Does the EU’s Single Market Encourage FDI into the UK?

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Introduction

In UK debates about membership of the EU, arguments about the supposed economic benefits usually trump any others. Some favour the EU in the belief that its supranational political institutions have enabled European nations to transcend their past rivalries and conflicts, have prevented further wars between them, and enabled Europe to stand toe to toe with other major world powers. In the UK at least, these are, at best, supportive arguments. The most publicly persuasive arguments tend to focus, as Mr Cameron always does, on the EU’s supposed economic benefits. As he put it to the House of Commons on December 8th 2011: “Our membership of the EU is vital to our national interest. We are a trading nation, and we need the single market for trade, investment and jobs.”

This paper examines the claim that the single market has helped investment, and specifically the foreign direct investment (FDI) into the UK, which has in recent years contributed somewhere between a fifth and a half of the total gross UK capital formation. Membership of the EU’s single market is commonly assumed to have been a key factor in encouraging foreign investors to choose to invest in the UK. One repeated chord in the symphony of shock and dismay with which BBC newsreaders, correspondents and invited guests greeted Mr Cameron’s recent decision to refuse to participate in any proposed new EU treaty was that it would leave the UK ‘isolated’ and ‘marginalized’ within the EU, and therefore put at risk the inward flow of foreign direct investment (FDI), and the new jobs that follow from it.

Robert Peston, the BBC’s Business Editor pulled out all the stops. After mentioning his conversations with various unnamed ‘business leaders’, he 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.’

He must have selected an odd sample of ‘business leaders’, since a few days later a poll by the Institute of Directors showed that 77% of their members were not at all ‘desperate’, delighted might have been a better word, since they supported the Prime Minister’s decision (http://press.iod.com). Mr Peston’s argument is, however, aired frequently by enthusiasts of the EU and has long been part of the conventional wisdom about the EU. It certainly sounds plausible, and since he raised the spectre of foreign investors actually withdrawing from the UK, even scary, as he presumably intended it to be. But is it true? Would potential foreign investors be dissuaded
when they notice that the UK has been ‘marginalized’ in EU policy-making, or indeed absent altogether? Does the evidence support this reasonable-sounding conjecture?

The problem of finding a control group

It is conjecture. No one knows what factors prompt investors to choose one country rather than another. United Nations Conference on Trade and Development (UNCTAD) researchers, who know more than most about these decisions since they have recorded them systematically since 1970, cautiously observe that they are influenced by a ‘host of nearly unquantifiable social, political and institutional factors’. Nothing daunted, they nevertheless constructed an ‘FDI Potential Index’ a few years ago, which sought to rank the attractiveness of every country to putative foreign investors. Owing to the extreme volatility of annual FDI flows, they opted for triennial average rankings based on 8 independent unweighted factors –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 rather vague eighth factor, political and commercial risk. They did not, it may be noted, include the size of the domestic market in their index, in all probability because they remembered that Singapore has consistently figured among the top three countries for inward FDI flow since 1970.

UNCTAD’s data does not allow us to identify the determinants of FDI decisions, but it does show us clearly the results of those decisions across the globe over the 41 years from 1970 to 2010. It therefore enables us to assess the benefits of belonging to the EU and the single market, and to assess the risks that might arise if the UK were to leave it, by comparing the performance of EU and non-EU countries, and this is quite enough for present analysis. It will not, of course, enable us to assess the risks of ‘isolation’ and ‘marginalization’ within the EU because these recently discovered or invented circumstances, or afflictions as they seem to be, have no recognizable and measurable characteristics, and no other countries have, it seems, ever suffered from them. Neither UNCTAD, Mr Peston, nor anyone else, can therefore say too much about them.

The standard scientific method of identifying the impact of any action, event or experience is to compare those who have been subjected to it -the experimental group- with those who have not -- the control group. In social science finding a
control group is not always easy, and the present case is no exception. However, the experimental group is clear enough. It is the core group of eleven EU countries that were members of the EU in or before 1986, the twelfth member at the time, Luxembourg, having to be omitted because it was not ready or willing to provide UNCTAD with any FDI data until 2002. If the EU in general, and the single market in particular, have been decisive factors in determining the rate of inward FDI, we might expect it to be easiest to observe their impact in the societies that have been members longest. Three developed societies who joined the EU in 1995 - Austria, Finland and Sweden - are not therefore included in this group of core EU countries. Nor are the host of later members from the former socialist societies, since they are still in the process of transition to market economies, and classified by UNCTAD as such.

At first glance, a suitable control group consists of the three European societies that declined to become members of the EU - Switzerland, Norway and Iceland – and comparison with them might seem to enable us to identify the vulnerabilities and risks to which the UK would be exposed were it absent from the EU’s single market. However, these three societies are often dismissed as being ‘special cases’, and individually and collectively too small (in 2010 their populations totalled just 13 million) to provide a fair comparison, and therefore not suitable as comparative control cases. Whether or not, and in what respects, they are ‘special cases’ is seldom made clear, and never documented. It is sometimes claimed, for instance, that whereas the UK is a trading nation, these three are not –almost as if they were not far removed from subsistence farming. A fair measure of how far a country depends on international trade is provided by OECD data on international exports in goods and services as a proportion of GDP. In 2010 the proportions were 54.2% of Switzerland’s GDP, 56% of Iceland’s, and 42% of Norway’s, and a mere 29% of the UK’s. Currently, therefore, the UK is rather less of a trading nation than any of them.

Another respect in which they might be disqualified as a control group is the disproportionate share of Switzerland’s FDI, the biggest of the three, which is attributable to financial services. UNCTAD robustly rejects this charge. In one of its special, more detailed reports on the country, supplemented with data from the Swiss National Bank, it declared that ‘Switzerland is a major host country for FDI on a global scale’, and went on to say that ‘The banking industry, including private banking, represents 7.8% of the inward flow of FDI.’ (Investment Country Profiles: Switzerland, UNCTAD, Oct 2011). However, the report itself shows that in 2009 a substantial proportion of FDI consisted of ‘financial intermediation’, ‘monetary intermediation’, and then ‘other financial intermediation’, and together
these far outweighed the amounts directed to chemicals, metals, electrical and electronic equipment or other goods and services, so the objection cannot be dismissed (p.6, ibid). Moreover, in the years before the financial crisis of 2008-9, Iceland rapidly became a global mini-player in financial services, which adds weight to the suspicion that this group of three might be skewed towards a narrow range of industries, and their FDI towards financial transfers. And of course, a disproportionate share of Norway’s FDI is due to a single industry - oil - though Statistics Norway which keeps a close watch on FDI into Norway, shows that foreigners have invested in a diverse range of industries. While in 2009 ‘gas, mining and extraction’ provided 40% of all foreign investment in Norway, this sector had a relatively minor share of persons employed or turnover of foreign-owned enterprises (www.ssb.no/utfono_en/). The UK is also, of course, a country whose FDI might also be said to be directed disproportionately into financial services and oil, but then it is only one of the EU 11, which as a whole has a more balanced and diverse range of industries and services.

Whether the diminutive size, individually and collectively, should disqualify the non-EU 3 as a control group is debatable. It might just as well be a reason for preferring them as a control group. If the UK, standing alone with 62 million inhabitants, is too small to survive and thrive in the modern world, as is sometimes claimed, then presumably it must be still more difficult for still smaller countries. A comparison with these smaller countries might therefore illustrate dramatically the risks to be run, and the price to be paid, by the UK were it to join them outside the EU. Likewise, the fact that these three countries depend on exports to a greater extent than the UK, and specifically that they depend on trade with the EU to a greater extent than the UK, (around 50% of the UK’s exports are said to go to the EU, while according to their own governments, 60% of Switzerland’s, 81% of Norway’s and 90+% of Iceland’s do so) means that they are still more vulnerable to unfavourable EU decisions than the UK would be. In the present context, this is one more reason for preferring them as a control group.

We will, however, put all these arguments on one side. Rightly or wrongly, for one reason or another, there may be lingering doubts about such a control group. We will try to dispel them by constructing a larger and more diverse, one. This we may do by adding to these three all the remaining economies in UNCTAD’s database that are roughly as economically developed as the EU 11, but are not, like them, subject to any higher political authority or superior legal jurisdiction, and do not like them have large internal markets, which rules out the U. S. and Japan. There are just four of them: Australia, New Zealand, Canada, Israel, to which we will add a fifth, Singapore, even though it remains, by some oversight surely, alongside Myanmar.
and Cambodia as a ‘developing’ country in UNCTAD’s database. When added to the three non-EU European countries, these five make a control group of eight, and may justly be called the group of 8 independents. Their relationships with the EU and other trading nations are decided either by ad hoc bilateral or occasionally multilateral trade negotiations, or left to the market. Their total population in 2010 was about 86 million, so for those who think overall size is important, this group of independent countries should be more acceptable as a control. And it is this group that is not open to the charge of overrepresentation of financial services. The population of the three non-EU European countries within it is less than 10% of that of the group as a whole. It can hardly therefore skew the weighted means of the group as a whole, even if the entire FDI of Switzerland and Iceland consisted of financial services, which is far from being the case. In any event, it seems to be the best control group that the world can currently provide.

Comparisons of the per capita inflows of FDI over time with both the control group of the non-EU European 3, about which we may have doubts, and with the larger control group of 8 Independents, should enable us to identify the benefits of membership of the EU’s single market, and the risks that UK might run if its relationship with the EU was renegotiated and determined solely by trade agreements like those of the eight independent countries. If there are disadvantages to being small and isolated, and not permanently participating in EU decision-making, then these independent countries must surely display them.

**FDI flows and stocks over 21 years**

While the UNCTAD data allows comparisons over 41 years, the chart only shows, for brevity’s sake, the weighted means of the inward flow of FDI per capita in each of these three groups over the 21 years from 1990 to 2010. The general trend, ignoring the differences between the three groups for the moment, is fairly clear: steady growth from 1991 to 2000, then a decline to 2004 where the level of FDI was not far above what it had been a decade earlier, and then a rapid surge which peaked in 2007, followed by a sharp downturn in the year of the financial crisis which has continued into 2010.

One reason for starting this chart slightly before 1993 was to see whether, as one might reasonably expect, there was a bounce in the FDI of the EU 11 around that time as investors contemplated the prospect of a vast new single market of 350 million. There was no bounce, at least not for the EU 11.
The main purpose of the chart is to enable us to compare our three groups of recipients over time. If we first compare the EU 11 (in blue) with the three non-EU European societies (in orange), it will be seen that in seven of the twenty-one years the EU 11 have received more FDI per capita than the three non-EU societies including 1992, when the three entered negative territory as their FDI outflows exceeded their inflows. In the other fourteen years, the three non-EU societies have received more FDI per capita than the EU 11, and in some years very much more. When we aggregate these inflows over the 21 years -in constant 2010 US dollars- we can see that these three non-EU countries have received about 66% more FDI per capita than the EU 11.

The cumulative end result of these different annual flows of investment, along with those of earlier years, going back even beyond the start of the UNCTAD time series, can be seen by comparing the FDI stock in the two groups of countries in 2010. By that year, foreign investors had invested $14,683 in every person in the EU 11, but $56,009 in every person in three non-EU European countries, in other words nearly four times as much.

When we turn to compare the eight independents (in green) with the EU 11, we see a similar though less startling contrast. The EU 11 attracted more FDI in 6 of the 21 years, but less in the other 15. In three of the six years when the EU 11 attracted more FDI, the differential was slight, but in 1999 and 2004 it was around $350 per
capita, and in 2005 almost $700. However, when the differential was in favour of the eight independents, it exceeded these amounts on several occasions. In 2007 the differential was over $2100 per capita and in the depressed year of 2010, when FDI fell across the world, it was still just under $700. Perhaps because of their global spread, these eight countries seem, so far, to have survived the financial crisis rather better than the EU 11 –or for that matter the three non-EU European countries on their own. Over the 21 years, the eight independent countries received one third more FDI than the EU 11 -in constant value 2010 U.S. dollars. If, as before, we compare the stock of foreign investment in the two groups, it shows that foreign investors had invested nearly twice as much in every person in the eight independent countries as they were ready to invest in members of the EU 11 - $28,017 versus $14,683.

The rather volatile annual flows shown in the chart, and the aggregate flows mentioned, do not suggest that the differentials have declined significantly over time, but nor do they allow one to see any such changes easily. A better view is given by the annual figures of FDI stock presented as a graph below.

It has some surprises. Although falls in the annual flows were common to all three groups between 2008 and 2010, the stock of FDI actually fell in 2008 only in the 8 independents and in the EU 11 countries. However it recovered rather better in the independents, while it declined again in the EU 11 in 2010. While the 3 European societies that are not members of the EU, had experienced a sharper fall than the other two groups in 2005, their FDI stock continued to grow though 2008-2010, almost as if there was no crisis. The UNCTAD figures for 2011 should therefore be more than usually interesting. Over the long run, however, the most important point of this evidence is that there is little sign that the EU 11 might be catching up with the independent countries. On the contrary, the differential seems to have been steadily increasing from around the early years of the 21st century.
Iceland, it is worth adding, has so far recovered from the financial crisis best of all the 19 countries considered. While its inward flow plummeted from $22,322 per capita in 2007 to a mere $263 in 2009, the fall was short-lived. In 2010 it received $9215—the highest amount per capita of any of these 19 countries. One year before Mr Peston was frightening British viewers with the awful fate that awaited the UK if it became an ‘isolated island’, this really isolated island had attracted more than 12 times as much FDI per capita as the UK, a rate of inward FDI that the UK had never remotely approached in the preceding 40 years. Hmm. Isolated islands do not fare so badly as the evidence in the boxes shows. Perhaps Mr Peston should really worry when the UK joins the EU’s top table.
Although we cannot explain the differentials shown on the chart of the FDI flows and the graph of the FDI stock over the years 1990-2010, we can draw one clear conclusion from them; they give no sign whatever that the isolation or independence of these eight countries has had any ill-effects on their FDI. Far from it. It would be more plausible, simply on the basis of these UNCTAD figures, to argue that that their isolation and independence has made them more attractive to foreign investors, though until we have retrospective analyses of investors’ decision-making processes and their assessment of the relative merits of various countries they were considering, we cannot say whether this is true. This kind of research is not common, since it requires researchers from the rejected suitor country to go to the preferred country to try and find out why their advances were rejected.

One interesting aspect of such a retrospective analysis would be the behaviour of investors from within each of these groups. The term foreign direct investment leads one to assume that all the investors are from outside each of the three groups considered, from the United States, Japan, China or other countries that do not belong to any of these three groups. But that of course, is not the case. We know, for instance, from UNCTAD’s special report on Switzerland, that 84% of its inward investment came from EU countries led by the Netherlands, Luxembourg and Austria. And a high proportion of Norway’s inward FDI is also from EU countries. In other words, EU 11 investors, whom we may presume are reasonably well-informed
of the merits or otherwise of EU membership and of ‘the world’s largest market’, were themselves preferring to invest outside the EU, and apparently therefore, not especially concerned about Switzerland’s or Norway’s or Iceland’s non-membership of the EU.

The endurance of national characteristics

Collective comparisons between groups of countries may of course hide considerable country variations between members of the group. This is especially true of the EU 11 group. There are marked differences between members of this group, and these differences seem to have endured over long periods of time, not merely over the 21 years displayed in the chart, but over the entire 41 years of the UNCTAD data, and probably one suspects, even before that date.

We can best see these continuities by giving ordinal rankings to the annual flows into the 19 countries examined, and we have added to them, simply as reference points, the U.S., which is usually the largest single annual beneficiary of FDI in absolute terms, Japan and Brazil, and the three EU latecomers, Austria, Finland and Sweden. Despite the volatility in annual flows which UNCTAD repeatedly mentions, there are some recognizable continuities in the annual rankings of the inward flows of FDI per capita of these 25 countries over the 41 years. Belgium, for instance, only moved outside the top five in six of the 41 years, and outside the top 10 only once. The Netherlands has moved outside the top 10 in only three of the 41 years. Ireland has been rather unusual long distance mover. It began an ascent from the middle rankings in the late 70s and 80s, became world No.1 in 1998, and has generally remained at the top, though intermittently falling to the very bottom, as in 2004-6 and 2008, presumably years when Google and the like decided to repatriate their profits. The UK is generally to be found below this elite group. It has been outside the top 10 on nine occasions in the 41 years, and six of those have been since 1993. Its ordinal FDI ranking appears, in other words, to have slipped somewhat, not improved, since the inauguration of the single market. Below the UK, in the EU 11 there are three moderately good FDI performers, Denmark, France, and Spain. Then come four countries which have always been rather less attractive to foreign investors over the 41 years; Portugal, Greece, Germany and Italy, a somewhat surprising result perhaps. In the eyes of foreign investors, Germany is in the Club Med, and has been for some time. The FDI stock figures for 2010 confirm their long term membership: below Spain and Portugal, but above Italy and Greece.
These continuities amidst variations among the EU 11 are of some relevance in the present context, for if the single market had a significant impact on FDI decisions, one might reasonably expect not only a bounce when it began, but a degree of convergence over time, as investors acknowledged that an investment in any one country of the market gave equal access to all the countries in the single market. We can measure how far this has happened by the standard deviation of the distribution of inward FDI per capita in the EU 11 over these years. In 1970 it was, in constant 2010 dollars, $73. In 1990, it was $422 and in 2010 it was $2337. In other words, far from converging, the EU 11 countries have been moving apart over these years as FDI has increased. Politically and legally they may have been moving towards ‘ever closer union’, and 10 of them may have adopted the same currency, but in the relative attractiveness of their economic fundamentals, and/or the incentives and obstacles as seen through the eyes of those thinking of investing in them, they have been moving apart.

This conclusion will come as little surprise to anyone watching the eurozone crisis unfold, but it may be of some significance to future attempts to understand and explain FDI decisions, since it suggests that some of the key determinants of these decisions are the political, legal and institutional characteristics, the deep structures of individual recipient nations, and foreign perceptions of them, and that both of these may endure over long periods of time. This suggests that the supranational apparatus of the EU is, by comparison, rather inconsequential, since countries may be recipients of high levels of FDI both inside and outside the EU. Japan, however, provides the striking illustration of the endurance of national characteristics and stereotypes, and their impact on the level of FDI. Japanese governments, and perhaps the Japanese people, have been unsympathetic or indifferent to FDI ever since the initial burst of FDI during the Meiji Restoration. And nothing much seems to have changed. Over these more recent 41 years, Japan has bumped along the bottom of the rankings of these 25 countries, joined, fleetingly, by Ireland. If we had extended the rankings to other more developed economies, Russia would have been keeping them company.
The risks of independence assessed

To conclude we may answer the question whether the EU has been good for FDI into the UK, and assess the risks to which FDI into the UK would be exposed were it to leave the EU. The main finding is that the annual flows of FDI into non-members of the EU in Europe, and selected non-members beyond, have not declined or suffered in any respect because they are not members of the EU. On the contrary, they have increased at a significantly faster rate than those of members of the EU, and this disparity is especially marked among the European non-members. Since UNCTAD does not record what might have been, there is no evidence either to support or reject the possibility that FDI into the UK would have been lower had it not been a member of the single market. If this were true, the EU might still be said perhaps to have safeguarded or even improved the UK’s FDI performance. This possibility seems, however, highly unlikely. For it to be true, we would have to imagine that investors who, as we have seen, have been very favourably inclined to investing in countries outside the EU and especially those in Europe, would nonetheless have been ill-inclined to invest in the UK had it joined them. This is scarcely credible.

The experience of eight independent countries over 21 years is compelling and convincing, and it allows us to reasonably and safely assess the risk that the FDI into UK would be jeopardized, threatened or reduced if it were it to put itself in the same ‘isolated’ position as the eight independents, as nil.

Overall the evidence suggests that the importance of the EU and the single market as a determinant of FDI have been exaggerated by its enthusiasts. This is perhaps understandable. The EU’s array administrative, legislative, and judicial institutions, and the blanket, respectful media coverage of its summits, ministerial councils, treaties, and declarations would naturally lead any observer to think that important decisions must have been taken by important people on these important occasions, and these ought, surely, to have significant consequences - for FDI among other things. The evidence suggests otherwise, indeed it has, so far, proved impossible to identify any impact whatever on the rate of FDI - no bounce, no convergence, consistently low per capita inflows, consistently low per capita FDI stock and no discernible effect on FDI rankings. The results of empirical investigation are seldom so unequivocal.

By contrast with the lacklustre performance of the EU 11, the three small European countries which chose to remain outside the EU have been stunningly successful and their decision to remain independent seems to have been emphatically vindicated by the far higher amounts of FDI they have attracted. Regardless of whether one
accepts them as an appropriate control group or not, this surely deserves attention, and also further investigation. Small in size, isolated from the rest of Europe, historically or geographically or linguistically, or some combination of the three, but with evident confidence in their own abilities and resourcefulness, they rejected the conventional wisdom of a generation ago and opted to remain independent. Over two decades they have demonstrated convincingly that success in global investment and trade markets does not require sharing or pooling their nations’ sovereignty, losing control of their borders, or incurring the costs and constraints of supranational political and legal institutions. Any democrat must, surely, celebrate their success, for it was their people not their political elites who decided their policy towards the EU through binding referenda, these being well institutionalized in the political life of all three of them.

We earlier mentioned some of the grounds on which the performance of these three might be explained, or explained away, so that they might be dismissed as a control group, but there do not appear to be any special conditions that might explain the success of the larger group of eight independents in attracting FDI. They are a diverse collection of economies, and are not, for instance, distinguished by abundant supplies of cheap, low cost labour. Their mean per capita income is in fact significantly higher than that of the EU 11, and they have long had lower rates of unemployment. Three of the group of eight - Australia, Canada and Norway - have abundant raw materials, and together they make up around 60% of the whole group - so this may be part of their story. Or maybe their small size is their secret, their x-factor - Canada, with a population of 34 million is the largest of them, and as it happens the poorest performer of the 8- since this is the one shared characteristic which distinguishes them collectively from the EU 11, and incidentally, also distinguishes the front-runners within the EU 11 from the rest.

Some years ago UNCTAD itself drew attention to the fact that contrary to all the conventional wisdom, the world leaders in outward FDI per capita were not large countries like the US and Japan, but small countries such as Switzerland, the Netherlands and Singapore (http://unctad.org doc 40 19/08/04). Odd as it may sound -we have so often been told something else- small countries are the front runners of globalisation! There seems, however, to be no study of inward investment to help us understand why small countries, and therefore small markets, should be more attractive to foreign investors. In any event, these figures herald an astonishing turnaround! In the UK, small size has all along been portrayed as a problem which could only be solved by membership of the EU. Now the evidence from these smaller, independent and successful countries suddenly makes us ask whether the problem wasn’t really a decided advantage.
This, however, is a question for future research. For the moment, we may be content with what the data does tell us: first, that being in the EU does not help or protect the UK’s inward flow of FDI, and second, that it would be absurd to suggest that the UK is too small to survive and thrive in a world of global trade and investment. Indeed, it suggests that, rather than a risk assessment of withdrawal from the EU, it would now be more appropriate and timely to conduct a risk assessment of remaining in the EU, and of the chances of the UK declining towards the EU norm. Perhaps the cost/benefit analysis of UK membership of the EU recently proposed in the House of Lords will do this. It would be especially valuable if it could tell us whether and how far the UK might emulate the independent countries that have been so successful in attracting foreign investors.

The wider context: unemployment and living standards

The table below tries to set the debate about FDI in a wider context, and to show what is at stake. It focuses on longer term unemployment rates in the three groups of countries, for although we cannot yet document and compare the contribution of

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<tr>
<th>FDI Stock, unemployment and GDP per capita</th>
<th>EU 11</th>
<th>3 Non-EU European countries</th>
<th>8 independent countries</th>
<th>UK alone</th>
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</thead>
<tbody>
<tr>
<td>FDI STOCK per capita 2010</td>
<td>$14,683</td>
<td>$56,009</td>
<td>$28,017</td>
<td>$17,442</td>
</tr>
<tr>
<td>UNEMPLOYMENT Rate % All ages, weighted means 1993-2010</td>
<td>9.9</td>
<td>3.5</td>
<td>5.0</td>
<td>6.5</td>
</tr>
<tr>
<td>UNEMPLOYMENT Rate % 15-24 age gp, weighted means 2001-2010</td>
<td>17.3</td>
<td>8.2</td>
<td>12.3</td>
<td>13.5</td>
</tr>
<tr>
<td>GDP per capita 2009 in US$ weighted means</td>
<td>$34,212</td>
<td>$48,390</td>
<td>$39,596</td>
<td>$35,151</td>
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UNCTADstat 2012; laborsta.ilo.org; OECDStatExtracts.2012. 2009 is the latest year for which a full set of GDP per capita data is available. Missing data in the Singapore figures for the 15-24 age group were kindly supplied by Manpower Research & Statistics Department, Ministry of Manpower, Singapore.
FDI to employment in each of them - the OECD time series of foreign multinationals’ contributions to employment are incomplete - it seems highly probable that a part at least of the differential in unemployment rates shown in the table is to be explained by the differences in the rate of FDI. Countries that receive double the amount of FDI per capita received by the UK, or perhaps three and four times as much, may reasonably be expected to have lower rates of unemployment.

At the start of this analysis, we quoted the Prime Minister’s words to the House of Commons on December 8th 2011: “Our membership of the EU is vital to our national interest. We are a trading nation and we need the single market for trade, investment and jobs.” It is a succinct summary of his reasons for believing that the UK should remain a member of the UK. It would be unreasonable to expect a brief statement of beliefs to convey the facts as accurately as an extended argument. Nonetheless, his words are rather misleading. Were he to restate his argument in a longer and more accurate manner, it would be as follows:

“Our membership of the EU is vital to our national interest. We are a trading nation…

    though most of our neighbours now export a higher proportion of their national output than we do

and we need the single market for trade…

    even though it is a shrinking proportion of world trade,

    investment…

although its members attract far less foreign direct investment than many non-members

    and jobs

and they have long suffered from much higher rates of unemployment, while we, unfortunately, have never had as low a rate of unemployment as we had at the time of our accession to the EU in 1973-74.

Inevitably, these corrections mean that his words must lose some of their zing as a rallying cry for his followers. They also lose much of their sense. Many listeners will puzzled as how it could be possibly be ‘vital to our national interest’ to belong to such a union. Perhaps he will explain it on another occasion.
## APPENDIX A

Annual FDI inflow per capita in 19 countries 1995-2010 in current value US dollars from UNCTADstat 2012

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<td><strong>3 Non-EU countries</strong></td>
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## APPENDIX B

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The Bruges Group is an independent all-party think tank. Set up in February 1989, its aim was to promote the idea of a less centralised European structure than that emerging in Brussels. Its inspiration was Margaret Thatcher’s Bruges speech in September 1988, in which she remarked that “We have not successfully rolled back the frontiers of the state in Britain, only to see them re-imposed at a European level…” The Bruges Group has had a major effect on public opinion and forged links with Members of Parliament as well as with similarly minded groups in other countries. The Bruges Group spearheads the intellectual battle against the notion of “ever-closer Union” in Europe. Through its ground-breaking publications and wide-ranging discussions it will continue its fight against further integration and, above all, against British involvement in a single European state.

**WHO WE ARE**

**Honorary President:** The Rt. Hon the Baroness Thatcher of Kesteven, LG OM FRS  
**Vice-President:** The Rt. Hon the Lord Lamont of Lerwick  
**Chairman:** Barry Legg  
**Director:** Robert Oulds MA  
**Head of Research:** Dr Helen Szamuely  
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