

BUSINESS FOR NEW EUROPE

EVIDENCE FOR REVIEW OF THE BALANCE OF COMPETENCES – TRADE AND INVESTMENT

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KEY POINTS

- The EU is a force multiplier for the UK in external trade relations and affords the UK better trade negotiation opportunities it would not have on its own.
- Represented as a single entity at the WTO, the EU is worth £10.9 trillion.
- EU member states are the number one source of investment in and from the UK.
- The UK is the most attractive EU country for Foreign Direct Investment from outside the EU.

Force Multiplier in Trade

- The EU is a **force multiplier** for the UK. The UK contributes to common positions which then have weight of world's largest trading bloc. The UK would have less leverage at trade negotiations if it was on its own.
- The UK can help ensure that the EU pushes a broadly **liberal global agenda** on international trade.
- With just 7% of the world's population, the EU's trade with the rest of the world accounts for 20% of global exports and imports.¹
- The EU is represented as a **unified entity in the WTO** and is worth £10.9 trillion² Comparatively, Japan's economy is worth £3.9 trillion, China's is worth £5.4 trillion and the economy of the United States is worth £10.3 trillion.³
- Discussions on an EU-US FTA were formally opened in February 2013. A Commission report estimated that this could boost EU growth by 0.5%-1% of GDP by 2027. In terms of current EU GDP (Eurostat) that's €66bn-€119bn.⁴
- In 2012, **Argentina** called on its companies to stop accepting exports from the UK in protest over the Falkland Islands. The EU supported the UK and has filed a case with the WTO over a number of EU / Argentina trade issues.

¹ European Union: Trade, commitment to free and fair trade

² IMF World Economic Outlook, 2013

³ IMF world economic outlook database, June 2013

⁴ Commission Report: Reducing Transatlantic Barriers to Trade and Investment

- In 2003, the USA was forced to lift tariffs on UK steel producers by the WTO, which authorized the EU to impose counter-tariffs on US goods if the USA ignored the WTO's ruling.⁵

"I have absolutely no doubt that the President has only been forced into taking this decision by the certain knowledge that if the tariffs had remained in place beyond 10th December, he would have faced EU sanctions on €2.4 billion of US exports."

Ian Rodgers (Director of UK Steel, 2003)

- Since a Free Trade Agreement was reached between the EU and Mexico in 2000, total trade has increased by 187% from €21.7bn to €40.1bn in 2011. The EU has a trade surplus of €7.5bn with Mexico.⁶

Foreign Direct Investment

- EU Member States are both the main source and the main destination of **foreign direct investment** (FDI) in and from the UK. In 2011, 48% of the total FDI stock came from other EU member states, worth some £365 billion⁷.
- In 2011 total EU FDI Flow (including intra-EU investment) amounted to £274 billion. Of this 12.8% was invested in the UK.⁸
- Of the total investments made by non-EU firms, 17% and 679 projects in 2011 were made in the UK. This makes the UK the most attractive country for FDI and created 29,888 jobs.⁹
- US investment in the EU was €150 billion in 2011.¹⁰
- An elimination of tariffs through an FTA would increase combined GDP by \$180 billion¹¹ in five years with an increase of nearly circa €68 billion for the EU.¹²
- Negotiations over a FTA between the EU and the Japan have begun at a formal level. According to the Commission, a free trade agreement could be worth 0.6-0.8% in terms of GDP growth. Based on 2013 GDP projections from Eurostat, that would be worth up to €105bn (.8%) by 2020

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⁵ Engineering Employers' Federation (EEF), 2003

⁶ EU Trade Chief to visit Mexico, November 2012

⁷ Foreign Direct Investment - Commons Library Standard Note, House of Commons Library, 2013

⁸ Foreign Direct Investment - Commons Library Standard Note, House of Commons Library, 2013

⁹ Ernst & Young: European Attractiveness Survey, June 2012

¹⁰ Eurostat, FDI Flow 2011, June 2013

¹¹ US Chamber of Commerce, Transatlantic Economic and Trade Pact, 2012

¹² European Commission, Trade with the United States

¹³ EU Commission: A Free Trade Agreement between EU and Japan, March 2013

Note on Terminology

FDI STOCK is the “the total book value of investments by a country, usually at the end of a given period and not the simple sum of investment over time.”

FDI FLOW is “usually measure annual levels of net investment, and tend to vary significantly year on year. FDI data should be used with caution; a significant proportion of FDI flows can be accounted for by large multinational mergers and acquisitions (M&As). An example of this is the Vodafone acquisition of Mannesmann in 2000 that had a significant effect on flows between the UK and Germany. In 2005 a transaction involving Shell between the Netherlands and the UK made up 45% of UK inflows in that year. Therefore, large flows do not necessarily indicate significant ‘greenfield’ investments, they can be large M&A transactions, and high flows may be dominated by just a few transactions.”

(p.2, [Foreign Direct Investment - Commons Library Standard Note, House of Commons Library, 2013](#))

- EU member states are the number one source of investment into the UK, and vice versa. ([The UK and the Single Market, BIS, 2011](#)).
- **ABOUT HALF THE UK’S STOCK OF FDI COMES FROM OTHER EU MEMBERS:** 48% of the UK’s total **FDI stock** was from other EU member states in 2011. The total stock in the UK in 2011 was £766bn (about €1.16tn at today’s exchange rate – 20 May 2013) and the total that came from the EU was £365bn, or 48%. (p.6, table 3, ([Foreign Direct Investment - Commons Library Standard Note, House of Commons Library, 2013](#)))
- **THIS HAS INCREASED OVER TIME:** According to BIS “The stock of inward FDI coming from other Member States has risen from £151bn at the end of 1999 (EU15) to £465bn at the end of 2008 (EU27) so from 35% to 49% of the total” (p.3, [The UK and the Single Market, BIS, 2011](#)). This has fallen to £365bn at the end 2011 BUT still remains about 49%. ([Foreign Direct Investment - Commons Library Standard Note, House of Commons Library, 2013](#))
- **ABOUT HALF OF THE UK INVESTMENT STOCKS ABROAD ARE IN THE EU:** 48% of UK investment abroad was in EU, with the next largest being the USA with 19.1%. The total stock in the EU from the UK was £531bn (about \$808bn at today’s exchange rate – 20 May 2013). The total stock in the USA from the UK £210bn, or 19%. (p.7, table 5, ([Foreign Direct Investment - Commons Library Standard Note, House of Commons Library, 2013](#)))
- **THE UK HAD BOTH THE LARGEST STOCK AND FLOW OF INWARD FDI OF ANY EU MEMBER IN 2011:**
 - In 2011 total FDI **FLOWS** into the EU amounted to \$420bn; of this, \$54bn (12.8%) went to the UK compared to France at \$41bn (9.8%), Germany at \$40,4bn (9.6%) and Italy at \$29bn (6.9%). (p.4, table 1, ([Foreign Direct Investment - Commons Library Standard Note, House of Commons Library, 2013](#))) (In £ at today’s x-rate 20/5/13: EU=£276bn, UK=£35bn, France=£27bn, Germany=£26,3bn, Italy=£19bn)
 - [N.B. these are 2012 \$ prices, so UK figure differs to £766bn figure in bullet above.] In 2011 total FDI **STOCKS** into the EU amounted to \$7.27tn; of this, \$1,2tn (16.5%) was in the UK compared to France at \$964bn (13.2%), Germany at \$714bn (9.8%) and Italy at \$332bn (4.5%). (p.4, table 1, ([Foreign Direct Investment - Commons Library Standard Note, House of Commons Library, 2013](#))) (In £ at today’s x-rate 20/5/13: EU=£4.78bn, UK=£790bn, France=£641bn, Germany=£470bn, Italy=£218bn)
- 17% (679 projects) in 2011 of the total investments made by non-EU firms into the EU were made in the UK. This makes the UK the most attractive EU country for FDI. ([Ernst & Young: European Attractiveness Survey, June 2012](#))

- A study of 147 siting decisions of city firms found that 40% cited EU membership as core factor in their decision. 60% cited EU membership as a key factor. ([Competitiveness report, TheCityUK, 2012](#))

EXTERNAL TRADE

- Trading in the EU and outside is a false choice. The proportion of Germany's goods exports going to the BRIC countries is more than twice ours, having more than doubled from 4.5 per cent in 2000 to 10.6 per cent in 2009. ([Trading with the New India, Jo Johnson MP for BNE, 2012](#))
- The EU is the world's largest market of over half a billion people ([Eurostat website, accessed on 14/5/2013](#)) generating over \$16.58tn in 2012 (c.£10.9tn) ([World Economic Outlook, IMF, 2013](#)) in economic activity.
- The EU is a larger trading area than both the USA (£10.3tn) and China (£5.4tn) ([World Economic Outlook, IMF, 2013](#))
- According to the European Commission, a comprehensive trade agreement between the EU and the USA could boost EU GDP by €66bn by 2027. At current GDP levels that could mean an extra £8.3bn annually for the UK. (NB figures worked out from US Chamber of Commerce on the basis of 2013 GDP estimate) ([Transatlantic Economic and Trade Pact, US Chamber of Commerce](#))
- The Commission estimates that a trade deal with Japan could boost Europe's economy by €105bn by 2027. This could translate to an annual increase of £13.3bn to UK GDP and some 58,000 extra jobs by 2027. (NB figures worked out from Commission GDP estimates of benefits on the basis of 2013 GDP estimate) ([A Free Trade Agreement between the EU and Japan, European Commission, 2013](#))
- With just 7.2% of the world's population ([Eurostat website, accessed on 15/5/13](#)), the EU's trade with the rest of the world accounts for 20% of global exports and imports. ([EU website, accessed on 15/5/13](#))
- Of UK firms that export outside of the UK, 74% operate in other EU markets ([UK trade performance across markets and sectors – BIS Economics Paper no. 17, 2012](#))
- 51 per cent of UK medicinal and pharmaceutical product exports are sent to the EU27, 26 per cent to North America and 11 per cent go to Asia and Oceania. Only 3.2 per cent are sent to Latin America and the Caribbean, and 3.6 per cent to the Middle East and North Africa. ([UK trade performance across markets and sectors – BIS Economics Paper no. 17, 2012](#))
- 76% of the UK's food exports go to other EU Member States. ([UK Food & Drink Export Performance - Full Year 2012, Food and Drink Federation, 2013](#))
- Over 300,000 UK companies operate in the EU. ([Reducing administrative burdens: effective inspection and enforcement, Philip Hampton, 2005](#))

Case Study - South Korea

- A Free Trade Agreement (FTA) came into force on the 1st July 2011 and provides EU access to a market of 50 million people.

- In the first 9 months of FTA with South Korea, EU exports increased by €6.7bn or 35% compared to same period in 2007.¹⁴
- A year into the FTA with South Korea exports of industrial machinery has increased by 13%, totalling €13.6 billion.¹⁵
- It is estimated that the agreement will be worth **€19 billion in new trade** of goods has opened up for EU and €12 billion for Korea.¹⁶
- UK firms will benefit by about £500 million per year as virtually all tariffs will be eliminated. The FTA eliminates duties on 99.4% of EU goods, and 95.8% of Korean goods - EU exporters are expected to save €1.6 billion annually.¹⁷
- In 2009, UK / S Korea trade was £5.6 billion; UK firms invested £2.9 billion in South Korea which was more than any other European country.¹⁸

Case Study - India¹⁹

- The **EU is India's second largest trading partner**, accounting for 18.2% of India's exports in 2011.²⁰
- Trade between India and the EU was worth more than €75.8bn to the EU in 2012.
- 17.7% of Indian exports are destined for UK. Britain could see a trade boost of upwards of £300 million a year from a successful Free Trade Agreement (FTA).
- A FTA would also, according to a report by the European Commission, see the EU gain €4.4 billion in the short term and €1.6 billion in the long run.²¹

Case Study – U.S.A.

- In total EU and **United States** economies account for half of the world's GDP and nearly one third of world trade.²²
- The European Commission estimate that gains could be anything from 0.5-1.0% of EU GDP. That would be worth some €68-€119 billion to the EU economy.²³
- A UK government Report estimates that it could generate between £4bn-£10bn to the UK economy each year.²⁴

¹⁴ European Commission: EU-Korea Trade agreement, June 2012

¹⁵ Library of European Parliament, October 2012

¹⁶ The EU Korea Trade Agreement in Practice, EU Commission 2011

¹⁷ UK Trade and Investment South Korea Business Guide, March 2011

¹⁸ UK Trade and Investment: South Korea Business Guide, March 2011

¹⁹ Trading with the New India, Business for New Europe, 2012

²⁰ Bilateral Trade with India, European Commission DG Trade, May 2013

²¹ Trade Sustainability Impact Assessment for the FTA between the EU and the Republic of India, May 2009

²² EU Commission, June 2013

²³ CEPR Reducing Transatlantic Barriers to Trade and Investment, March 2013

²⁴ CEPR: Transatlantic Trade and Investment Report, March 2013

- Conservative MP Richard Ottaway recently stated that the U.S. Administration considered that a UK opt-out would 'exclude us from the holy grail of a US-EU free trade agreements' worth hundreds of billions, and that 'a separate deal with Britain is highly unlikely.'²⁵

²⁵ Richard Ottaway, writing on Conservativehome.com, May 2013