a whole, tariff line by tariff line, which they must present to their governments who must finally consent to it, it might perhaps be possible to identify which industries and which countries will pay the solidarity costs, though only after some years of observing the effects of the agreement in practice. This is, however, not likely to be done, since it is not in the interest of the Commission or any member government to do it.

FTAs of an independent country, like Switzerland or the US, are entered with a specific, stated intent, and their results may be measured and debated as a routine, if occasionally contentious, issue of public policy. For the EU, FTAs are very much more. They are part of a larger project that transcends the gains or losses to particular member countries: the building of a united Europe. They therefore have a political dynamic that is absent from single country FTAs, which insulates them from normal forms of accountability. Given the impenetrable confusion of the priorities and aspirations of 28 countries, identifying winners and losers is in any case a stupendously difficult task, but it is also vaguely 'anti-European' to try to do so, which may explain why the EC never attempts the task. Losses to any one country are therefore overlooked and forgotten, since they might generate animosities among member countries or undermine support for the greater project among their electorates. If by chance a loss, or potential loss, comes to light, as in the case of the exclusion of 'cultural industries' from the TTIP negotiations, then it may instantly be converted into a gain, as a contribution to the solidarity of Europe.[8] The French Minister of Trade instinctively understood this and invited the representatives of the countries affected to consider their loss as a gain for European solidarity.

To sum up: this attempt to measure the costs of the EU's heft and clout found some, such as the size of lost markets and the lost years of freer trade, that might, in principle, be estimated or measured, and suggested that these were on a scale that could not be lightly brushed aside in any thorough cost/benefit analysis. However, the solidarity costs which accompany them seem destined to remain unknown. Hence, with benefits that turned out, in the preceding section, to be illusory, and costs that, when they can be measured, look as if they might be very large indeed, the heft and clout of the EU appear to be serious disadvantages for the UK rather than valuable insider advantages.

12. UK exports to new member states

In the course of this search we have focused on founder members of the Single Market and only incidentally referred to the new entrants of 1995, 2004 or 2007. The reason for putting the 1995 entrants on one side was to avoid the misleading practice of measuring growth in the Single Market while the number of economies included within it has been increasing. An additional reason for ignoring the 2004 and 2007 entrants was that historical data about them is often incomplete and beyond acceptable estimates.

However, the UK government report *Twenty Years On: The UK and the Future of the Single Market*, published in 2012, has fewer reservations about referring to these countries. It points to 'the positive effect on the UK's trade with the new Member States', and on three occasions tells us that UK exports 'to the EU 12 have doubled since 2004', EU 12 in this context meaning the 12 who have joined since 2004.[1] Since it nowhere else points to any significant improvement in UK exports to the other member countries that might reasonably be attributed to membership of the Single Market, this particular claim necessarily becomes the featured attraction of the report. HMG, we must assume, wants the reader to see it as one of the major benefits of the Single Market for the UK.

Unusually for a research report (and this one is published jointly with the Centre for Economic Policy Research), it gives no citation saying where the evidence for the doubling of exports to the EU 12 is to be found. Nor does it distinguish between goods and services, or tell us whether the growth is real or nominal, or give us any dates over which the doubling has occurred, or say which new member countries it has in mind – a relevant consideration when trying to examine the claim since this EU 12 have joined at different dates since 2004.

However, not wishing to let any claimed benefit of the Single Market slip by unnoticed, we will try to evaluate it in our usual manner, by comparing the growth of UK exports to the new members of the Single Market with the exports to them of non-members who enjoyed none of the insider advantages of the UK. Unfortunately, this can only be done satisfactorily with reference to three of the 2004 entrants − the Czech Republic, Hungary and Poland − since they are the only three for which OECD publishes a full set of data of the goods exported to them by OECD members and other countries over the years 2004–2012. HMG may, of course, have had access to other evidence but, as noted, did not mention any.

Table 11 presents the results, with the growth in the annualised average monthly

Table 11
Percentage growth in the value of the export of goods of 25 countries to the Czech Republic, Hungary & Poland, 2004–2012

in current value US$

1	Korea	482
2	South Africa	468
3	India	403
4	Mexico	399
5	China	332
6	Singapore	331
7	Russia	308
8	Hong Kong	302
9	Brazil	299
10	Malaysia	275
11	Israel	269
12	New Zealand	259
13	Australia	252
14	Vietnam	249
15	Canada	242
16	Turkey	229
17	Ukraine	201
18	Indonesia	197
19	Switzerland	167
20	Japan	157
21	Taiwan	151
22	UK	143
23	Norway	141
24	US	96
25	Iceland	44

Source: OECD iLibrary, Trade in value by partner countries, Monthly Statistics of International Trade (database) doi: 10.1787/data-00279-en

value of UK exports of goods, measured in current value dollars, to the three 2004 entrants over the years from 2004 to 2012, placed in an ordinal ranking of growth in the value of the exports over these years with 24 non-member countries.

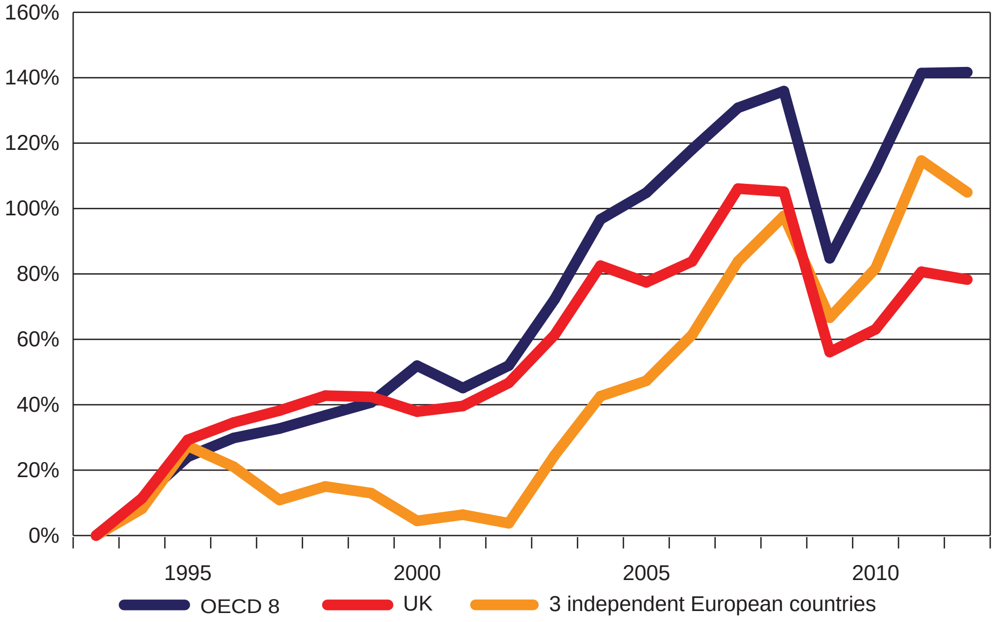
Sure enough, as HMG claimed, the UK has doubled the value of its exports to these new members since 2004, in current value dollars at least. In real terms, when measured in US$2004, it did not quite manage to do so. Growth was 99.47 per cent, but there is no reason to quibble. In a comparative setting, it makes little difference anyway. Doubling of exports may impress the uninitiated, casual reader or voter, and was presumably intended by HMG to do so, but by comparison with 24 non-members, it can be seen to be a miserable performance, and certainly not something that HMG should feature as a significant benefit of the UK being a member of the Single Market. Like the rest of the evidence examined in this search, therefore, it gives no indication or clue that the UK has reaped any particular insider advantages from its membership of the EU.

13. A final look at the UK versus 11 outsiders

This search began with a simple overview of UK exports of goods versus other OECD countries, and we will end with one for the Single Market. Figure 6 compares the rate of growth in the total value of UK exports of goods to the 11 other founder members of the Single Market with the total value of the exports of 11 members of the OECD who are not members of the EU and have therefore taken no part in its rule-making. Eight are non-European OECD countries for which full data is available, and other three are the OECD countries in Europe that remain independent.

Figure 6

UK compared with 11 disadvantaged 'outsiders', 1993-2012. Growth in total value of exports of goods to 11 founder members of the Single Market in US$(1993)



The OECD eight are Australia, Canada, Japan, Korea, Mexico, New Zealand, Turkey, and the United States.
The three independent European countries are Iceland, Norway and Switzerland.
Source: www.oecd-ilibrary.org. OECD database *Monthly Statistics of International Trade* doi:10.1787/data-02279

If we first consider UK exports relative to those of the eight other OECD countries scattered around the world, it may be seen that, over the first six years of the Single Market, UK exports of goods to the other 11 founding members of the Single Market kept pace with theirs, indeed grew slightly faster. However, from 1999 on those eight OECD countries, propelled disproportionately no doubt by the exports of Korea and Turkey, began to grow at a faster rate and continued to do so until 2012 by which time they had grown, in real terms, 64 per cent more than those of the UK.

Over the first decade of the Single Market, the performance of UK exports looks more impressive by comparison with that of the three independent European countries. Indeed, had this search terminated in 2002, we might well have taken the widening gap in export growth over the preceding years as a clue that the UK was enjoying an insider advantage in exporting to the other members of the Single Market. The declining growth of these countries over the years 1993–2002 may have been the result of protracted bi-lateral negotiations with the EU of their largest member, Switzerland, a number of which dealt with tariffs, NTBs and trade facilitation issues.[1] As it happens, it was in the year they came in force, 2002, that, as we can see, the gap in the rate of growth of exports between the UK and these independent countries started to close quite rapidly. Following the economic crisis of 2008, the rate of growth of their exports moved ahead of those of the UK, and it continued to do so until 2012, by which year their exports had grown by 27 per cent more than those of the UK.

Once again, this evidence suggests that outsiders have exported to members of the Single Market rather more successfully than the UK. At the same time, Britain's political and business leaders have been telling the British people of the insider advantages that the UK enjoys as member of it. Where, one must again ask, should we begin to look for those advantages, and for the disadvantages of not belonging to it?

14 Twenty-one findings of this search

This search has described and reported evidence about UK exports, primarily in the hope of finding where best to look for the insider advantages of membership of the Single Market. Since it has not found any strong clues, it must be deemed to have failed in this respect. However, it has along the way reviewed a considerable body of evidence about UK export performance in the Single Market, compared with that of both member and non-member countries. Although all of this evidence has been taken from the readily available and widely-used databases of the OECD, a number of the findings that emerge from it are surprising, perhaps because the evidence has been presented in a less common comparative format. In any event, they have not hitherto been noticed or commented upon in discussion of the Single Market. Twenty-one of the more important findings are summarised here.

1. The proportion of UK goods exports to 14 current EU members can be measured as a proportion of the exports to the 22 OECD countries for which we have data since 1960. While the proportion increased markedly in the years before UK entry to the EEC from 50 per cent in 1960 to 62 per cent in 1972, it fluctuated around that level through the two decades of the Common Market (1973–1992) and the two decades of the Single Market (1993–2012), with a high point of 70 per cent in 1986. In 2012 it was once again 62 per cent. By this measure, membership of both the EU and the Single Market has had no discernible impact on UK exports of goods to other member countries (p.10).

2. The proportion of services exports can only be measured in a similar manner since 1999. In that year, the proportion of exports to 33 OECD countries going to 14 EU countries was 49 per cent. In 2011 it was 48 per cent. Like goods exports therefore, EU countries appear to have had a relatively stable share of UK exports to OECD countries (pp.12–13).

3. By contrast, using these same measures, and over these same years, the proportion of UK goods exports going to the three remaining independent countries in Europe has doubled from 5.1 per cent in 1973 to 10.7 per cent in 2012, and of UK services exports has more than trebled from 6.1 per cent in 1999 to 20.2 per cent in 2012. In short, while the share of UK exports to fellow EU members has been virtually stable, the share going to non-members in Europe has risen steadily, leading one to suspect that both insider advantages and outsider disadvantages are imaginary (pp.10–13).

4. If the UK is treated as an outsider exporting to the 11 other members of the Single Market alongside non-members, it ranks 28th in a list of the top 35

fastest-growing exporters to it, though the aggregate value of its exports to these 11 countries exceeded those of the 27 non-member countries above it (p.15).

5. When the other 11 founder members of the Single Market are treated in the same way, as outsiders exporting to the others, the exports of goods of eight of them have grown faster than those of the UK in total value and seven in per capita terms. By both measures, the UK is some way below the EU 12 mean, even though the total value of its exports to other members is the third largest of the 12. The Single Market has not been a success for the UK in terms of export growth relative to its EU partners (pp.17–18).

6. The growth of exports of goods of all 12 founder members of the Single Market to each other has also been low when compared with the exports of non-members to them. The Single Market has therefore been a low growth market for all of its own members, but a high growth market for many non-members (pp.15, 18).

7. The rate of growth of UK goods exports to the other 11 founder members over the life of the Single Market contrasts sharply with their rate of growth to these same countries during the Common Market decades 1973–1992. The UK finished the Common Market decades in 16th place of the top 35 fastest-growing exporters, with its exports growing more than the US and seven other advanced OECD economies. In the Single Market decades, by contrast, the growth of the exports of all of these advanced economies, including two of the three non-EU members in Europe, has overtaken those of the UK. Over the life of the Single Market, exports of the UK to other founder members of the Single Market have therefore declined relative to those of these OECD countries (pp.21–23, 26).

8. Japan is the only other major industrial country with a similar experience. Its exports to the EU grew even faster than those of the UK during the Common Market decades, and even slower under the 19 years of the Single Market (p.26).

9. UK services exports to other members of the Single Market have grown at a slow rate (53 per cent over 12 years) similar to that of the export of goods (81 per cent over 19 years). The UK ranks as the 22nd fastest-growing services exporter to the Single Market, with the services exports of 21 non-member countries having grown at a faster rate (p.31).

10. Although the services exports of these non-member countries are of much lower gross value than those of the UK, the per capita value of those of Switzerland in 2010 ($7,060) were more than four times higher than those of the UK ($1,591), and those of Norway ($2,073) some 30 per cent higher (pp.32–33).

11. UK exports of goods to non-EU countries have grown at a much faster pace than those to other founder members of the Single Market. In the table of the top 33 fastest-growing markets for UK good exports, the 11 other founder members of the Single Market are in 26th place, though the total value of exports to them exceeded that of all the individual non-member countries ranked above them (p.35).

12. The EU 14 finished in 13th place in the table of the top 20 fastest-growing markets for the exports of UK services, though again with a much higher value than the individual countries ranked above them (p.37).*

13. There is no evidence to suggest that the 'heft' or 'clout' of the EU has helped secure more FTAs than those that might have been secured by independent negotiations. There were 25 EU FTAs in force in 2012 while the Swiss had independently negotiated 26, 13 of which came into force before those of the EU, and three in the same year (p.41).

14. There is also no evidence to suggest that the 'heft' or 'clout' of the EU has helped secure better FTAs. Twenty of the Swiss FTAs include services, while only six of the EU FTAs do so. Moreover, the six Swiss FTAs for which there was no EU counterpart include larger trading countries, like Japan, China and Hong Kong and Canada, with an aggregate GDP(PPP) of $19,541bn while the five EU FTAs for which there is no Swiss counterpart are smaller trading countries, with an aggregate GDP(PPP) of $759bn (pp.41, 54–55).

15. The EC began to examine the effectiveness of its FTAs in 2011 and has thus far completed one full-scale study, of the FTA with Chile. This does not consider its impact on individual member countries. The UK government has never sought to measure the impact on UK exports of any of the FTAs negotiated on its behalf by the European Commission over the past 40 years. Nor as far as is known, has anyone else. Hence comments by ministers, ex-ministers and ex-EU trade commissioners, business leaders and others on their merits can only be wishful thinking (pp.45–47).

* Since exports of services data is available only from 1999, there is no reason to limit the evidence to the 11 other founder members of the Single Market, and hence the three 1995 entrants, Austria, Finland and Sweden, are included in these calculations.

16. A preliminary measure of the impact of EU FTAs on UK exports is provided by comparing the total growth and the compound annual average growth rate of UK exports to 15 countries before and after they came into force. Post-agreement, both total growth and CAGR increased in five of the partner countries, and declined in the other ten (p.48).

17. Although no conclusions can be drawn about the contribution of the EU's FTAs to these outcomes without analysis of the other factors which influenced UK exports over the periods compared (pp.45–47), a preliminary assessment of their effectiveness may be made by comparing them with the outcomes of 14 Swiss FTAs. Whereas UK exports increased in five of the 15 countries with which the EU had negotiated FTAs, Swiss exports increased in nine of the 14 countries with which it had independently negotiated FTAs. Moreover, the post-agreement increases in the rate of growth of Swiss exports to these nine countries were consistently and significantly higher than the post-agreement increases of UK exports to the five countries where there was an increase. In seven cases, Swiss exports doubled, and in six of them more than doubled. The UK has only two such cases (pp.48–50).

18. Since there is no evidence that the EU has been able to secure more FTAs than the Swiss, or more quickly, or of higher quality, or with better outcomes, this evidence raises doubts about the basic principle of EU trade policy, that the trade interests of individual countries are best promoted collectively rather than individually (pp.51–52).

19. Some of the costs of surrendering the right of negotiating FTAs to the EU might be estimated by counting the size of the markets they do not cover by comparison with those covered by Swiss FTAs, and by the lost years of freer trade in goods and services resulting from the delays in concluding EU FTAs with countries with which Switzerland has already concluded agreements. However, these are opportunity costs, invisible and painless to those who pay them, therefore unnoticed and unmeasured by any observer, and likely to remain so in the interests of EU solidarity (pp.53–58).

20. The UK government recently claimed that one of 'the positive effects' of the Single Market is 'the doubling of UK exports to new member countries'. There is adequate data on the growth of UK goods exports to only three of the post–2004 EU entrants: the Czech Republic, Hungary and Poland. While UK exports to these three new member countries had doubled, in real terms, between

2004 and 2012, this is a slower rate of growth than the exports to these same countries of 21 non-EU member countries (pp.59–61).

21. A final overview showed that over the 19 years of the Single Market, the exports of goods of eight OECD countries to the 11 other founder members have grown 64 per cent more than those of the UK, and the exports of the three independent European countries have grown 27 per cent more (pp.62–63).

Conclusion

In all the evidence reviewed, the only point at which one might have reason to believe that the UK might have enjoyed some kind of insider advantage which helped its exports does not refer to the Single Market at all, but to the two Common Market decades preceding it. UK exports to EU countries then grew at a consistently faster pace than those of other major OECD countries.

In the attempt to identify occasions and countries, over the life of the Single Market, that might possibly lead one to suspect that the UK has enjoyed an insider advantage, one may first identify those advanced countries whose exports of both goods and services to the EU grew less than those of the UK. There is just one case: Japan. And a similar filter to identify those countries to which UK exports of both goods and services have grown slower than those to the EU, and might therefore also give rise to the suspicion that insider advantages were helping UK exports to the EU, also yields just one case: the United States.

The very fact that only one country, rather than a set, falls in each category makes one doubt that the UK enjoyed some distinctive, generic advantage over outsiders in either context. Why would the UK's insider advantage when exporting to the EU only stand out clearly when compared with Japan's exports to the EU? Why would the growth of UK exports to the EU look as though they might enjoy an insider advantage only when compared with its exports to the United States? To eliminate other plausible answers to these questions, and to demonstrate that insider advantages were a factor in these two cases, would require research far beyond the scope of the present paper. A subsequent, more thorough search for insider advantages might perhaps consider them, though only as long shots.

Apart from these two remote possibilities, the evidence presented above contradicts again and again those who wish to claim that the UK has enjoyed an insider advantages in the Single Market. The growth of UK exports to other founder members was low when compared with UK exports prior to its launch, low when compared with the exports of goods of 27 non-members to the other founder members of the Single Market, and low when compared with the exports of services of 21 non-members to the other founder members. It was also low when compared with UK exports of goods and services to non-member countries. There was therefore no *prima facie* evidence that the UK enjoyed any insider advantage, and therefore no obvious place to look for it.

To accept the idea that, despite the absence of *prima facie* evidence of insider advantages, UK exporters have nonetheless benefited from them, obliges one to accept some scarcely credible, counter-factual propositions. One would, for example, have to accept that, had the UK not enjoyed insider advantages, the goods exports to the EU of still more than the 27 non-member countries listed in Table 1 would have grown faster than those of the UK, and the services exports to the EU of still more than 21 non-member countries listed in Table 4 would have grown faster than those of the UK over the life of the Single Market. Likewise, the EU would not have been the 26th fastest growing market for UK exports, but the 27th or 30th or some still lower ranking. Is this possible? Could the Single Market really have been quite such an unpromising market for the growth of UK exports? Could it really have been still more of a failure than the figures above suggest?

It is similarly hard to accept the idea that there are disadvantages to non-membership, since the exports of goods and services to the EU of so many 'voiceless' and 'powerless' nations, both developed and less developed, who had never been 'at the table' or even 'in the overflow room', have grown faster than those of the UK. Indeed, this has been such a common occurrence that any researcher simply following the evidence is bound to wonder whether the main research question might not be better turned the other way around, and instead of studying the disadvantages of non-membership it would be rather easier to analyse those of membership.

Chief among them would be the right to negotiate trade agreements independently, since the only evidence we have suggests that the costs to UK exporters of surrendering that right, in lost opportunities of freer trade, have been terrifyingly large, perhaps more than all the other costs put together. It is just as well for those who favour EU membership that successive UK governments have agreed that these costs should never be measured, estimated or even mentioned. If they are anything near those suggested by the Swiss comparison, it is difficult to believe that the UK would still be a member of the EU.

Insider advantages will only rate inclusion in any serious assessment of the economic case for EU membership when those who make claims about them identify and document specific advantages for UK exports.* Until they do so, we may reasonably conclude that they cannot form a sensible basis of public policy decisions and do not contribute to an intelligent debate about the merits of EU membership. That debate has to recognise that, thus far, the Single Market has not enabled UK exports

* As ex-EC trade commissioners, a rather special responsibility would appear to fall on Lord Brittan, Lord Mandelson and Baroness Ashton in this respect, unless their oath of loyalty to the EU should prevent them speaking freely on this subject.

of goods or services to other members to grow at a faster rate than those of non-member exporters, nor at a faster rate than UK exports to non-member markets. It has been an era of decline for UK exporters, relative to both non-members in the same market, and to UK exports to other markets.

To present it as a success, in the manner of the UK Department of Business, Innovation & Skills' recent portrayal of the doubling of exports to new member countries, or to claim it is a prized achievement, or a 'privilege', or 'a vital national interest' that must be defended at all costs, only sounds vaguely plausible if UK exporters are never compared with those of other member or non-member countries, and if their performance in the Single Market is never compared with their performance before it existed, or with their performance in other markets. Once such comparisons begin to be made, these claims are seen to be empty rhetoric, and those who repeat them may be seen to have been misleading themselves and others about the merits of the Single Market. Unfortunately, constant repetition of them over recent years has already done immense harm, since they have discouraged close investigation, measurement and analysis of the UK experience within the Single Market. We have, therefore, still not begun to understand what has gone wrong and how it might be fixed.

PART II

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

Introduction

This paper seeks to answer three questions:

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

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

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

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

Some of these preliminary issues, important as they may be, will not be of interest to all readers. Those who are already familiar with the UNCTAD and OECD databases, are not interested in methodological problems and have no wish to know why certain countries have been omitted from some analyses, should jump to page 94, where the search proper begins. Those who do not wish to follow every step of the search, and only wish to know its main findings and the answers to the three questions they suggest, should jump directly to page 133.

FDI: a suspicion becomes a fact

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

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

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

One year later, in early 2013, in response to press and public pressure for a referendum on continued membership of the EU and to Mr. Cameron's attempt to relieve that pressure by promising one five years hence, if he were re-elected, various members of the political elite rushed to support continued membership. First, the former Prime Minister Tony Blair, then the leader of the opposition, Ed Miliband, and then another former Prime Minister, Sir John Major, all made speeches stressing the importance of EU membership. In his speech at Chatham House in February 2013, Sir John asked whether foreign car manufacturers presently manufacturing in the UK would remain 'or would they relocate and place future investment inside the European Union with no tariff on their cars?' And would 'companies from around the world who invest over £30 billion a year in the United Kingdom be more – or less – likely to do so without unfettered access to the European market? To me, the answer is self-evident.'[3]

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

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

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

Once the referendum of 1975 was won, the Labour government of the day obviously had no reason to give any more thought to what might have happened to FDI had it been lost, and in any case, at the time, cross-national data about FDI was rather limited. Over the subsequent 38 years, however, it is a little odd that while every government has acknowledged the importance of FDI, and the evidence about it has accumulated, none has made any attempt to collect and analyse it in order to see whether and how it might have been affected by EU membership. The big business pressure group Britain in Europe and its successor Business for New Europe have both commissioned some research to make their case, but neither of them thought they needed to go so far as to refer to the primary sources available after a couple of clicks in the UNCTAD or OECD databases. The BBC's Business Editor preferred his conversations with unnamed 'business leaders', while Sir John Major, though having ample opportunity over his seven years in office to ask for some research on FDI, evidently decided his own intuitions were an adequate guide for public policy.

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

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

Inference and evidence about FDI

UNCTAD researchers, who probably know more than most about investors' decisions since they have been recording them systematically and analysing them since 1970, are always extremely cautious when commenting on their determinants. They repeatedly observe that investment decisions are influenced by a 'host of nearly unquantifiable social, political and institutional factors'. In 1993, they nonetheless sought to quantify 'the nearly quantifiable' and, after identifying eight key factors that they thought made a country attractive to foreign investors, constructed an FDI Potential Index.[6] The eight factors were: the rate of GDP growth; per capita income; the share of exports in GDP; the number of telephone lines per 1000 inhabitants; the energy use per capita; the share of R&D expenditure in gross national income; the proportion of tertiary students in the population; and a final, vague factor, which long remained unquantifiable, 'political and commercial risk'. They said nothing directly about the size of the market or exchange rate risks or even tariffs.

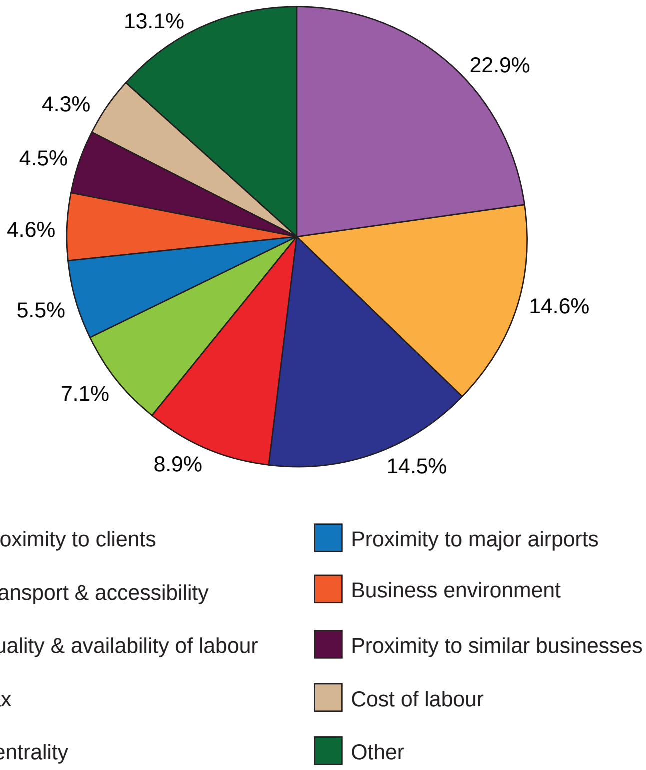
UNCTAD has been improving and amending its index ever since, while periodically admitting that: 'it is not possible, with the available data, to capture the host of factors that can affect FDI'.[7] In 2003 they added four more variables: a country's share of 'world exports of natural resources and services,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

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

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

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

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



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

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

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

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

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

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

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

At times, the inward FDI flows for individual countries from the two sources differ. All the figures from both of them for the years 1990–2011 are shown in Appendix A, Table 11 (and for FDI stock in Table 12) with the years where the difference exceed $US100m highlighted. There are 99 such cells out of the 384 cells which have matching figures for 18 countries from both agencies in the table as a whole. As far as I am aware, the two agencies have never publicly explained their discrepancies, and my attempts to discover whether there was a consistent, systematic disagreement, and to trace the reason for it, failed. One source is not consistently higher than the other. Inflows reported by one were higher than the other in roughly half of the years, though when the mean annual differences over the 22 years were calculated, as in the right-hand column of Table 11 of Appendix A, the OECD records a higher figure for 6 countries, and a lower figure for the other 11 (with one equal).

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

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

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

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

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

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

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

The problem of Special Purpose Entities

More important than these disagreements, however, is one serious flaw from which both UNCTAD and OECD suffer. Put simply, it is that neither of them currently state with certainty how the FDI is used by the recipient countries, or even whether the country named as the recipient was the ultimate destination of the investment.

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

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

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

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

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

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

One can perform exactly the same exercise comparing UNCTAD FDI flows to the UK with the 'Investment in the UK, Financial Account Transactions' recorded by the ONS over the 21 years. The result is much the same as for FDI stocks. UNCTAD consistently reports a *lower* FDI inflow than the ONS Pink Books, on average, over the 21 years, four per cent lower, though this average hides rather large discrepancies from 1991 to 1997, hitting 17 per cent in 1994. After 1997, they remain within a percentage point of one another for most years until 2011 when the ONS was five per cent higher. The conclusion I draw from these checks is that the UNCTAD data of UK FDI flows and stock is not inflated by large flows to or from SPEs.

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

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

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

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

A search for hidden SPEs

One clue to the presence of SPEs is abnormally high, or abnormally volatile, FDI inflows, with precipitous falls leading to net disinvestment over one or two years, which is more consistent with a sudden withdrawal of funds from SPEs than with a long-term investment. Further clues are provided by the total annual FDI inflow as a proportion both of the gross fixed capital formation (GFCF) in the recipient country and of its GDP. If the annual FDI inflows exceed one or other, as they invariably do in offshore financial centres (OFCs), we may infer that they do not reflect a long-term interest by investors in the recipient country and include inflows other than authentic FDI.

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

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

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

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

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

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

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

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

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

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

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

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

The unpalatable conclusion of this little DIY foray on SPEs is that the best FDI data in the world is flawed, and we, like everyone else, will have to work with it. There are, however, a few grounds for consoling or reassuring ourselves. To begin with, most of the calculations in this search, or the more important ones at least, are comparisons of the weighted means of groups, non-EU *vs* EU, non-euro *vs* eurozone etc, and since, as it happens, most of the countries suspected of having high SPE transfers are small, their distorted data can have only a minor impact on a weighted mean. Even if, for instance, Luxembourg had been included in these comparisons, along with its large FDI inflows, it could, given its tiny population, have only a marginal effect on a weighted mean of the EU or eurozone collectively. And even if we were wrong about Singapore, and it should have been excluded, it cannot have a big impact as part of a group of independent countries.

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

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

The ever-shrinking control group

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

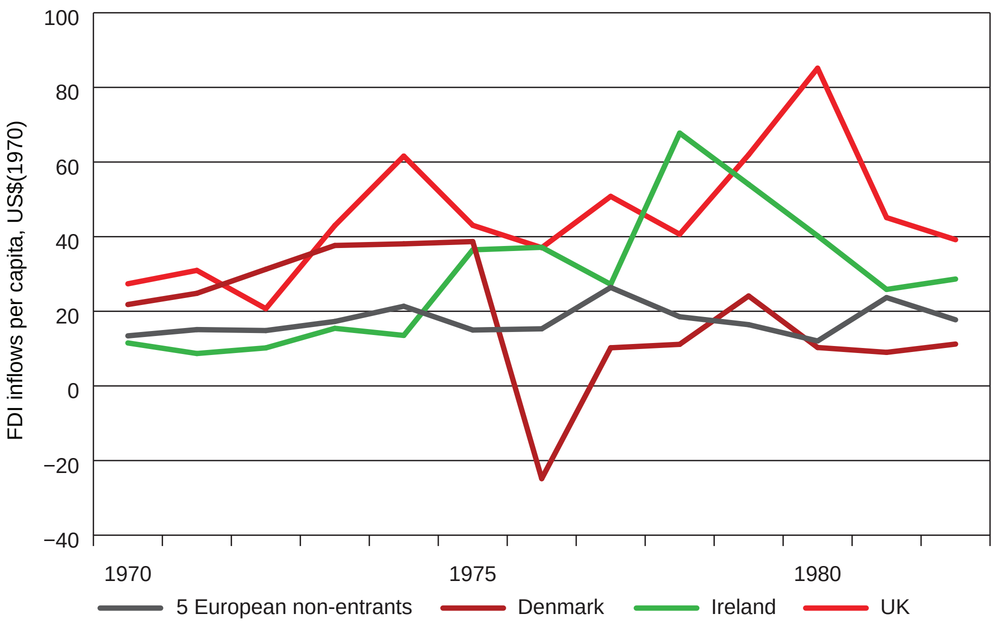
Although the data over these years is limited, we happen to have a reasonably satisfactory control group of five European countries, since along with the two of the permanent non-members, Iceland and Norway, we can also include Austria, Finland and Sweden whose EU membership was still in the distant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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

Two later entrants, Denmark and Greece, do not provide any such evidence. Denmark, as we have already seen, recorded a decline in FDI after joining the Common Market, and while FDI in Greece increased post-entry, it did not increase as much as that of the five countries that did not join. There is therefore little reason for thinking that entry to the EC helped FDI inflows to Greece, though it is, of course, possible that it did so, and prevented even lower inflows.

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

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

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

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

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

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

Has membership been of lasting benefit?

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

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

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

This table demonstrates, first of all, just how varied the experiences of the EU countries have been. There is no common or shared EU narrative, which only

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

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

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

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

Denmark

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

Ireland

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

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

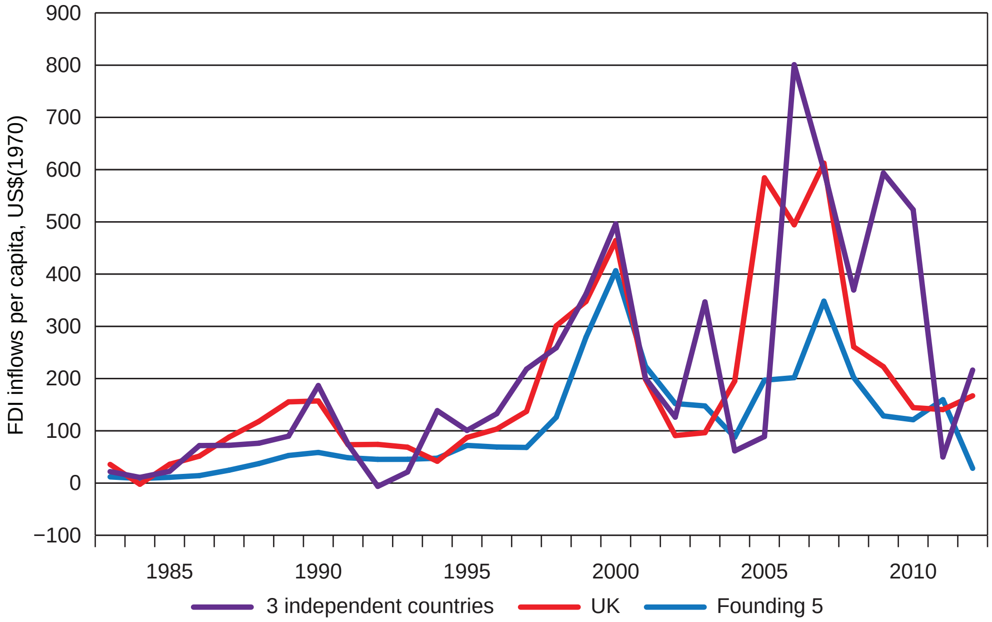
They have good reason, therefore, to give all the credit for their success to EU membership. The most, and perhaps the only thing, that can be said for this idea, is that the massive surge of FDI inflows did indeed come after EU entry. However, Ireland's subsequent FDI record differs so markedly from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

UK

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

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

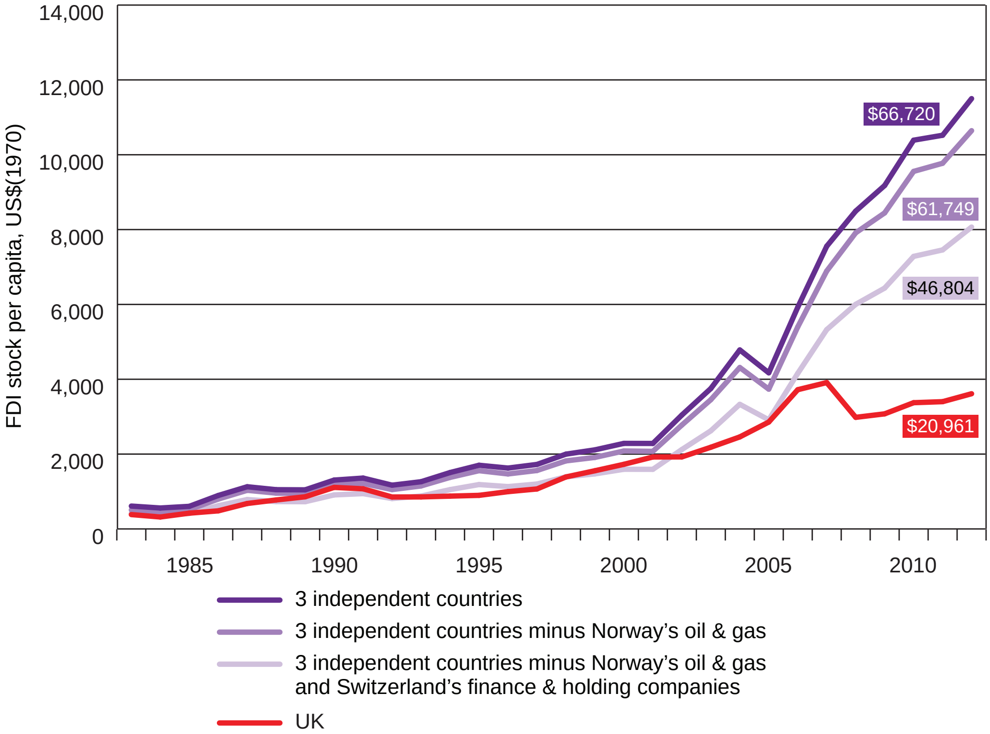
Figure 3
FDI inflows per capita 1983–2012 UK *vs* three independent European countries and five founder members of the EU in US$(1970)



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

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

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



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

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

A brief word on how they were calculated is necessary. UNCTAD does not give an industry breakdown of the recipient industries of inward FDI flows or stock, but the OECD does identify industrial sectors into which the foreign investors put their money, from 1986 onwards. This shows that the mean percentage of all FDI inflows to Norway over the years 1986–2011 going to the oil and gas sector was 34.5 per cent. This same proportion has therefore been subtracted from the mean of the FDI flows going to the three independent countries over all the years 1983–2012, and the lighter purple line shows the result when Norway's oil and gas is eliminated from the weighted mean of the three countries.[5]

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

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

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

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

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

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

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

It compares changes in the mean annual per capita amounts of inward FDI of nine later entrants with those of three independent countries and with five founding members over the same years. Column 1 gives the percentage difference between the pre-entry mean annual amount and that over the immediate post-entry decade. Column 2 compares the mean annual amount over the decade 1993–2002 with the quinquennium 2004–2007, stopping in that year so that we may see what was happening before the financial crisis which is widely thought to have disrupted FDI flows. Column 3 shows the percentage difference between the decade 1993–2002 and the latest full decade for which we have data, 2003–2012.

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

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

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

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

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

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

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

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

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

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

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

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

This search is solely concerned with discovering whether, as many euro enthusiasts warned, the decision not to join the new currency had adverse effect on FDI in the UK. It does not try to discover whether that decision was right or wrong. Some of the evidence we will consider was available at the time to those who favoured joining the new currency, but most was not, so we will, of course, have the advantage of hindsight.

The warning from the big business lobby

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

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

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

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

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

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

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

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

In the first instance, we will look back at nine pre-euro years, using the OECD database which allows us to go back only to 1990. Over the nine pre-euro years, 1990–1998, the mean UK share of all FDI to the EU 13 was 26.18 per cent.[8] Over the nine post-euro years 1999–2011, it was 26.41 per cent. Hence, over the nine years after it declined to join the euro, the UK share edged slightly *higher* than it had been in the pre-euro years. UNCTAD reports a slightly larger fractional increase over these same years, from a mean UK share of 24.49 per cent over the nine years before the launch 1990–1998, to 25.34 per cent over the nine years following it. Anyone who wanted to make the case that the euro had no effect on the UK share of FDI in the EU would be best advised to stop after nine years' experience of the new currency.

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

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

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

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

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

FDI inward flows fluctuate, and whether or not one discovers a rise or a fall depends on where you start and where you finish. If, for instance, Britain in Europe had compared the FDI inflow to the UK between 1997 and 2000 to show the impact of staying out of the euro, rather than 1997 and 2001, they would have been obliged to report a 'dramatic' increase of FDI inflow to the UK of more than 350 per cent, from $33.2bn to $118.8bn, and then perhaps they would have written about how the UK decision to remain outside had been triumphantly vindicated. Or perhaps not. The point holds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

This is another, much more significant, point for the euro cause, though again one must add that, since the eurozone is 77.5 per cent of the total population of the 15 countries, and has only 61.6 per cent of the total FDI stock, it can hardly be considered a convincing demonstration of the benefits of the single currency. It might make a case for the euro, if we assume the benefit for foreign investors of having a common currency accumulates over time, and that the eurozone has temporarily been more affected by the euro crisis than the non-euro countries, both of which are not unreasonable assumptions. We might then take this 2.3 per cent gain as an indication of promising future prospects.

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

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

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

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

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

Once again, it seems reasonable to conclude that the adoption of the euro does not appear to have been a decisive determinant of the FDI. The under-performance of the eurozone countries relative to their non-euro neighbours has not changed significantly. Indeed, two eurozone countries, Finland and France, who were over-performers prior to the new currency, have become under-performers in the thirteen years since. The non-euro countries have meanwhile maintained their appeal to foreign investors. They were all over-performers before the euro, and with the marginal exception of Denmark have remained so.

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

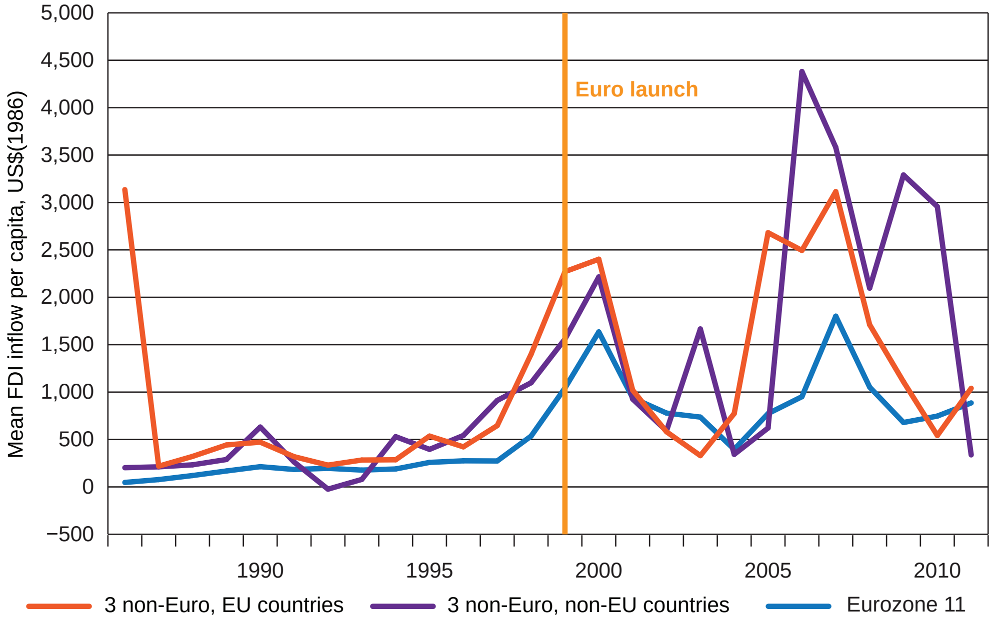
Huhne and Canning's evidence was not, however, confined to relative shares of FDI. They had still more startling contrasts to cheer their multinational sponsors about the overall *growth* of FDI in the eurozone, and about decline outside it. They meant growth of inflows, so we are back in dangerous territory.

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

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

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

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



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

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

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

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

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

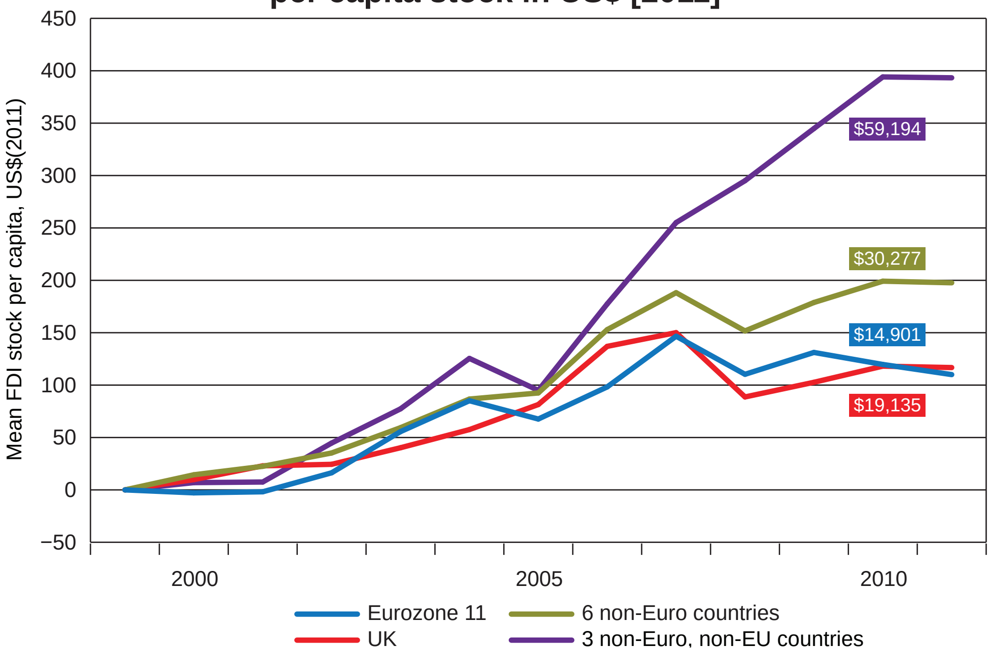
Overall, this evidence does not support the view that the euro has helped the growth of inward FDI flows in its member countries, nor does it suggest that they have been particularly attractive to foreign investors when compared with independent European countries with their own currencies. However,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

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

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

Figure 6

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



The Eurozone 11 are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Spain and Portugal

The six non-euro countries are Iceland, Norway, Switzerland, Denmark, Sweden and the UK.

The three non-euro non-EU countries are, Iceland,Norway and Switzerland.

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

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

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

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

Table 9

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

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

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

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

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

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

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

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

How to tell the truth and mislead the reader

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

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

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

On the UK's declining FDI inflow post-euro

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

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

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

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

A revived pro-EU business lobby gives a different warning

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

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

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

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

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

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

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

Similar questions might be asked about tourism to and investment in the EU, but we will put them aside since the main interest here is the Business for New Europe argument about FDI. This is based on the repeated claim that 'access to the Single Market is one of the main reasons why companies decide to invest in the UK.'[4] They also mention a number of other factors that make the UK an attractive location for foreign investors, such as 'access to capital markets, a good pool of resources (labour skills, ICT, a strong R&D base) and a low level of regulation', but none of these things owe anything to EU membership. However, rather than face the tough intellectual question (which Oxford Economics would, one imagines, have relished) and measure their importance relative to that of EU membership and the Single Market, they put them all on one side and concentrate on membership and access to the Single Market alone.

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

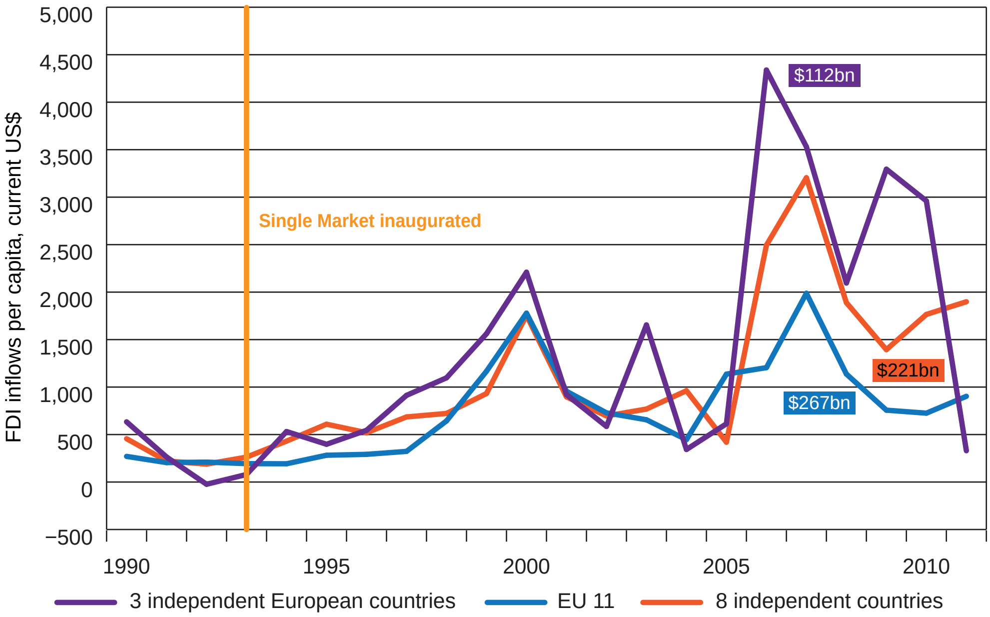
Since the euro and the Single Market have been concurrent developments of the European project, and the euro is seen, in the words of the European Commission, as 'a logical complement to the Single Market' we will of course be covering much of the same ground as in the preceding discussion of the euro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

Growth of FDI flows and stock under the Single Market

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

The graph below presents the weighted means of the inward flow of FDI per capita over the 22 years from 1990 to 2011, in thousands of current value US$, to these eleven founder members, and to eight independent countries: Australia, Canada, Israel, Singapore and New Zealand plus the three independent European countries, which are, as before, also shown separately. The graph starts three years before the Single Market began. A number of the measures to implement the Single Market were in fact implemented in earlier years, but the main reason for starting earlier is to see if there was a bounce in the FDI of the EU 11 prior to its launch, as investors savoured the prospect of a vast new single market of 350 million.

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



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

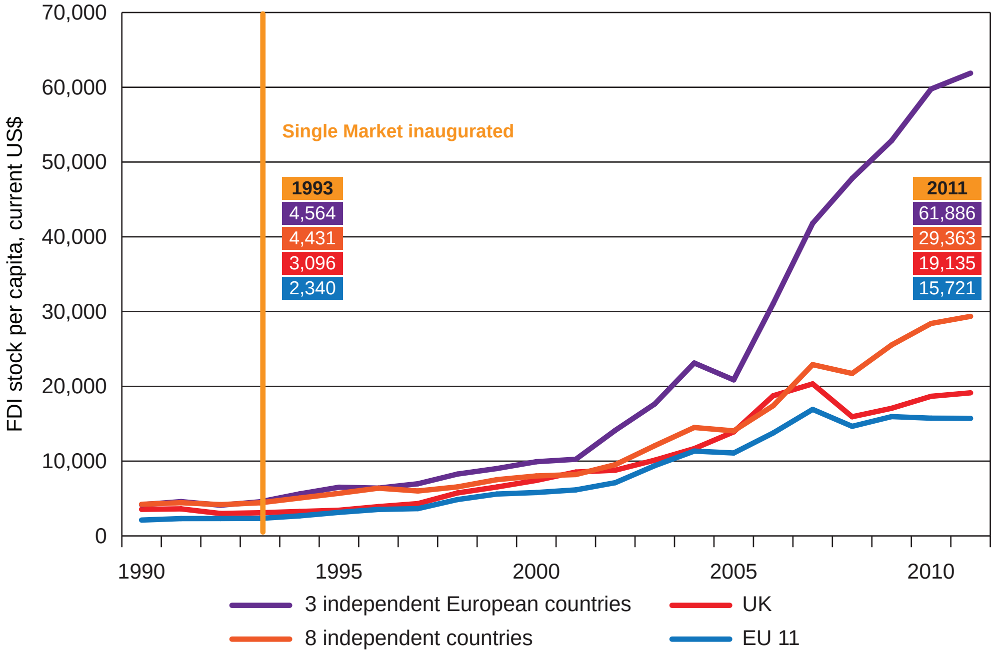
As we have now come to expect, over most of the years 1990–2011, 16 of the 22 to be precise, the three independent European countries have received the highest inflows of FDI per capita. The EU 11 in the Single Market received the largest inflows per capita in four of these 22 years, 1992, 2001–2, 2005,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

Over the 19 years of the Single Market, 1993–2011, the total value of FDI in the EU 11 was $267bn, versus $221bn in the eight independent countries, $112bn of which went to the three independent European countries. However, per capita it was far lower than both. The eleven founder members of the Single Market received $15,507 per inhabitant, the eight independent countries received $22,305, while the three independent countries on their own received $27,999 per inhabitant.

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

Figure 8

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Why Business for New Europe should ignore this evidence, and mention a source so unfavourable to its own cause, is puzzling. Their predecessor Britain in Europe was caught up in a mini-scandal because of its misuse of statistics from a highly reputable source which would, one would think, have made its successor scrupulously careful about the sources they cite.[13] Moreover, they represent, and are funded by, a number of leading British and foreign multinationals, but apparently these multinationals never noticed that the most preferred location of European headquarters for non-European multinationals is to be found outside the EU.

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

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

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

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

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

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

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

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

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

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

- Comparison of the pre- and post-entry experience of nine entrants to the EU shows that seven of them, including the UK, experienced substantial growth in FDI inflows over their first post-entry decade. These appear, in all probability, to have been a direct result of joining, since they were higher than the growth of FDI to European and non-European non-members, and no other known common factor could explain similar FDI increases to all seven countries following their different entry years (pp.94–98, Figure 2, Table 2).

- Two new entrants, Denmark and Greece, grew at a lower rate than five non-member countries of the time (Austria, Finland Sweden, Norway and Iceland). There is therefore no prima facie evidence to show that entry had a beneficial impact on FDI in these countries (pp.97–98, Table 2).

- However, from 1983–1992, FDI in the UK grew at a slower rate than that of five independent countries, and over the years 1993–2012 much slower than three independent countries (Iceland, Norway and Switzerland), even after we eliminate Norway’s oil and gas industries and most of Switzerland’s financial services from the calculation of the growth of their FDI stock (p.103, Figure 4).This suggests that the benefit of joining for FDI in the UK lasted no more than a decade. There is no evidence, either from FDI flows or stock, that membership of the EU has been of lasting benefit to FDI in the UK (pp.99–104, Table 3, Figures 3 & 4).

- A similar post-entry surge followed by a decline of FDI inflows to a lower level than those of independent European countries is found in most of the other later entrants, as well as in the growth of their FDI stock (pp.104–107, Tables 4 & 5). This supports the view that while EU entry has a positive initial impact on FDI, membership over the longer run does not.

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

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

The evidence supporting the answer to this question will be summarised, first, for the eurozone and non-euro countries collectively, then for individual countries within each bloc, and finally for the UK alone. This is not the same sequence as the evidence was presented on pp.108–122 above.

Euro versus non-euro Europe

- The 10 eurozone countries increased their share of the total value of FDI inflows to 15 European countries by 0.9 per cent to 60.1 per cent, and their per capita share by 0.8 per cent to 53.2 per cent over the thirteen post-euro years. The share of the five non-euro countries correspondingly declined (pp.112–114, Table 7).

- The 10 eurozone countries also increased their share of the FDI stock by 2.3 per cent, from 59.3 per cent to 61.6 per cent, and the non-euro countries experienced a corresponding decline. However, since the eurozone has 77.5 per cent of the population of the 15 countries, they can only be said to have been catching up with non-euro countries – slowly (p.115, Table 8).

- Post-euro growth of FDI stock of the three non-EU non-euro countries, in real terms, has been three times greater than that of the eurozone countries, while that of the six non-euro countries together has been approaching double that of the euro countries, 198 per cent *vs* 110 per cent (p.119, Figure 6; p.120, Table 9).

- Over the thirteen euro years to 2011, foreigners invested $30,277 in every inhabitant of non-euro countries, which is almost exactly double the amount invested in every inhabitant of the eurozone: $14,901. And they invested $59,194, nearly four times as much, in every inhabitant of the three non-euro, non-EU countries (p.119, Figure 6; p.120, Table 9).

- Only two of the 10 eurozone countries ended in 2011 as over-performers, meaning the value of their FDI inflows was larger than their share of the population of the 15 countries, while all five of the non-euro countries were over-performers. In terms of FDI stock, only three of the 10 eurozone countries were over-performers, while four of the five non-euro countries were, Denmark being the marginal exception (pp.112–115, Table 7, Table 8).

Individual winners and losers in the eurozone

- Four of the ten eurozone countries increased their shares of total value of FDI inflows in the thirteen post-euro years: Germany was the clear winner. Its share increased by 6.8 per cent. France was the clear loser. Its share declined by 3.4 per cent (pp.112–114, Table 7).

- Changes in shares of FDI stock were similar. Germany's increased most, by 7.1 per cent, so its share more than doubled in the thirteen post-euro years. France's share has fallen most, again by 3.4 per cent (p.115, Table 8).

- Ireland is the outstanding over-performer in the eurozone, and indeed of all the 15 countries. Despite rather modest growth from 1999 to 2011, it ended with a share of FDI inflows 3.5 times more than its share of the population of the 15 countries, and a share of Europe's FDI stock more than 2.8 times greater. The Netherlands is the only other over-performer in the eurozone in both inflows and stocks, and Austria the only other over-performer in stocks. All the others are under-performers in both flows and stocks from 1999 to 2011, Greece and Italy being the least attractive to foreign investors (pp.112–115 Tables 7 & 8).

Individual winners and losers in non-euro Europe

- The only post-euro increases in the share of FDI inflows in Europe among the non-euro countries were made by the two countries that are outside both the EU and the euro: Switzerland increased its post-euro share of FDI inflows in Europe by 1.3 per cent in total value and Norway by 0.4 per cent. Switzerland increased its share of FDI stock by 0.9 per cent in value, while Norway's share in the total value remained the same (pp.112–115 Tables 7 & 8).

- Meanwhile, the shares of the FDI inflows of the EU members outside the euro, Denmark, Sweden and the UK, all declined post-euro: Sweden by 1.7 per cent, Denmark by 0.7 per cent and the UK by 1 per cent (pp.112–115 Tables 7 & 8).

- Sweden's share of the FDI stock of Europe declined by one per cent, Denmark's by 0.2 per cent, while the UK's declined by two per cent (p.115, Table 8).

The post-euro experience of the UK

- By three measures, the UK has been a post-euro loser. Its share of the inflows to 'EU countries' fell over thirteen years by three per cent (pp.110–112, Table 6).[2] Its share of the value of FDI inflows to 15 euro and non-euro European countries declined by one per cent, and its share of the value of their total FDI stock by two per cent (p.112–115, Tables 7 & 8).

- Before drawing conclusions from these figures, it must be noted that the UK was not a strong performer in terms of per capita growth over the thirteen pre-euro years, it being lower over these years than that of seven euro and four non-euro countries. Over the post-euro years per capita growth was lower than six euro and five non-euro countries, though this was none the less higher than the weighted mean of all 11 eurozone countries (p.120, Table 9). This suggests the continuation of a trend that began long before the new currency was launched, rather than a change brought about by the UK decision to remain outside the new currency.[3]

- Despite its pre- and post-euro decline in its share of both inflows and stock, the UK has remained by far the largest recipient of all 15 countries of post-euro FDI inflows, and by far the largest holder of FDI stock, measured by share or value, taking nearly a quarter, 24.9 per cent, of all FDI inflows, and holding 24.6 per cent of FDI stock over the thirteen post-euro years. It is followed by France with 14.9 per cent and 14.5 per cent, and by Germany with 13.7 per cent and 14.1 per cent (pp.113–115, Tables 7 & 8).

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

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

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

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

- FDI inflows per capita to the three independent European countries have been nearly double those to the 11 founding members of the Single Market, and inflows to eight independent countries collectively have been one third higher (pp.126–127, Figures 7 & 8).
- The FDI stock of the three independent European countries has grown about four times as much as that of Single Market countries, and the eight independent countries collectively nearly twice as much. Relative to independent countries, members of the Single Market, including the UK, have become less attractive to foreign investors (p.127, Figure 8; p.129, Table 10).
- Growth of FDI per capita among founder members of the Single Market has been highest in Denmark, Belgium and the Netherlands. The UK has been below the EU mean (p.128–132, Table 10). There is no evidence of any convergence in the appeal of members of the Single Market to foreign investors over its first 19 years. If anything, the evidence suggests the opposite (p.129–132).

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

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

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

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

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

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

Clearly, we ought to measure reliably the contribution of each of these factors to the FDI growth in these countries over the post-euro years before we can attribute any positive impact to the new currency. And when we have done that, we have still to explain the rather poor post-euro performance of the other eurozone countries, and to explain why FDI in the UK, and the five other European countries that remained outside the euro, subsequently grew at a faster rate than the eurozone mean. That would be a difficult task.

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

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

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

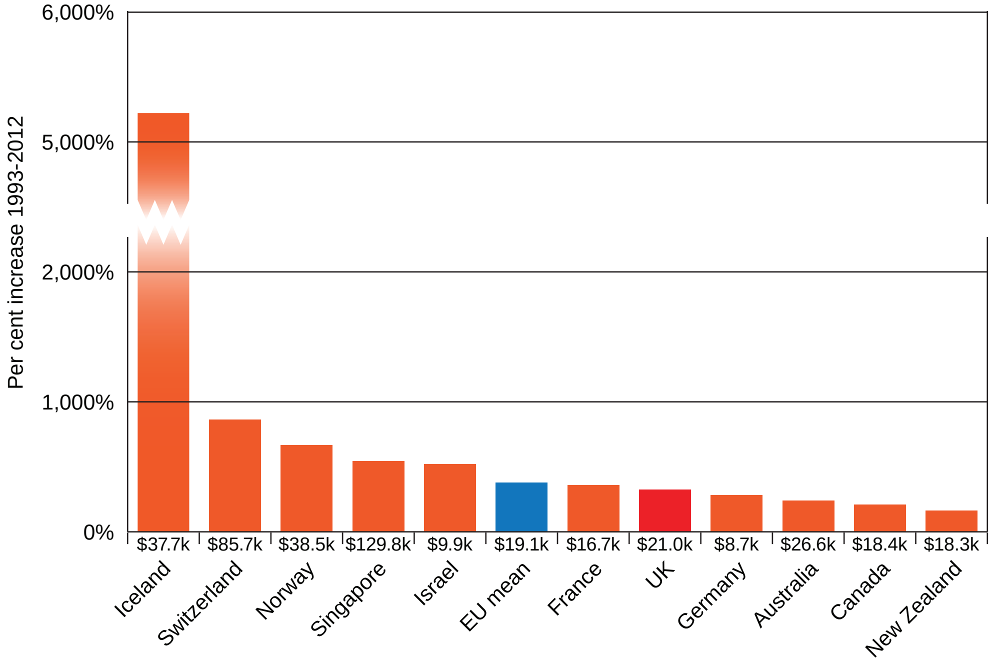
More recently, an opportunity arose for another warning about FDI arose with the Prime Minister's veto in the Council of Ministers in December 2011. This was seen at the time as a dangerous expression of independence from the EU consensus with fearful consequences for FDI in the UK. The BBC news coverage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

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

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

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

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



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

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

Appendices

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

The two main sources of FDI data provide different figures. These tables show when, and by how much, they differ. For further comment, see pp.81–83 above.

Table 11

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

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Austria	OECD	651	351	1433	1137	2102	1781	4421	2612	4422	2762	8502	5691
	UNCTAD	653	360	1433	1137	2102	1904	4426	2654	4533	2974	8840	5919
Belgium	OECD	6674	7920	9730	9295	7382	9674	12365	14661	26770	126551	196237	*75229**
	UNCTAD	8047	9363	11286	10750	8514	10689	14064	11998	22691	119693	88739	88203
Denmark	OECD	1207	1460	1015	1669	4898	4176	759	2801	7732	16742	32992	11111
	UNCTAD	1132	1553	1017	1713	5006	4329	750	2787	7730	16757	33823	11523
Finland	OECD	788	−247	406	864	1578	1063	1109	2116	12141	4610	8836	3732
	UNCTAD	787	−247	407	866	1577	1063	1109	2114	12144	4610	8834	3732
France	OECD	15613	15171	17849	16443	15574	23679	21960	23169	30982	46546	43258	50485
	UNCTAD	15629	15188	17900	16449	15575	23673	21961	23174	30983	46547	43252	50477
Germany	OECD	2962	4729	−2089	368	7134	12025	6573	12243	24597	56077	198313	26419
	UNCTAD	2962	4727	−2089	368	7135	12024	6573	12245	24593	56076	198277	26414
Greece	OECD	1688	1718	1589	1244	1166	1198	1196	1089	73	562	1108	1590
	UNCTAD	1005	1135	1144	977	981	1053	1058	984	71	562	1108	1589
Iceland	OECD	22	18	−13	0	−2	−9	83	148	152	68	171	173
	UNCTAD	22	18	−13	0	−2	−9	83	150	153	68	171	174
Ireland	OECD	623	1361	1458	1068	856	1442	2616	2710	8856	18210	25783	9653
	UNCTAD	622	1362	1458	1078	857	1443	2617	2136	8865	18211	25779	9651
Italy	OECD	6343	2481	3211	3751	2236	4816	3535	4962	4280	6911	13377	14873
	UNCTAD	6345	2482	3210	3747	2236	4817	3535	4961	4280	6911	13375	14871
Luxembourg	OECD	842	999	1227	1172	931	1220	1560	2849	3376	15961	24751	*9488**
	UNCTAD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	OECD	10516	5779	6169	6443	7158	12307	16660	11137	36925	41206	63866	51937
	UNCTAD	10516	5779	6170	6443	7157	12304	16662	11134	36939	41203	63855	51927
Norway	OECD	1177	−49	810	1461	2777	2409	3207	3982	3935	6792	7095	2122
	UNCTAD	1564	302	−668	992	2776	2409	3211	3982	3935	6790	7090	2123
Portugal	OECD	2255	2292	1904	1516	1255	660	1344	2362	3005	1157	6637	6232
	UNCTAD	2902	2548	2218	1534	1270	685	1344	2360	3005	1157	6635	6231
Spain	OECD	13839	12445	13351	9572	9276	8071	9645	8937	14175	18744	39582	28413
	UNCTAD	13294	11624	14950	9570	9276	8070	9647	8937	14173	18743	39575	28408
Sweden	OECD	1971	6356	41	3845	6350	14447	5437	10967	19926	61001	23433	10905
	UNCTAD	1971	6353	−41	3846	6350	14448	5437	10968	19919	61135	23430	10914
Switzerland	OECD	5485	2643	411	−83	3368	2224	3078	6642	8942	11714	19266	8859
	UNCTAD	5484	2642	411	−83	3367	2222	3078	6636	8941	11719	19255	8856
UK	OECD	33982	16223	16528	16431	10866	21826	27409	37510	74642	89089	121959	53792
	UNCTAD	30461	14846	15473	14804	9253	19969	24435	33227	74321	87979	118764	52623

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

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	OECD mean annual difference in US$m		
138	6201	3187	10778	7936	31159	6845	9304	838	11390	−414	OECD	Austria
356	7144	3891	10784	7933	31154	6858	9303	4265	14128		UNCTAD	
16265	33508	43583	34351	58926	93448	193575	60966	85682	103376	1768	OECD	Belgium
16251	33476	43558	34370	58893	93429	193950	61744	81190	89142		UNCTAD	
6639	2711	−10447	12873	2715	11815	1827	3942	−11549	12712	10	OECD	Denmark
6630	2709	−10442	12871	2691	11812	1824	3917	−7397	14771		UNCTAD	
8053	3322	2828	4747	7656	12455	−1142	718	6525	2688	−350	OECD	Finland
8046	3319	2827	4750	7652	12451	−1144	398	6733	54		UNCTAD	
49079	42538	32579	84898	71888	96240	64060	24216	30634	40982	−3	OECD	France
49035	42498	32560	84949	71848	96221	64184	24219	30638	40945		UNCTAD	
53571	32398	−10195	47411	55657	80223	8093	22461	57432	48982	799	OECD	Germany
53523	32368	−10189	47439	55626	80208	8109	24156	46860	40402		UNCTAD	
50	1276	2103	623	5358	2112	4490	2435	330	1144	83	OECD	Greece
50	1275	2102	623	5355	2111	4499	2436	373	1823		UNCTAD	
87	332	737	3086	3858	6822	917	86	246	1108	5	OECD	Iceland
87	332	737	3081	3843	6824	917	86	246	1013		UNCTAD	
29350	22803	−10614	−31670	−5545	24712	−16421	25717	42807	11478	694	OECD	Ireland
29324	22781	−10608	−31689	−5542	24707	−16453	25960	26330	13102		UNCTAD	
14558	16430	16824	19960	39259	40209	−10814	20078	9179	29086	−865	OECD	Italy
17055	19424	20126	23291	42581	43849	−10835	20077	9178	29059		UNCTAD	
4062	2916	5195	5976	31803	−28265	11195	20667	27677	14407	1296	OECD	Luxembourg
4058	2914	5192	6564	31837	−28260	11216	22408	9211	17530		UNCTAD	
25060	28424	12459	39023	13984	119406	4540	38612	−7366	17195	−5	OECD	Netherlands
25038	32820	12453	39047	13978	119383	4549	36042	−8966	17129		UNCTAD	
791	3472	2544	2181	10524	7993	10237	16637	16823	18224	924	OECD	Norway
791	3471	2544	5558	7085	5800	10564	13403	17519	3569		UNCTAD	
1801	7155	1936	3927	10914	3063	4656	2707	2646	11160	−20	OECD	Portugal
1799	7149	1935	3930	10908	3063	4665	2706	2646	10344		UNCTAD	
39258	25844	24775	25005	30819	64277	76843	10406	39875	26841	−173	OECD	Spain
39223	25819	24761	25020	30802	64264	76993	10407	40761	29476		UNCTAD	
12270	4981	12218	11627	27521	28849	36855	10034	−64	9262	−107	OECD	Sweden
12273	4975	12122	11896	28941	27737	37153	10023	−1347	12091		UNCTAD	
6284	16505	933	−949	43740	32446	15137	28945	32556	11805	1115	OECD	Switzerland
6276	16503	932	−951	43718	32435	15144	28642	20381	−196		UNCTAD	
25176	27502	57178	177868	156218	200068	88678	76375	50587	51133	1925	OECD	UK
24029	16778	55963	176006	156186	196390	91489	71140	50604	53949		UNCTAD	

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

Table 12

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

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Australia	OECD	80333	81560	79712	87630	101370	111310	122779	106500	113121	127183	118858	122020
	UNCTAD	80364	81538	79666	87643	101344	111311	122702	106451	113102	127144	118858	121925
Belgium	OECD	58388	70163	75678	94295	105881	112960	123883	128728	180492	179924	181650	179375
	UNCTAD	58388	70163	75678	94295	105881	112960	123883	128728	180492	179924	195219	203537
Canada	OECD	112850	117032	108500	106870	110210	123182	132970	135936	143349	175001	212723	213755
	UNCTAD	112843	117025	108503	106868	110204	123181	132978	135944	143345	174990	212716	213757
Denmark	OECD		14747			17846		22337		35705	47660	73585	75430
	UNCTAD	9192	14712	14387	14618	18083	23801	22340	22268	35694	47643	73574	75438
France	OECD	84931	97450	127881	135078	163451	191433	200096	195913	246216	244672	259773	295308
	UNCTAD	97814	110174	127883	135078	163447	237463	314535	326336	454046	597283	390953	384465
Germany	OECD	74067	77928	74730	71095	87338	104367	104658	190733	252392	290457	462564	416826
	UNCTAD	111231	123992	119965	116134	139154	165914	162514	158832	206776	235259	271613	272155
Greece	OECD									13084	15890	14113	13941
	UNCTAD	5681	6816	7960	8937	9918	10971	12029	13013	13084	15890	14113	13941
Iceland	OECD	147	166	123	116	126	129	199	337	465	478	497	685
	UNCTAD	147	165	123	117	127	129	199	336	466	1906	1720	1930
Ireland	OECD									62453	72817	127088	134051
	UNCTAD	37989	39351	40809	41887	42744	44187	46804	48940	62450	72815	127089	134052
Israel	OECD	365	315	353	402	474	5741	7096	9566	11913	18889	22367	21988
	UNCTAD	4476	4568	4307	4976	4264	5893	7376	9045	10418	17743	20426	18939
Italy	OECD	60009	61592	49973	53962	60416	65347	74600	85402	108835	108641	121169	113434
	UNCTAD	59998	61576	49963	53949	60376	65350	74640	85468	108822	108638	122533	114801
Netherlands	OECD	68699	72456	74149	74468	93343	115756	128485	123758	164210	192232	243730	282879
	UNCTAD	68701	72451	74155	74473	93350	115755	128492	123767	164222	192228	243733	282881
Norway	OECD	12404	15865	13645	13642	17018	19836	20624	20704	16969	25420	25282	21016
	UNCTAD	12391	15871	13647	13621	16282	18800	21001	22486	25618	29430	30265	32669
NZ	OECD	8065	9929	11780	15539	22062	25728	34744	31365	33170	32861	28070	20781
	UNCTAD	7938	10761	12545	15539	22062	25728	34744	31507	33191	32875	24957	20778
Portugal	OECD						18973	21103	22414	30090	26911	32043	36023
	UNCTAD	10571	13020	14893	16427	17697	18982	21118	22392	30089	26911	32043	36024
Spain	OECD	65916	79570	85989	80296	96302	110291	111532	105266	126018	125364	156347	177252
	UNCTAD	65916	79571	107840	80314	96311	110246	111497	105295	126059	125361	156348	177254
Switzerland	OECD	34245	35747	32989	38713	48668	57064	53917	59515	71997	76000	86810	88766
	UNCTAD	34245	35749	32990	38714	48667	57063	53918	59519	71995	75995	86804	88766
UK	OECD	233305	240604	197812	201292	203045	226626	259169	287315	355398	404428	463134	527180
	UNCTAD	203905	208346	172986	179233	189588	199772	228643	252959	337386	385146	438631	506686

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

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

OECDilibrary Dataset: Foreign direct investment: main aggregates: Inward position at year end 1990–2012 oecd-ilibrary.org/finance-and-investment/data/oecd-international-direct-investment-statistics_idi-data-en

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	OECD mean difference in US$bn		
150282	213911	284952	242167	296453	386457	305959	425703	508794	546024	2.5	OECD	Australia
150335	213911	284951	242167	296566	386252	306174	428554	497305	499663		UNCTAD	
255872	357429	471287	477779	618990	784631	853166	966719	950027	1002717	14.6	OECD	Belgium
229513	351499	466548	378156	481356	810944	854425	948150	901038	957836		UNCTAD	
225902	289157	315247	341630	375136	518435	449566	548400	591873	586999	0	OECD	Canada
225892	289140	315263	341630	375157	518435	449566	547336	584581	595002		UNCTAD	
82809	100219	116486	116124	132733	161455	151933	154052	140250	140092	−4.9	OECD	Denmark
82799	100191	116614	116443	133783	162631	154478	156818	142323	152847		UNCTAD	
385187	527625	641807	628017	762123	955476	952727	985236	955138	953938	−114	OECD	France
441135	653105	867490	888935	1107299	1247392	904660	1038905	1045614	963792		UNCTAD	
529323	666185	719261	647808	836230	1012729	927428	969550	943791	927452	116.1	OECD	Germany
297797	394529	512094	476011	591460	695498	667748	701186	698203	713706		UNCTAD	
15560	22454	28482	29189	41288	53221	38121	42101	35025	29058	−3.3	OECD	Greece
15561	22454	28482	29189	41288	53221	38119	42097	35026	27433		UNCTAD	
797	1194	2090	4709	7692	16451	9214	8622	11784	12656	−8.8*	OECD	Iceland
3451	3924	6843	11646	22867	47150	45750	33816	40026	48752		UNCTAD	
182890	222837	207647	163530	156491	203683	188302	250122	285572	290479	−11.6	OECD	Ireland
182897	222837	207647	163530	156491	203683	188290	247446	247097	243484		UNCTAD	
21546	26838	29702	36646	52623	60625	49748	55797	60237	65014	1	OECD	Israel
17886	22653	24876	30811	44273	49989	49748	55791	60220	66768		UNCTAD	
130814	180891	220720	224079	294876	376514	327932	364456	328055	339250	−2.4	OECD	Italy
134743	188164	231791	237474	312464	376513	327911	364427	331964	332664		UNCTAD	
349955	458224	519479	479421	552748	766622	645642	644304	586069	606956	−0.2	OECD	Netherlands
349969	458224	519479	479420	552748	766619	645601	660423	593109	589051		UNCTAD	
25229	26105	85047	81474	97550	132417	118554	148315	174569	182581	−1.6	OECD	Norway
42781	48967	79395	76322	95688	125594	114194	150834	171916	171524		UNCTAD	
29800	44047	51629	51486	58992	67775	51979	64801	67706	73641	−0.2	OECD	NZ
29799	43659	51438	51614	59994	68544	52267	65849	70508	73917		UNCTAD	
44635	60585	66970	63340	88461	115315	99976	114718	111685	111822	−3.2	OECD	Portugal
44637	60584	66971	63340	88461	115314	99970	114710	111686	109034		UNCTAD	
257095	339652	407472	384538	461527	585859	588938	632296	628333	617031	−2.4	OECD	Spain
257106	339652	407472	384538	461528	585857	588901	632246	640806	634532		UNCTAD	
124808	162238	197679	170156	268939	353328	447507	499595	617703	644912	5.8	OECD	Switzerland
124805	162233	197679	170156	268929	353325	447128	492346	559333	583455		UNCTAD	
548953	634534	740368	851013	1133314	1229880	962640	1104273	1162649	1184547	18	OECD	UK
523320	606158	701913	840652	1139155	1242949	980079	1056367	1162696	1198870		UNCTAD	

Appendix B: UNCTAD *vs* OECD

There are only two occasions where a set of UNCTAD data used to construct a table or graph can be compared with a reasonably full set of OECD data used for the same purpose. The first is Figure 8 on page 127. It is reproduced below, together with the same graph using the OECD data − with a few necessary adjustments and omissions − which are explained in the Table below. The overall result of using OECD data would be to increase the disparity between the EU and the other countries.

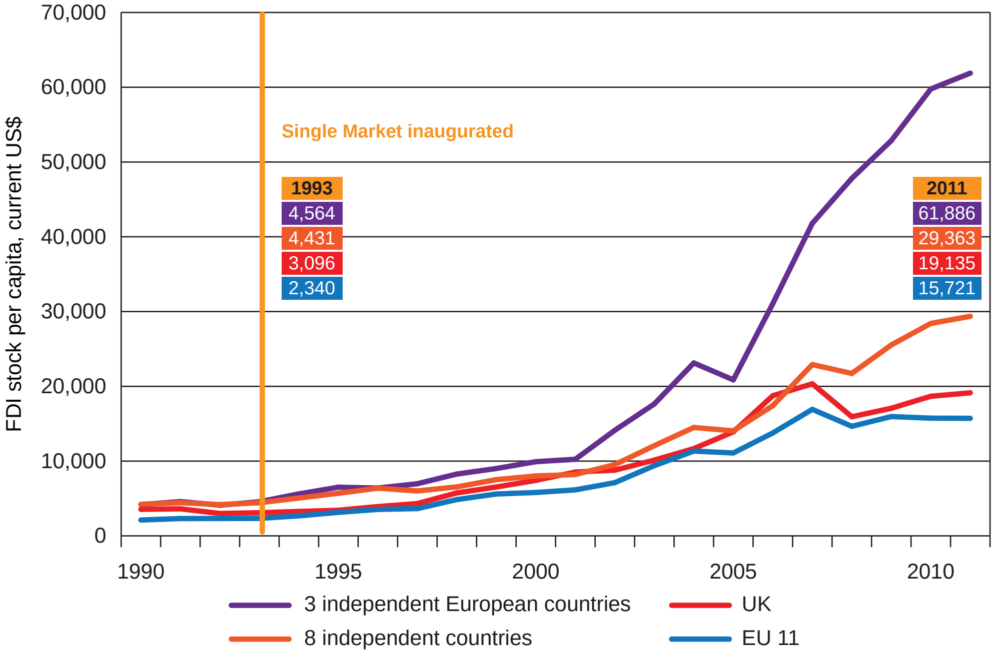
The second occasion when we can compare UNCTAD with almost-complete OECD data is Table 10, p.129. Table 10a below extends Table 10 by adding alongside the original UNCTAD data the equivalent OECD data, though some estimates have been included, as shown beneath the table, to provide a reasonably complete comparison. Cells with major differences are shaded orange. Those shaded green indicate other large discrepancies between the two databases.

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

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

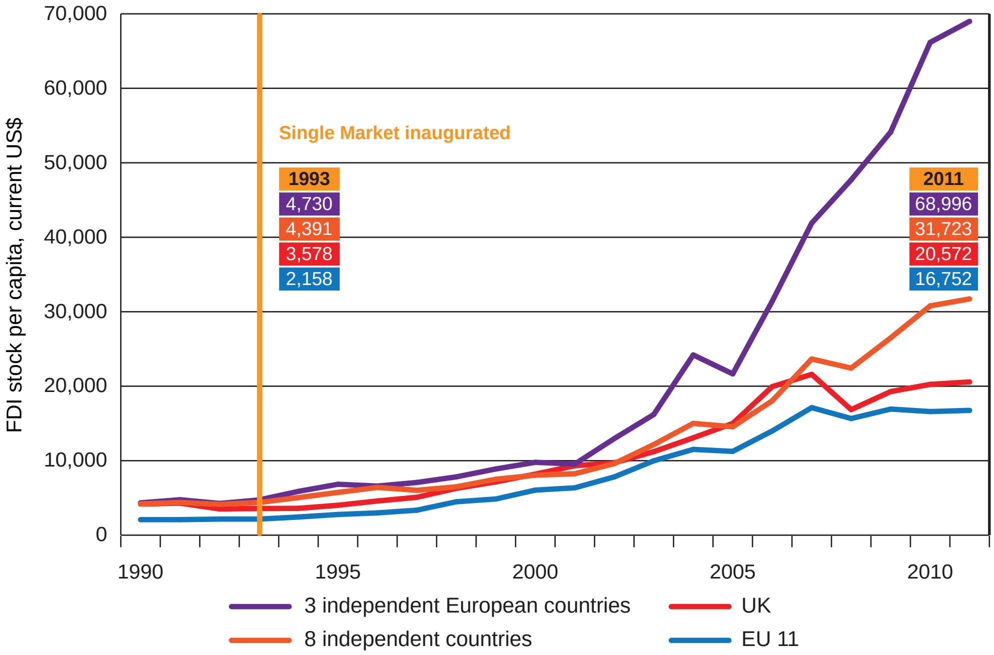
If Israel or Germany had been the focus of this analysis, these differences would have been of some consequence, over certain years at least. Since they were not, we can merely note them for a future occasion. The boost to the EU mean from Germany's OECD figures would not require any alteration to the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

Figure 8
UNCTAD: Per capita growth of FDI stock over the life of the single market, 1993–2011, in current value US$ with weighted means of stock held per capita in 1993 and 2011



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

Figure 8a
OECD: Per capita growth of FDI stock over the life of the single market 1993–2011 in current value US$ with weighted means of stock held per capita in 1993 and 2011



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

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

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

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

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

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

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

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

- They quote from *Invest-UK Annual Report* that 'not only is Britain's international *share* of inward investment falling but the absolute levels of inward investment are now falling as well'. This is a common occurrence, as we have often had occasion to note: FDI flows are volatile. This is not therefore the significant indicator they seem to think. The absolute level of inward investment to the UK fell during 11 of the years between 1970 and 1998, and has fallen on seven occasions since 1999, including 2001, the year to which they are presumably referring.

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

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

Notes

Preface

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

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

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

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

Part I: A comparative study of UK exports to EU and non-EU nations between 1960 and 2012

1. A 39-year-old argument

1 http://www.harvard-digital.co.uk/euro/pamphlet.htm

2 'One Nation in Europe', Ed Miliband's speech at the CBI Annual Conference, 19 November 2012, The Labour Party:
www.labour.org.uk/one-nation-in-europe

3 The other two were 'we would lose our global leadership role', and 'we would lose the opportunity for co-operation and added strength.' Tony Blair, 'Europe, Britain and Business – Beyond the Crisis' at the Business for New Europe event at Chatham House 28th November 2012.
http://www.bnegroup.org/events/view/event-summary-europe-britain-and-business-beyond-the-crisis.-a-speech-by-th/

4 For the full text of the Prime Minister's speech about his plans for a referendum on British membership of the European Union, see:
https://www.gov.uk/government/speeches/eu-speech-at-bloomberg
The speech was trailed in his earlier remarks to Parliamentary Press Gallery. 'We will be governed 'by fax' from Brussels if UK quits EU, David Cameron says', Daily Telegraph, 10 December 2012.

5 Peter Mandelson 'David Cameron must not cave in to the UKIP threat', Daily Telegraph,16 May 2013

6 'dictated', is the word he actually used in his speech. Conventionally, the terms of trade

refers to the ratio between import and export prices, and is primarily determined by the rate of exchange.

7 https://www.gov.uk/government/speeches/eu-speech-at-bloomberg

2. How can we identify insider advantages?

1 It took him a couple of hours, and it is doubtful whether any outsider could have followed it. Sir Jon Cunliffe**,** UK Permanent Representative to the EU, Minutes of Evidence HC 109-I *House of Commons Oral Evidence taken before the European Scrutiny Committee*, Wed 8 May 2013.
http://www.publications.parliament.uk/pa/cm201314/cmselect/cmeuleg/c109-i/c10901.htm

2 'As of 1 October 2012, 1,420 directives and 1,769 regulations were in force to ensure the functioning of the Single Market.' p.9, *Internal Market Scoreboard*. European Union, 2013.

3 pp.82–94, Europe Economics, *Optimal Integration in the Single Market: A Synoptic Review,* A Europe Economics report for BIS, April 2013.

4 Like all good caricatures, the phrase 'government by fax' distorts and exaggerates for political effect. It was coined in 2001 by the then Prime Minister of Norway Jens Stoltenberg, in an attempt to persuade reluctant Norwegians to support membership of the EU. As a member of EFTA, the Norwegian PM has no need to sit by a fax machine in Oslo receiving diktats from Brussels, since Norway negotiates directly with EU representatives and has the right of reservation, i.e. to opt out of EU legislation if it wishes, a right which it is currently exercising with regard to the third postal directive. Norway maintains a 60-strong representative presence in Brussels, participates in, and contributes financially to, a large number of EU agencies which are treaty-bound to respect the Norwegian and other EFTA representatives' points of view. Since many of these agencies, and EC committees on which Norway is represented, work by consensus, representatives from member countries often do not vote either, and even when they do, no one is told how they voted. It will therefore be difficult to discover whether Norway is heard less respectfully, or hard done by, when compared with the representatives of the 28 member states. An informed response to Stoltenberg's caricature, largely written by the Norwegian staff in Brussels, is in the EFTA Bulletin Decision Shaping in the European Economic Area 1–2009. It is worth adding that, as Richard North has shown, much EU legislation merely gives legal effect to the 'quasi-legislation' of numerous global standard-setting bodies dealing with such matters as financial reporting, testing of medicines, environmental protection and climate change, air navigation, fisheries, motor vehicle safety standards, and handling hazardous chemicals. While Norway retains full voting membership in these bodies, EU member countries do not, their place having been taken by a European Commission appointee, and it is EU members who may

sit by their fax machines waiting to hear the results. For details see Richard North, *The Norway Option: rejoining the EEA as an alternative to membership of the European Union*, London, 2013. While it is easy to see why Norwegian political leaders like Stoltenberg, might feel miffed by being excluded from the big EU occasions, it is difficult to believe the Norwegian people feel deprived or disadvantaged in any respect. More than half of Norway's contribution to the EU is through the entirely voluntary 'Norway grants', and it is difficult to understand why these should continue if there was a widespread discontent among the Norwegian people about their relationship with the EU.

5 Q.454, Professor Simon Hix, *Uncorrected Transcript of Oral Evidence*, to be published as HC 109-ii, taken before the European Scrutiny Committee in the House Of Commons 12 June 2013.

6 Public Radio International, 22 May 2013:
http://www.pri.org/stories/2013-05-22/spaniards-outraged-new-strict-eu-regulations-olive-oil

7 COPA-COGENA voiced its 'serious regret' about the reversal of a measure that 'has been discussed for over a year and was supported by 15 Member States and passed through all the correct legal procedures.' Press release 23rd May 2013, Committee of Professional Agricultural Organizations in the EU:
http://www.copa-cogeca.be

8 The Norwegians did at least have their fax copy. On 25th May 2013, there was no reference to the press statement on the website newsroom and Europa Press Releases Rapid:
http://europa.eu/newsroom/press-releases/index_en.htm
http://europa.eu/rapid/search-result.htm

9 See for instance UNCTAD's table 'Value growth rates of merchandise exports and imports, annual, 1950–2012'. These are, however, given in nominal dollar values, and in real terms an actual decline is no doubt more frequent. The last occasion during which UK's exports actually declined, both in nominal and real terms, was in the early 1980s.
http://unctadstat.unctad.org

3. A view of the half-century 1960–2012

1 Although over these 13 years, the EU share of UK goods exports declined rather more sharply from 66.5% to 61.0%

2 Indeed, in written evidence to the House of Lords Select Committee on the European Union in October 2010, the Department for Business, Innovation and Skills claimed that it had increased, and that the UK, along with other EU countries, 'trade twice as much with each other as they would do in the absence of the single market programme.' No citation was given to support this astonishing claim, and no members of the committee questioned

Ed Davey, the Minister responsible for making it, about the evidence to support it. I recently asked BIS for that evidence, and intend to review it in a separate publication. House of Lords Select Committee on the European Union, (Sub-Committee B) Inquiry into Re-launching the Single Market, Oral and associated written evidence, Department for Business, Innovation and Skills, p.110, written evidence (EUSM 7) 14 October 2010:
http://www.parliament.uk/documents/lords-committees/eu-sub-com-b/singlemarketinquiry/singlemarketwo.pdf
http://www.parliament.uk/documents/lords-committees/eu-sub-com-b/singlemarketinquiry/singlemarketwe221010.pdf

4. The top 35 fastest-growing exporters to the EU

1 The agreements with Norway and Switzerland came into force in 1973, that with Turkey from 1996, those with Mexico, South Africa and Israel from 2000, that with Egypt from 2004, with Algeria from 2005, and with Korea in 2011. They are discussed further below.

2 Amazon.com in the UK is a case in point. The annual growth of its UK sales revenue has declined from 31% in 2011, to 22% in 2012 and 14% in 2013. One commentator observed, after identifying faster growing rivals, that '… mathematically, arithmetically, it gets harder to keep growing at double digit rates'. Amazon, however, declined to comment. p.41, *Business Evening Standard*, 3rd February 2014.

3 I was so doubtful on this point, that I asked for, and received, written confirmation from OECD.

4 He was seeking to counter what he called 'globaloney', exaggerated notions of the extent of global trade, and to argue that we are only at the very beginning of it. On the specific point mentioned, he referred to 'hundreds of attempts by economists to estimate "gravity models"-models that predict international flows based on the gravitational pull created by the masses of two economies, offset by the geographical distance between them (along with other impediments), suggest that, other things being equal, doubling the geographic distance between countries halves the trade between them.' Unfortunately, he did not distinguish between goods and services in this respect. 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

5. A backwards glance at the Common Market

1 The United Nations Conference on Trade and Development (UNCTAD) Trade Analysis Information System (TRAINS) via the World Integrated Trade Solution at:
https://wits.worldbank.org/
The World Bank itself put the simple average EU tariff on manufactured goods, which is

usually lower than the weighted average, in 2011 at 1.4%. 'Tariff Rate, applied, simple mean, manufactured products' available via World Development Indicators: Tariff barriers: http://wdi.worldbank.org/table/6.6

2 Except perhaps to Sir John Major. In a speech in February 2013, he argued that, if the UK left the EU, cars made in the UK would face a 10% tariff and a 5% tariff on components when exported to the EU. He predicted that foreign-owned companies would then migrate to the EU. Sir John Major, *The Referendum on Europe: Opportunity or Threat?,* Chatham House, 14th February 2013:
http://www.johnmajor.co.uk/page4364.html

3 David Cameron EU speech at Bloomberg, 23rd January 2013:
https://www.gov.uk/government/speeches/eu-speech-at-bloomberg

4 In a 2007 research paper of the Directorate-General For Economic and Financial Affairs of the European Commission, for instance, one can find the following observations: 'Initial expectations that the Internal Market would be a launching pad for a more dynamic, innovative and competitive economy at world level have not been met… the Internal Market seems to have lost its attractiveness for foreign investors… the EU25 continues to reveal a comparative disadvantage in high tech sectors including ICT… most EU countries lag behind the top performers like the US and Japan in terms of innovation… intra-EU trade flows of goods to GDP seems to have lost momentum since 2000… This period of slowdown in trade integration coincided with the introduction of the single currency.' pp.1, 11, 29–30 N° 271 January 2007, *Steps towards a deeper economic integration: the Internal Market in the 21st century: A contribution to the Single Market Review* by Fabienne Ilzkovitz et al:
http://ec.europa.eu/economy_finance/publications/publication784_en.pdf

6. And further back, to the pre-entry years

1 This was the era of 'Japan as No.1'. It led the growth of these OECD countries, growing by 328% over the period. Without Japan, the UK would have finished within a percentage point of the six remaining OECD countries.

2 The deeply pessimistic mood in the media of the day is nicely caught by a detailed study of one journal that opposed membership of the EEC. Thomas Teodorczuk, 'Ultimate Vindication: The Spectator and Europe 1966–79'. Bruges Group Papers (43). 2009.

3 If, by the way, instead of back-dating the EU entry of Greece, Spain and Portugal, we had opted to hold the number of EU countries constant by only tracking the other countries that actually were members in 1973, the contrast between the three eras in the growth of UK exports presented here would not have been different. The real growth of UK exports to the other eight over the years 1960–1972 would have been 136% (instead of 137%), from 1973–1992 would have been 172% (instead of 171%), and from 1993–2011 would have been 79% (instead of 81%).

7. Are services any different?

1 This is demonstrated in the analyses of the UK's revealed comparative advantage by sector pp.33–38 Department for Business, Information & Skills, Economics Paper No. 8, *UK trade performance: Patterns in UK and global trade growth*, London, 2010: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32114/10-803-uk-trade-performance-growth-patterns.pdf

2 UNCTAD provides data for services exports from a much earlier date (1980) but does not identify the partner country, i.e. say where the exports went.

3 Following the OECD's convention, data for services exports are presented *per annum*, by contrast with 'annualised monthly averages' for goods.

4 John Cridland, 'In or out, Britain has to play by Europe's rules', *The Times*, 4 July 2013. This article seems to have been a trailer for the publication of the CBI's extended consideration of the UK's relationship with the EU: *Our Global Future: The business vision for a reformed EU*, Confederation of British Industry, London, 2013. This continues on the theme of the severe limitations of Swiss agreements with the EU on services, pp.144–145, *ibid.*

8. Do UK exporters need an insider advantage?

1 Balance of Payments (MEI): Balance on goods, OECD.StatExtracts: http://stats.oecd.org/index.aspx?datasetcode=MEI_BOP

2 The argument put forward by the CBI therefore makes perfect economic sense from its point of view: the payments made by the UK taxpayer to the EU are reasonable and entirely acceptable, whereas the regulatory costs of the EU paid directly by their members are not. See *Our Global Future, CBI, op.cit*.

3 'Iceland and China Enter a Free Trade Agreement', *New York Times*, April 15, 2013. 'China, Switzerland Complete Trade Talks', *Wall Street Journal*, May 24, 2013.

4 *Times of India*, 16 April 2013 http://timesofindia.indiatimes.com/business/india-business/India-EU-open-new-round-of-trade-negotiations-on-FTA/articleshow/19566574.cms

9. A country with neither heft nor clout

1 p.16, *Our Global Future*, CBI, *op.cit*.

2 pp. 76–77, *ibid.*

3 The other criteria are, third, the willingness of the partner countries to enter into negotiations and, fourth, compatibility with Swiss foreign policy objectives. p.5, State Secretariat for Economic Affairs (SECO) by Marianne Abt, *The Economic Relevance of Free Trade Agreements with Partners outside the EU*, Berne, 2009: http://www.seco.admin.ch/themen/00513/00515/01330/index.html?lang=en

4 pp.77, 145 *Our Global Future*, CBI, *op.cit.*

5 *Huffington Post UK,* 2 April 2014

6 see www.wto.org Trade Policy Review: United States

7 Trade and Investment Cooperation Forum Agreement, www.ustr.gov For a brief account of its work see *An Overview of Switzerland's Economic Role in the United States–Switzerland: Trade and Investment Cooperation Forum*: http://www.ustr.gov/sites/default/files/US-Switzerland%20TIFA.pdf

8 p.77, *Our Global Future*, CBI, *op.cit*.

9 Details of the stakeholder feedback meetings of the present TTIP negotiations are at *Outreach – Update on the Transatlantic Trade and Investment Partnership (TTIP) – Third Negotiation Round*: http://trade.ec.europa.eu/civilsoc/meetdetails.cfm?meet=11421
Over 300 lobbyists attended the November meeting, and some 130 are registered for the mid-January meeting, including one from the CBI. They have two hours both to hear reports from the negotiators and to ask questions.

10 The DTI's Website for Europe & World Trade lists the 94 IPPAs still in force: http://webarchive.nationalarchives.gov.uk/+/http://www.dti.gov.uk/ewt/investment.htm http://www.dti.gov.uk/ewt/investment.htm
The transition arrangements are explained in 'Regulation (Eu) No 1219/2012 of The European Parliament and of The Council of 12 December 2012 establishing transitional arrangements for bilateral investment agreements between Member States and third countries', *Official Journal of the European Union:* http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:351:0040:0046:EN:PDF

11 At one point, the CBI argues that having delegated the negotiation of FTAs to the EC, Britain is no longer able to negotiate them since '… it would take time for the UK to first regrow the capability to negotiate FTAs' and there would be 'a period of dislocation –perhaps for many years', p.155, *Our Global Future*, *op.cit*

12 The only speck of evidence that might relate to the quality of any FTAs is a reference to a KPMG report which suggested that the Swiss-China FTA might be asymmetrical in some respects i.e. more access opportunities for Chinese products in Switzerland than *vice versa*. p.145, CBI, *Our Global Future*, *op.cit.* It is difficult to know what to make of this remark. Symmetrical FTAs are, for obvious reasons, rare. As on other occasions, this CBI document is puzzling. It proudly proclaims endorsements from 16 chief executives and chairmen of leading British and foreign multinationals companies, from a 'challenge team' of academics and researchers from six leading universities and think tanks, and was advised by a leading multinational consultancy, McKinsey. Are we to assume that none of them ever asked for evidence that the EU FTAs were of high quality? Would they have accepted this argument, without any evidence, if it had been put to them by any of their managers, staff or students?

10. Measuring the benefits of the EU's trade agreements

1 Baier, Scott L., Bergstrand, Jeffrey H., 2009, 'Estimating the effects of free trade agreements on international trade flows using matching econometrics', *Journal of International Economics*, Vol. 77(1), pp. 63–76.

2 State Secretariat for Economic Affairs (SECO) *op. cit.,* en 32*,* pp.4–8.

3 For further information and copies of 18 final reports:
http://ec.europa.eu/trade/policy/policy-making/analysis/sustainability-impact-assessments/
Currently one is being undertaken for the TTIP negotiations.

4 http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146955.pdf

5 Copenhagen Economics, 'Ex-Post Assessment of Six EU Free Trade Agreements: An econometric assessment of their impact on trade', prepared for the European Commission, DG Trade, February 2011:
http://trade.ec.europa.eu/doclib/docs/2011/may/tradoc_147905.pdf

6 Itaqa Sarl, 'Evaluation of the economic impact of the Trade Pillar of the EU-Chile Association Agreement: Final report for the European Commission', Directorate General for Trade, March 2012:
http://trade.ec.europa.eu/doclib/docs/2012/august/tradoc_149881.pdf
Two of the key methodological appendices of this study, those to Chapters 2 & 3, are missing from the web version of the report, and I have not been able to consult them. Despite the earlier six-nation study, this refers to itself, and is referred to elsewhere by the EC, as 'the first wide-ranging, ex-post assessment of a specific bilateral trade agreement carried out at the request of the European Commission', p.29, *op.cit*. It may be the first 'wide-ranging', and 'specific' assessment, but it is not the first assessment. The EC may perhaps have considered the earlier six-nation assessment comparison a pilot.

7 p.99*, ibid*.

8 As the authors of the six-nation study put it: 'The evolution of bilateral trade between the partners in itself is not a good indicator of the success of a FTA'. *Copenhagen Economics*, *op.cit*., p.6. Given EC's preference for predictions of future gains from its FTAs, it might be that, in another context, the most important result of the Chile study was '… that the trade impacts it could measure differed substantially from those predicted in the ex-ante EC study of Chile'. pp.84–86, Itaqa, *op.cit*.

9 pp.9–15, 63–66, Copenhagen Economics, op.cit.

10 pp. 63–64, *ibid;* p.62,Itaqa, *op.cit.*

11 pp. 58–63, *Copenhagen Economics*; p.53, 62, Itaqa, *op.cit*

12 A third study is on the way. The Invitation to tender related to a contract to carry out an evaluation of the implementation of the EU-Mexico Free Trade Agreement closed on the 30 September 2013:
http://trade.ec.europa.eu/doclib/docs/2013/august/tradoc_151698.pdf

13 As it happens, in the one specific comparison made between the investment protection clauses of the EU FTA with Chile and earlier independently-negotiated agreements, the Itaqa researchers decided that: 'EU investors would actually be less protected than investors from other countries that have signed agreements with Chile to regulate investments…' p.112, Itaqa, *op.cit, supra* fn 53

14 The manufactured and agricultural exports of the 28 member countries are more interchangeable, more easily placed in standardized WTO categories than their services and hence can be more readily discussed in trade negotiations. Services frequently involve professional personnel, whose corporate institutions and interrelationships are highly distinctive to each member country. Indeed, to large extent they define the national character of member countries, and are the product of unique relationships between the state, practitioners and educational institutions that have been created and evolved over centuries in each of them, and which their current members are usually prepared to defend. FTAs in services are therefore only likely to be successfully negotiated when the professional institutions of the 28 member countries have been 'harmonized' to a far greater degree than they currently are. A negotiation between two countries is, by contrast, likely to be a much simpler matter, which is, one guesses, why Switzerland has managed to incorporate services in so many of its FTAs. However, there is, as far as I know, no detailed comparative analysis of the content of the service element of Swiss FTAs versus those of the EC.

11. On the opportunity costs of EU solidarity

1 Tim Congdon, *How much does the European Union cost Britain?* UK Independence Party, London, 2012: http://www.timcongdon4ukip.com/docs/UKIP%20Cost%20of%20the%20EU.pdf

2 Given the armlock that Swiss agricultural interests have on their trade negotiators, the likelihood is that the UK would have entered more negotiations, and concluded them, more rapidly than the Swiss.

3 In his appearance before the Commons European Scrutiny Committee mentioned above, the UK Permanent Representative to the EU described the process of negotiation that precedes EU legislation. 'There are many individual elements of legislation that we would not have put in but when we look at the overall proposal, the judgment is that the overall compromise − I am afraid it is virtually always a compromise because that is the nature of the European Union − is one we can accept, except in the cases where Ministers say "No, vote against" and we vote against.' Oral Evidence, Sir Jon Cunliffe, European Scrutiny Committee, Minutes of Evidence, HC 109-I House of Commons 8 May 2013. Trade negotiations are presumably similar: http://www.publications.parliament.uk/pa/cm201314/cmselect/cmeuleg/c109-i/c10901.htm

4 *de facto* only two, since Switzerland negotiates on behalf of Liechtenstein, and its agreements apply to both. Unfortunately, one cannot use Norway as a second example of the opportunities open to a nation that negotiates FTAs on its own behalf because it has declined to do so. Rather than vigorously defend its own interests in the manner of the Swiss, it has preferred to follow the EU as much as possible, and maintain a level-playing field with EU members, in the hope perhaps that it will be ready for immediate EU membership when the electorate changes its mind in a future referendum.

5 Though 'technical discussions will have to be completed so as to finalise the legal text of the agreement'. See:
http://europa.eu/rapid/press-release_IP-13-972_en.htm

6 'France Lifts Block on EU-US Trade Negotiations' Euronews 15 June 2013:
http://www.euronews.com/2013/06/15/france-lifts-block-on-eu-us-trade-negotiations/

7 *ibid.*

8 It seems unlikely that it will be discussed, or even mentioned, again. Accountability has, one might say, been suppressed in the interests of solidarity

12. UK exports to new member states

1 pp.2,10, 19, *Twenty Years On*, op.cit

13. A final look at the UK versus 11 outsiders

1 Seven of these bilateral agreements are summarized at:
http://www.vorarlberg.at/english/vorarlberg-english/regions_europe/europe/eu-switzerland_sevenbilat.htm

Part II: The impact of the EU on foreign direct investment in the UK from 1970 to 2011 • 164

Introduction

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

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

3 Sir John Major, 'The Referendum on Europe: Opportunity or Threat?', Chatham House, 14 February 2013. He has continued in the same vein and clearly intends to rely on his intuitions rather than look at any evidence. At an Institute of Directors' dinner in November 2013, he pronounced confidently: 'We would lose inward investment – ask Japan or Korea,

or even America.' And he left it at that.

www.johnmajor.co.uk/page4370.html

at the Institute of Directors on 28 November 2013. He might perhaps have glanced at page 35 of *Ernst & Young's attractiveness survey, UK 2013*, whose researchers did ask companies in Japan, Korea and America. 'The picture that emerges from our research is that European companies regard the UK's integration into the EU as being important to the country's attractiveness for FDI, while those in the US and Asia do not.'

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

5 ibid.

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

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

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

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

10 Appendix Table 2b, p.60,

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

12 In the course of these initial cross-checks, and following email exchanges with Sigrún Davíðsdóttir the London correspondent of Icelandic Radio, the UNCTAD data for Iceland over the years 1989 to 2011 was also checked against that issued by the Central Bank of Iceland, which revealed large discrepancies between the two. Both were approached for clarification. The Central Bank insisted its figures were correct, and, after some email exchanges, UNCTAD conceded that its figures would be corrected in accordance with those of the Central Bank in future publications. The figures used in this investigation are therefore not those provided in the UNCTAD database up to April 2013 (with a final reported year of 2011) but those published on the Central Bank of Iceland's website:

http://statistics.cb.is/en/data/set/

See Foreign direct investment position in Iceland: Total FDI position & Total FDI flows.

13 OECD *Benchmark Definition of Foreign Direct Investment*, Fourth Edition, OECD, Paris, 2008 Access the complete publication at:

http://dx.doi.org/10.1787/9789264045743-en

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

15 Nigel Williams, *Trade Distortions and the EU*, Civitas: Institute for the Study of Civil Society, London, 2011. 07/2011:

http://www.civitas.org.uk/eufacts

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

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

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

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

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

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

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

23 Since 1996, the data collected by E&Y's *European Investment Monitor* offers a potential solution to this problem – at least for recent years. Its figures are based on company announcements about new investments across Europe and companies are unlikely to announce by press release that they intend to establish an SPE in a particular country.
The only disadvantage is that much of this evidence is for the benefit of paying commercial clients and remains confidential. It cannot therefore contribute a great deal to public debate.

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

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

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

27 HM Treasury, 'EU Membership and FDI'. This is one of five internal Treasury analyses

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

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

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

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

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

3 Curiously enough, this switch did not cause a sudden jump either in the per capita amount or the decade-to-decade growth of the independent countries. Both would have been substantially *higher* if we had continued with the original five countries, though this disparity would have been strikingly reversed over the fourth decade.

4 Article 188 C reads: ‘The common commercial policy shall be based on uniform principles, particularly with regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, *foreign direct investment*, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies. The common commercial policy shall be conducted in the context of the principles and objectives of the Union’s external action.’ [Emphasis added]
The full scope of Article 188 C has never been determined by the EC or by the European Court, and no doubt will take many years to do so, but actions to impose common EU rules

for incentives to promote inward FDI are not in the least unrealistic, though for the moment action under Article 188 C appears to require unanimity. In its August 2013 update on 'Trade and Investment agreements', the EC proudly announced that the negotiating directives it had drafted for the Council to approve before talks with China begin 'is the first ever proposal for a stand-alone investment agreement since foreign direct investment became the exclusive competence of the EU under the Lisbon Treaty'. *The EU's bilateral trade and investment agreements – where are we?* p.4: http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150129.pdf

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

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

7 This argument will come as no particular surprise to the research staff of the European Commission. As long ago as 2007, one of their reports noted that: 'While European integration seems to be associated with an increase of intra-EU FDI activity, the available evidence suggests that the Internal Market has not been able to deliver in terms of promoting further the role of the EU with respect to global investment flows… Since 2001 the volume of FDI from the rest of the world into the EU25 has gradually declined… until 2005 when it recovered slightly… The Internal Market's two-fold objective of making the EU a more attractive place for foreign investors and of boosting the presence and competitive position of EU firms in world markets seems far from being achieved.' Fabienne Ilzkovitz, Adriaan Dierx, Viktoria Kovacs & Nuno Sousa, *Steps towards a deeper economic integration: the Internal Market in the 21st Century – a contribution to the Single Market Review*, European Commission – DG EcFin; European Economy No. 27, 2007, p.49.

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

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

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

3 In his memoirs, Blair rejects this version of events. 'In principle I was in favour and for me the politics were clear: better to join and be full players in Europe's economic decision-making…The trouble was the economic case was at best ambiguous… If the economics

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

4 Huhne & Canning, *op.cit*.

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

6 *ibid.,* p.24

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

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

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

10 See pp.87–88

11 The Netherlands is suspected of having had a rather high proportion of SPEs in the past. However, it has recently become one of the first countries to report its FDI to the OECD minus SPEs, so further research would be required to determine whether this is a real or nominal decline.

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

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

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

15 If the weighted means of column 3 are subtracted from those of column 4, it may be

seen that, over the life of the euro, foreign investors invested US$(1986)6,301 in every inhabitant in the eurozone and US$11,801 in every inhabitant of the non-euro European countries.

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

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

1 en.wikipedia.org/wiki/Britain_in_Europe

2 I refer again to the mountain of evidence assembled by Pankaj Ghemawat with Steven A. Altman, *DHL Global Connectedness Index* of 2011. See note 28, p.167, supra.

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

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

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

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

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

8 Eurosceptics will no doubt notice the irony in this finding, and draw comfort and encouragement from it. When similarly measuring UK's per capita FDI growth as an outsider since the launch of the euro (in Table 9, p.120), UK growth was *higher* than the eurozone

mean, while here, measuring growth as an EU insider, alongside other founder members of the Single Market, growth is lower than the EU mean.

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

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

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

12 *European headquarters: Location decisions and establishing sequential company activities*, Final report, Ernst & Young, Utrecht, 2005. Switzerland has other advantages. It can sign its own trade agreements. After signing a free trade agreement with China in May 2013, it also signed 'a raft of cooperation deals… including… financial sector ties.' In response to speculation that selected offshore centres could be chosen (by China) as currency trading hubs, the AFP correspondent speculated that Switzerland '…hopes to be picked'. Since the EU has not even begun free trade negotiations, it probably has a good chance, he thought. 'Swiss free trade deal underscores China's globalisation: Li' by Jonathan Fowler, AFP, 24 May 2013: https://uk.news.yahoo.com/swiss-free-trade-deal-underscores-192815812.html#seotJwc The merits of Switzerland's bilateral trade agreements are examined in detail above, pp.39–44

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

14 p.39, para 3.14 HM Government, 2013, note 19 supra. The CBI recently added some supportive comments about the UK as a gateway on the strength of a E&Y survey of actual and potential investors in 2012 which found that the 'ability to use the UK as a base to export

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

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

1 pp.83–90, above

2 Though by two other measures, comparing nine pre- and post-euro years, the share of UK FDI inflows to the EU remained virtually the same, according to both OECD and UNCTAD. Perhaps at this point, it should be remembered that the OECD records inflows for the UK which are, on average over the years 1990–2011, eight per cent higher than those reported by UNCTAD. p.83, above and Appendix A, Table 11, pp.146–147.

3 One possible explanation is that in post-World-War-II decades, outward FDI was overwhelmingly from the US and its preferred destination was, also overwhelmingly, the UK. Initially, at least, the second major source of FDI in Europe – Japan − seems to have followed the American example. The decline in UK share may therefore simply reflect the later emergence of other sources of FDI, and the gradual recognition of other acceptable destinations. But this is guesswork. Obviously, it is a subject worthy of research.

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

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

1 There was, as far as I can discover, rather little media coverage of the euphoric UKTI report on 23rd July 2013 of the spurt in FDI in the UK. See note 9, p.169, supra