Balance of Competences Review

Freedom To Attract Trade and Investment

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in association with The Freedom Association

The Freedom Association's submission to the Balance of Competences Review:

Freedom to Attract Trade and Investment

Main Points:

EU regulation is hurting – not helping – to attract foreign direct investment into the UK;

The UK is being held back with regulation from the EU while other countries that are independent and able to orientate their own economies are attracting heightened levels of investment and human capital away from the UK;

Jobs rely on a competitive business environment. The City of London (including professional services, Canary Wharf and the West End) could lose at least one third of its work force (therefore losing 150,000-200,000 jobs), over half of the GDP it generates for the UK economy (loss would equal roughly 5% of UK GDP), and could cost the UK around £20 billion in FDI each year, if the UK remains in the EU;

The Customs Union is holding the UK back and ensuring that other countries can become more responsive and make links far quicker and in their interest than the UK. Examples include the Free Trade Agreements made by Switzerland with Canada, Japan and China;

Factors like the Rotterdam and Antwerp Effect and the Netherlands Distortion create miscalculations and avenues that give multinational corporations the ability to avoid paying tax in the UK.

Quick Facts:

Singapore has increased its levels of foreign direct investment by nearly three and a half times within 10 years to over $180 billion per year.

56% of investors in Western Europe feel that if the UK were less integrated into the EU it would become less attractive for FDI, but 72% of US and two-thirds of Asian investors believe that a looser relationship with the EU would actually make the UK more attractive.

Since the UK joined the EEC, the EU has practically halved its share of world GDP (from 38% in 1973 to 19.2% in 2012).

In the City of London (and related areas) there are approximately 500,000 people working for firms involved in the financial services sector. These jobs are under threat from EU regulation and the increasingly preferable business environments being offered elsewhere.

The Hampden Trust presents:

Balance of Competences Review:

Freedom to Attract Trade and Investment

In association with

The Freedom Association

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Contents:

Introduction ……………………………………….6

The Rotterdam / Antwerp Effect……………....7

The EU Customs Union……………………….9

Foreign Direct Investment…………………...17

The Automobile Industry and FDI…………..18

FDI – An Alternative Perspective…………...20

Conclusion…………………………………….25

Introduction

The Freedom Association (TFA) was founded in 1975 and is a non-partisan, centre-right, libertarian pressure group. It believes in the freedom of the individual in all aspects of life, including economic, to the greatest extent possible. As such, The Freedom Association seeks to challenge all erosion of civil liberties and campaigns in support of individual liberty, free market economics and freedom of expression.

This booklet is based on research submitted by The Freedom Association to the Government's Balance of Competences Review and looks at three areas of trade and investment that concern the UK, the European Union and third parties. In doing so it highlights how trade and investment is under threat from the UK's membership to the European Union. Combining this with information concerning trade that has recently come to light, this paper highlights why the UK would be Better Off Out.

The first section looks at the so-called "Rotterdam-Antwerp Effect" and the "Netherlands Distortion". These are factors that lead to miscalculations over the amount of goods that go to the EU from the United Kingdom and the amount of capital transferred from the UK to other areas of the world. The second part takes a look at the Customs Union and its effects on the UK economy. Effectively, this section shows how archaic the Customs Union has become. The point here is that, outside the Customs Union, the United Kingdom could be free to make deals and open itself up to world prices. Instead, inside the EU Customs Union, it costs the UK 2.5-3% per year (roughly £50 billion) more than it otherwise would and provides a knock-on effect to those producing goods in other countries.

The final section concentrates on Foreign Direct Investment (FDI) into the United Kingdom. This is partly covered in the section concerning the Netherlands Distortion, however, there is a much wider discussion to be had concerning FDI. This is specifically with regards to the inflow of investment to the UK from countries outside the EU in a range sectors. In the previous semester to this Balance of Competences review, the Japanese submission implied that jobs and investment would be lost if the UK left the EU. This part will examine this claim but will also include some evidence submitted to the BIS review on goods so as to ensure it is considered – including a discussion of alternative ways to stimulate investment.

This publication shows the dangers of being complacent. It illustrates that the EU's regulatory burden is putting the UK at a disadvantage when it comes to attracting global investment and that other nations around the world are taking advantage of this. If anything, we hope that this paper acts as a wake-up call – and that we can create an environment that enhances the UK's global connections, helps it to maintain its position as a global entity and halts its decline and descent into becoming a regional mino.

The Rotterdam-Antwerp Effect

The amount the UK is trading with the EU is decreasing. This is a result of decreased demand in the euro-zone and an increase and demand for goods in other areas of the world. However, statistics published by HM Treasury show an inflated amount of trade with the EU due to the so-called "Rotterdam-Antwerp effect". This effect, first coined by economist Ian Milne, causes distortions to recorded trade flows in the balance of payments statistics of France, Britain and other countries. It results from exports transiting through the ports of Rotterdam and Antwerp on their way to other countries being nevertheless recorded as going respectively to Holland and Belgium.[1]

It relates in a way to a separate distortion, the "Netherlands Distortion", which concerns the recording of flows of income that results in income going, for tax reasons, to the Netherlands for holding companies to channel investment to third countries.[2]

How big are the distortions? Quoting from a paper written by Ian Milne, current Chairman of the think tank Global Britain:

"With the exception of the Banque de France, which has quantified the effect of the Netherlands Distortion on French trade data[3], none of the national statistical bodies appears to have tried to quantify the impact of these distortions. However, Global Britain, based on long familiarity with the Benelux countries, France and Germany, has made estimates from time to time."

Ian Milne continued:

"The magnitude of the distortions is illustrated in the table below, which, in 2009, on the basis of the official data, shows each Dutch person apparently consuming almost five times as much by value of British imports as a German or French person, and each Belgian person apparently consuming almost three times as much by value of British imports as a German or French person. The table also shows each Luxemburger apparently consuming around 50 times as much in value of British imports as a German or a French person."

"On-the-ground observation suggests that the per-capita propensity of Germans, French, Dutch, Belgians & Luxemburgers to consume British imports is broadly similar. The excess British imports apparently being consumed by the Dutch, Belgians & Luxemburgers (compared with the Germans & French) constitutes the distortion, which, to give an accurate picture of the real level of their imports from the UK, should properly be allocated to other end-destination-countries within and outside the EU."[4]

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[1] Global Britain Briefing Document No. 29: *French Exports After the Euro*, 31 October 2003
[2] Ibid.
[3] See "Distortions to Recorded UK Trade Flows", in Global Britain Briefing Note No 23, 6th December 2002, UK Export Growth Stalled in 2001; www.globalbritain.org. The descriptions "RotterdamAntwerp Effect" and
"Netherlands Distortion" were first formulated in 1994 by Ian Milne, now Director of Global Britain
[4] Global Britain Briefing Document No. 64: *The RotterdamAntwerp Effect and the Netherlands Distortion*,
7th January 2011

The result of this effect is to artificially raise the amount the UK is said to export to the European Union and decrease the volume of goods recorded as going from the UK to the rest of world. It means that instead of exporting around 50% of UK goods to the EU, the UK only exports approximately 40% to the EU - with 60% going to other countries that are outside the Union.[5][6]

Indeed, Iain Milne concluded in Global Britain's briefing on the issue that:

"The effect of these distortions is to reduce – in 2009 - the proportion of worldwide UK exports going to EU-26 by an estimated 11.25 %, from the recorded official unadjusted percentage of 48.0 % to the estimated real adjusted percentage of 42.6 %. In assessing the reliability of this estimate the following should be borne in mind:-

• The data is for one year only, possibly an atypical year because of the recession which took hold a year earlier. (In 2009, the value of UK exports worldwide was 15 per cent lower than in 2007; UK receipts of Income were 41 per cent lower than in 2007).

• The real level of imports from the UK per capita of the receiving populations in Germany, France, the Netherlands, Belgium and Luxembourg is assumed to be the same as the official average of German & French imports, of £ 565 per capita.

• It is assumed that half of the excess goes to other EU countries, half to countries outside the EU."

Why is this important? Besides giving a distorted impression over the importance of the EU market for UK trade, it doesn't allow for an accurate understanding of where UK markets are growing worldwide. In the 2013 Budget, the Chancellor the Exchequer said that the euro area accounted for 42 per cent of UK exports in 2011, while Brazil, Russia, India and China (BRIC) taken together were the destination for 6.5 per cent of UK exports in 2011.[7] This is despite the BRIC economies growing 17 per cent as a share of global GDP in the last decade and the Eurozone being in recession (both actual terms and in relative terms globally). If it is true that the UK has been focused on the eurozone economies then the United Kingdom is missing out on the opportunities that global growth is presenting others.[8]

The importance of the Netherlands Distortion should also concern HMRC and the Public Accounts Committee. If money is being transferred from the United Kingdom into shell companies across Europe, only then go to other third party countries across the world, then it would allow corporations to avoid paying monies in tax that would have otherwise gone to the UK. In so doing the UK and others - through membership of the EU - are legitimising the practice where corporations avoid paying taxes in the UK, despite their operations being based here.

[5] Britain and Europe: A new relationship, Global Vision, Ruth Lea and Brian Binley MP
[6] Milne, I (2011): *Time to Say No*, Civitas 2009
[7] Osborne, G (2013): *Budget 2013*, HM Treasury, page 14
[8] More data is available on the Global Britain website on this matter. Please refer to all the briefing notes available at http://www.globalbritain.org/briefingnotes.asp.

The Public Accounts Committee has seen the Heads of a number of corporations in 2012/13 that were said to have minimalised their tax liabilities in the United Kingdom. The Committee should take an interest in this distortion as it is another mechanism which allows corporations to not pay the otherwise required levels of taxation in the UK.

The EU Customs Union

There is also a concern that the UK is being restricted in its trading activities because of its membership of the European Union. The concern comes in the form of the Customs Union, a trading area that "may have been economically beneficial when EU tariffs were relatively high. But tariffs are now low and moreover only pertain to the import of goods, whereas much of Britain's trade relates to services."[9]

This idea of a world of low tariffs is seconded by the think tank Global Britain which shows that the overall real average rate of duty on imports of goods from outside the UK shrank by 26% between 2002 and 2011 (table 1) and that over seventy-five per cent by value of all UK imports of goods from outside the EU bore zero customs duties in 2010 (see table 2):

Table 1: Real Rate of UK Customs Duties on Imports of Goods from outside EU

Year	Customs Duties (1)	Imports of Goods from non-EU £bn (2)	Rate of Duty change %
2002	1.9	97	1.98
2003	1.9	100	1.94
2004	2.1	109	1.97
2005	2.2	122	1.83
2006	2.3	136	1.71
2007	2.4	141	1.71
2008	2.6	164	1.61
2009	2.6	148	1.79
2010	2.9	178	1.65
2011	2.9	197	1.47

1. Table 7:1.2, p243, *The Blue Book 2012*, www.statistics.gov.uk > Economy > National Accounts > *The Blue Book 2012*
2. Table 9.4: Impacts: p.161 *The Pink Book 2012* , www.statistics.gov.uk > Balance of Payments > *The Pink Book 2012*

[9] Global Britain Research Note 81: Very low on average and reducing, 28 September 2012 http://www.globalbritain.org/BNN/BN81.pdf

Table 2: UK Customs Duties in 2010 by Type of Commodity[10]

Imports of Goods from non-EU	Value £bn	% value	Gross Duty charged £bn	Average Rate of Duty %
Bearing a positive duty	45	25	2.87	6.4
Bearing zero duty	133	75	Zero	Zero
All imports from non-EU	178	100	2.87	1.61

This demonstrates that the world in which there were external tariffs is increasingly over and that the Customs Union is becoming archaic. The result is that, despite lowing trade tariffs, the UK is not free to reap the benefits of lowering prices and increased availability of goods in countries such as China and around the continent of Africa.

According to the study submitted by The Freedom Association to BIS in the first Balance of Competences review period, Professor Patrick Minford CBE estimated that this Common Tariff cost the United Kingdom 2.5-3% per year. This is roughly £50 billion per year and restricts consumers in the United Kingdom to trade freely at world prices. Other reviews of the effect of this policy, such as that done by Tim Congdon CBE, show that the price of agricultural products, for example, coming in from outside the EU are in the 18% - 28% range, which "include often bogus obstacles to imports on the grounds that they do not meet EU health or nutritional standards, and are enforced with bureaucratic unpredictability and arbitrariness."[11]

However, as pointed out in Congdon (2012), in the EU tariffs and barriers apply not just to agricultural products, but also across a wide range of goods:

"Tariffs are much lower now than in the 1950s, because of the almost continuous move towards global trade liberalization that has characterised the post-war era. As a broad generalization, the EU's common external tariff on manufactured goods from other developed countries has dropped to an average of about 3% and from developing countries to an average of about 5%. It has also to be said that the EU has negotiated free trade agreements with non-EU countries, notably Japan, Mexico and Israel. (The significance of these agreements for the UK's own EU membership is considerable, and is discussed in chapter 7 in Congdon's paper). However, the EU does enforce an assortment of non-tariff barriers to trade with the rest of the world. These are plainly important and, like protectionism under the CAP, cause large-scale resource misallocation."[12]

Table 3: Gains from better resource allocation if the UK leaves the EU Table shows gains/losses, as % of GDP from improved resource allocation on (mostly), if the UK leaves the EU and unilaterally adopted free trade.

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[10] Ibid.

[11] Congdon, T Ibid (2012): How Much Does the European Union Cost Britain: http://www.timcongdon4ukip.com/docs/UKIP%20Cost%20of%20the%20EU.pdf, accessed 1/06/2013

[12] Ibid. See Table 4 for estimation of costs through resource misallocation and potential benefit if the UK left the EU.

Gain/loss as % of GDP	To the UK	To the rest of the EU
Agriculture	+0.3	-0.06
Basic manufacturing	+1.4	-0.06
High-tech manufacturing	+1.6	-0.1
Traded services	-	-
Total	+3.3	-0.22

Source: Main, Mitford and Nowell, 2009 working paper, see text.

A second aspect of the Customs Union is that it forbids member states making their own free-trade treaties. Unlike the other 160 odd countries around the world, the United Kingdom can only be part of a deal that is signed off by the European Union before proceeding.

This has slowed down the deal making procedure. Unlike countries like Switzerland, Norway, Iceland and Liechtenstein, the UK's inability to have a direct dialogue with third party countries means that, while the EU has started trade negotiations with Canada (2009) and Japan (2012), many of those in the European Free Trade Association (EFTA) already have deals with these states today.

Indeed, the European Union has either FTAs or EPAs (economic partnership agreements) in negotiation or signed but not implemented with over 90 countries - some of which have been in negotiation for many years. This is not necessarily a good thing for the United Kingdom. As in the case of the FTA with the United States of America, it is well known that through the work of Senator Philip Gramm, former Chairman of the United States Senate Banking Committee, and others that the EU could have had an FTA with the USA in the late 1990s / early 2000s only for it to be rubbished by French concerns.[13]

It means that the UK and the USA could have had an economic partnership in the late 1990s / early 2000s if the UK wasn't beholden to the signature of other countries for free trade deals.

But then there are the trade talks with the United States. The deal on the table has currently excluded aspects such as "culture" which could mean that the creative industries in the United Kingdom - that according to the CBI make up 6% of our economy - do not see the maximum benefit from such a deal with the USA through the EU.[14]

It is symbolic of a much wider problem where trade deals are not just delayed but they are also diluted in a way that means the UK faces what is known in economics as an opportunity cost.

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[13] Bloomberg (23 March 2013): "Pretentious Movies May Doom U.S.EU Trade Pact": Reuters: http://uk.reuters.com/article/2013/05/23/ukeuustradeidUKBRE94M0NN20130523 Accessed 1/08/2013

[14] Better Off Out: *The UK could make a better deal with the USA*: http://www.betteroffout.net/the-uk-could-make-a-better-deal-with-the-usa/ accessed 1/10/2013; Iain Murray, I (2013):
A culture of freedom: the first casualty of the U.S. EU trade deal:http://cei.org/opedsarticles/culturefreedomfirstcasualtyuseutradedeal accessed 1/10/2013

Despite this pro-EU supporters say the UK must stay in the European Union so that it can gain "better deals" from trade negotiations[15].

Professor Minford explains why this is misguided[16]:

"The popular debate has it that there is a need to have access to EU markets on the same terms as now. Another popular concern is that we will not enjoy the 'muscle' of the EU in trade negotiations with third countries.

These ideas are confused. We benefit from moving to world prices, including selling to the EU at world prices, and not at prices inflated by EU protection for customs union members. This would also mean that we buy from the EU, as well as from the rest of the world, at world prices, not at EU-customs-union-inflated prices.

As for EU muscle in trade negotiation, as our intention would be to admit goods and services from all countries freely without tariffs or other protection, at world prices, there is really no likelihood that any of these countries would find it in their interest to raise tariffs on our goods or services.

The only possible exception to this lies in areas where world trade is currently highly protectionist, such as airline arrangements. Here it is true that a larger grouping such as the EU has power to negotiate a bilateral reduction in barriers where the UK alone would not. In these areas it would make sense both for the UK (a major airline hub) and the EU to combine forces and share arrangements. Thus one can envisage a UK-EU trade agreement which would recognise such common interests."

Indeed, others see the Customs Union - far from being this wonderful vehicle for influence - as an opportunity cost. As described in Lea and Binley 2012:

"The costs to Britain of membership of the Customs Union, specifically the opportunity costs of being unable to negotiate its own free trade deals, are however substantial. Moreover these opportunity costs are likely to be increasingly significant, given the relative decline of the EU as an economic bloc and the rise of the Commonwealth, for example, where Britain has an advantage through ties of culture and history. The establishment of a Commonwealth FTA, including the UK, would almost certainly stimulate the development of trade links.[17]"

Indeed, they are quite right in pointing out the different economic projections that these two entities are currently faced with. As illustrated by graphs below[18], the EU is being overtaken by the Commonwealth and is on course to extend economic growth in the future.

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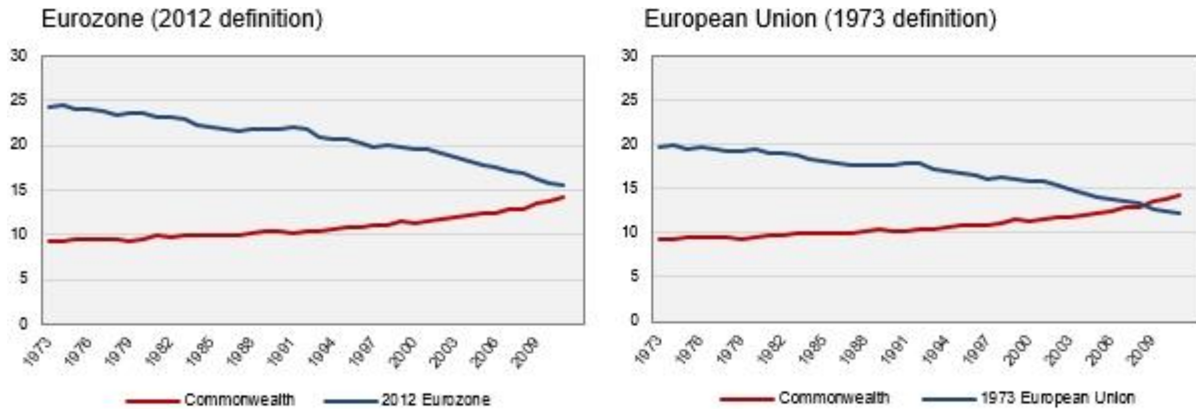
[15] Reynolds, E (2012): British Influence in the world http://britishinfluence.org/subscriptionconfirmed/item/britishinfluenceintheworld British Influence, accessed 01/08/2013

[16] Minford P (2013): Setting Business Free: Into the Global Economy (Hampden Trust and The Freedom Association, London):
http://www.betteroffout.net/settingbusinessfreeintotheglobaleconomybyprofessorpatrickminfordcbe/ last accessed 01/07/2013

[17] Lea, R. and Binley, B. (2012): Britain and Europe: A New Relationship, p.3, Global Vision, London

[18] World Economics: Commonwealth GDP growth:
http://www.worldeconomics.com/papers/Commonwealth_Growth_Monitor_0e53b963bce54ba19cab333cedaab048.paper



It means that as part of the EU's Customs Union the UK is unable to make FTAs that might suit it with economies that are growing. Furthermore, as part of this EU competence the UK is missing out on growth opportunities.

Problems with tying the UK to the EU were also spelt out by Ruth Lea both in her evidence to the Foreign Affairs Select Committee in 2012[19] and in her *Daily Mail* article of 7 October 2012[20]. In her *Mail* article, Lea said:

"My enthusiasm for the Commonwealth has nothing to with a romantic attachment to a fading dream of Imperial glory. In fact nothing could be further from the truth. Commonwealth countries do not have their best years behind them, as I fear many EU countries do, they have their best years ahead of them. And it's worth reminding us Commonwealth nations, taken together and including the UK, are an economic colossus comprising some 15% of world GDP, 54 member states (53 excluding Fiji, which is currently suspended) and two billion citizens. They will inevitably become more influential and powerful. The Commonwealth spans five continents and contains developed, emerging and developing economies. Crucially, the Commonwealth, in its richness and diversity, mirrors today's global economy in a way that the EU simply cannot start to aspire to.

The latest IMF forecasts show that the major Commonwealth countries have healthy growth prospects in the medium-term, significantly better than for major EU economies. And looking to the longer-term, they are blessed with favourable demographics. Their working populations are projected to increase to 2050 and, insofar as economic growth is correlated with growth in the working population, they will represent some of the most important growth markets in the longer-term. Specifically, the Commonwealth's demographics compare very favourably with some major European countries including Germany and Italy, where working populations will age and shrink. It is mistaken and old-fashioned to regard the Commonwealth as the 'past', an outmoded relic of Empire. Commonwealth countries are young and dynamic and should play a much bigger part in Britain's future.

[19] "Inquiry: The role and future of the Commonwealth", Foreign Affairs Select Committee, 19 April 2012
[20] "The Commonwealth should play a much bigger role in Britain's future", *Daily Mail*, 7 October 2012: http://leablog.dailymail.co.uk/2012/10/thecommonwealthshouldplayamuchbiggerroleofbritainsfutureaninterestingsnippetofnewsslippedoutrecentlyth.html

It has moreover been estimated that business costs are 10-15% lower for Commonwealth countries trading with one another compared with Commonwealth countries trading with non-Commonwealth countries of comparable size and GDP. This benefit, the 'Commonwealth advantage', reflects shared history and commonalities of language, law and business practice. It should act, other things being equal, as a major incentive to intra-Commonwealth trade.

Indeed, it is for practical business benefits that the UK should look to strengthen its ties with these countries – especially as this group of nations has "never been stronger", according to the Minister in charge of Commonwealth Affairs[21]. This includes some of the fastest growing economies in the world and includes many Commonwealth countries. Nonetheless, the EU's approach to trade deals are said to be harming relations between the EU and developing countries. This is highlighted in the 2012 publication, "Common-trade, Common-growth, Common-wealth" by Tim Hewish and James Styles[22]. In it the authors describe the "EU Solution for the Developing World", in the form of "Economic Partnership Agreements" (EPAs). It is worth quoting at length:

"EPAs are defined as 'development-friendly trade agreements between the European Union (EU), its member states and African, Caribbean and Pacific (ACP) countries.

Yet the EU Commission's somewhat rose-tinted view of the EPAs conveniently omits to mention the damaging impact they have had upon some of the least developed countries of the world. EPAs require developing countries to eliminate around 80% of their tariffs on goods imported from the EU[23].

Another issue with EU trade deals is its subjective morality. Robert Sturdy MEP explained to us that one nation with which it is looking to trade still has the death penalty and the socialist bloc of the EU is trying to obstruct a report into an EPA because of capital punishment. As he laments:

If it is about trade, then forgive me, but what on earth has the death penalty got to do with trade?

The double standards are further exposed when we see that the US is a major trade partner for the EU, yet the death penalty remains in a large number of US states. The same could be said for China. Will the EU therefore refuse to conduct trade with these nations? We think not.

Whilst EPAs have been broadly beneficial, the EU has been accused of 'bullying' developing countries into signing up to these agreements by threatening to reduce their preferential access to EU markets and to sharply raise tariffs unless they commit. Sturdy confirms this, as he has seen cases where the EU Trade Commission has tried to push nations into an agreement when they were not ready.

Instead of helping developing countries to join the liberalised global trading system, the EU has adopted a negotiating style more reliant upon the stick than the carrot, which

[21] "The Commonwealth has never been stronger", Hugo Swire, *Daily Telegraph*, 2 January 2013

[22] Hewish T. and Styles J. (2012): *Commontrade, Commongrowth, Commonwealth* (The Hampden Trust , Exeter)

[23] "Economic Partnership Agreements: is the EU rushing towards disaster on 31 December? And how will we sort out the mess afterwards?" Open Europe: http://www.openeurope.org.uk/Content/Documents/PDFs/epaupdate.pdf

has a left a bitter taste in the mouths of many premiers across the developing world. As the former Open Europe Director, Neil O'Brien, puts it:

The European Commission has inappropriately tried to shoehorn ACP countries into a model based on the EU, regardless of the situation on the ground[24].

As we learnt from one source close to the Singapore High Commission, in part of the EU-Singapore trade negotiation, the EU Trade Commission asked Singapore to open itself up to more European banks and allow more EU lawyers to enter Singapore because it felt Singapore were allowing greater entry to UK banks and lawyers.

Singapore's response was that she had an ongoing understanding and trust with Anglophone banks, such as Standard Chartered, as they had been operating there for centuries and had very similar practices.

Therefore, she did not want European banks with what she saw as foreign practices, crowding the market. As for lawyers, Singapore has an English legal system so it was logical and sensible to allow more UK lawyers to practice there as opposed to European ones who did not understand and adopt English based legal customs.

This explains why the majority of ACP countries have chosen not to participate, or have dragged their heels when being pressured into signing up to these one-sided trade agreements. Indeed:

Ten countries have decided that EPAs are so unattractive that they would rather trade with the EU on the same basis as countries like Brazil and Argentina, whose exports to the EU face higher tariffs[25]. Consequently, were the UK to form a looser trading relationship with the EU, it would be able to form more of its own trade deals with developing countries, on far more equitable terms.

In addition, the Tongan High Commissioner explained how British foreign policy is being severely damaged by a drift towards EU imperial mission creep:

Tonga does feel the difference, as everything must now be with the EU. We would love to get the answer from Westminster rather than Brussels. The situation we have now is Pacific Islands have set up in Europe, only Tonga, out of residual loyalty, is in the UK despite the fact most of my work is based in Brussels now. However, Tonga's High Commission will no doubt be leaving soon as the UK has given it little incentive to remain."

This shows that the EU's approach is not only restricting its relations with developed nations but also that, as a result of EU membership, the UK's relationship with developing nations is being harmed. However, this relates not only to the Commonwealth. With EU embassies having been set up in China and other areas, the question should be asked whether the UK is able adequately to lobby for influence? With the Foreign Secretary stating that we can never rely on anyone else to advance the

[24] O'Brien, N., Open Europe, Briefing Note: *Economic Partnership Agreements: is the EU rushing towards disaster and how will we sort out the mess afterwards?*

[25] Ibid.

interests of the United Kingdom[26], we should understand that being able to form free trade deals independently has benefited many nations around the world.

Nonetheless, countries like Switzerland have been able to strengthen their relationship with the EU through EFTA while also being able independently to form trade deals with other nations. An example of this is the FTAs Switzerland signed with Japan in 2009 and China recently[27]. Indeed, outside the Customs Union but within EFTA, Switzerland has been able to enjoy the benefits of a trade deal with Canada in 2009, the same year the EU started to negotiate one[28].

While there is no FTA agreement with the USA, the EU is currently engaged in negotiations. It should be recognised that the EU has faced problems with forming FTAs with the USA in the past. It has been argued that this is because the UK's viewpoint is distorted by powerful lobby groups from other countries[29], and that with more countries in the EU the more vested interests in each country have an influence in negotiations. The same point regarding the amount of vested interests now involved has been made on the other side of the Atlantic. These barriers could be reduced if the UK negotiated trade deals bilaterally with other countries.

Nonetheless, these proposed FTAs could bring benefits to the UK. According to the *Pink Book,* the UK had a surplus with the United States of above £20 billion in 2011[30]. TFA thinks any lowering of tariffs for British goods being sold in the USA is a positive step. Along with the UK's trading links we also commend the Prime Minister for using his term as President of the G8 to lobby for reductions in tariffs[31] and hope that there will be zero trade tariffs between the UK and the USA as soon as possible.

However, we recognise that, like argued by Dan Hannan MEP, an EU-USA trade deal strengthens the case for British withdrawal. He points to the Index of Economic Freedom which shows that the two most open and competitive economies in the world are Hong Kong and Singapore and that, free of the EU's Customs Union, Switzerland has a more liberal trade policy than the EU[32]. This has led to a number of benefits and, as research conducted by KMPG shows, being outside the EU has not stopped Switzerland from attracting FDI investment, with 86% of it coming from the EU itself[33].

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[26] Announcement: Foreign Secretary, 11 May 2011: https://www.gov.uk/government/news/foreignsecretaryforthefirsttimeindecadesourdiplomaticreachwillbeextendednotreduced

[27] "Free Trade Agreements", State Secretariat for Economic Affairs SECO: http://www.seco.admin.ch/themen/00513/00515/01330/index.html?lang=en

[28] Ibid.

[29] "Cameron says that free trade is in the UK's DNA. Is it in his?", Rory Broomfield in *The Commentator,* 13 November 2012*:* *http://www.thecommentator.com/article/2043/cameron_says_free_trade_is_in_the_uk_s_dna_is_it_in_his*

[30] *http://www.thecommentator.com/article/2043/cameron_says_free_trade_is_in_the_uk_s_dna_is_it_in_his*

[31] "David Cameron sets free trade agreement as his G8 priority" by Juliette Jowit and Ewen MacAskill, *The Guardian*, 1 January 2013: http://www.guardian.co.uk/politics/2013/jan/01/davidcameronfreetradeagreementg8

[32] "An EU-US free trade deal is a good deal, though it stregthens the case for British withdrawal" by Dan Hannan, *Daily Telegraph,* 21 January 2013: http://blogs.telegraph.co.uk/news/danielhannan/100199046/euusahold/

[33] "Investment in Switzerland" by *KPMG*: http://www.kpmg.com/CH/en/Library/ArticlesPublications/Documents/Tax/pub20120425investmentinswitzerlanden.pdf

Foreign Direct Investment

Many countries and commentators have already commented on fears that the UK would lose FDI if it left the European Union. This was most publicly seen by the Japanese submission to BIS in the first round of the Balance of Competences review.

However, as demonstrated in the previous section, countries like Switzerland still attract significant amounts of investment despite not being in the European Union. Moreover, it is important to note that the United Kingdom has a much bigger economy than the Switzerland and obtains much more foreign direct investment across a number of sectors. Indeed, according to BIS's own research cited, the UK was reported as the largest recipient of FDI in Europe by both Ernest and Young and the Financial Times[34].

According to a report compiled by the accountancy firm Deloitte, in 2007/2008 the United States of America was the largest supplier of FDI into the UK[35], followed by France, Canada, Japan, Germany and Australia. Going down the list provides an understanding that the UK is a global destination of FDI funds and that the majority of projects originating from FDI come from outside of the EU.

On a related note, it should be understood that investment is also due to the global connections that the United Kingdom has, especially as it has connections throughout the world via the Anglosphere. Indeed, we would cite more research done by the think tank Global Britain which shows that the was in 2009 the fourth largest exporter in the world in 2009[36], with many of the UK's trade surpluses going to countries like Australia, South Africa, Canada and the United States of America[37].

Nonetheless, when looking at FDI in broad terms, another accountancy firm, Ernst and Young, suggest that there are signs in the pan-European FDI figures that the euro crisis presents opportunities for the UK - as capital is on the move out of the Eurozone - with investment into the UK appearing lower risk than in the Eurozone, and fiscally-stressed euro states starting to invest more overseas to compensate for low demand at home. The euro crisis presents openings for the UK to sell its advantages as an attractive stable and lower risk FDI location to investors in Europe and beyond.

In this context, its survey findings on the UK's relationship with the European Union are especially interesting. 56% of investors in Western Europe feel that if the UK were less integrated into the EU it would become less attractive for FDI, but 72% of US and two-thirds of Asian investors believe that a looser relationship with the EU would actually make the UK more attractive[38]. It illustrates that many comments, including those of the

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[34] BIS (2013) : UK confirmed as leading European destination for Foreign Direct Investment http://news.bis.gov.uk/PressReleases/UK-confirmed-as-leading-European-destination-for-Foreign-Direct-Investment-69055.aspx

[35] Deloitte (2008): Foreign Direct Investment in the UK http://www.deloitte.co.uk/investingintheuk/pdfs/india/uk_investingintheuk_in_twoforeigndirectinvestmentintheuk.pdf

[36] http://www.globalbritain.org/BNN/BN73.pdf

[37] Global Britain B http://www.globalbritain.org/BNN/BN80PinkBook12pdf.pdf

[38] Ernst & Young (2013): 2013 UK Attractiveness Survey: http://www.ey.com/Publication/vwLUAssets/ErnstandYoungsattractivenesssurveyUK2013Noroomforcomplacency/$FILE/EY_UK_Attractiveness_2013.pdf p5

Japanese government, might be deemed as misplaced. A looser relationship might the UK more able to connect on a global level with countries around the world.

The next part is also quoted in The Freedom Association's submission to BIS and its review on the movement of goods throughout the EU. Because of the concerns raised by the Government of Japan we felt it necessary to include it within this section for consideration.

The Automobile Industry and FDI

In the first round of the Balance of Competences review, the Japanese Government to BIS suggested that 130,000 jobs would be lost if the UK left the European Union. This was based on the assumption that membership equals jobs, which, as outlined by Tim Congdon, is a fallacy. It is trade that equals jobs - in the United Kingdom, the European Union and elsewhere.

Nonetheless, if the United Kingdom did leave the European Union would foreign investors leave the UK?

The economist, Ian Milne, investigated this question in a paper for the think tank Civitas[39]. He remarked:

"The two main French car makers, Renault and PSA (Peugeot-Citroën), are already reducing their production in France, to the dismay of the French government[40]. Renault (of whose global production only 27 per cent is in France) has just opened a sizeable brand-new plant in Tangier, Morocco. This North African country is not, of course, a member of the EU. PSA (in which General Motors has recently taken a minority shareholding) is negotiating the closure of its Aulnay-sous-Bois plant near Paris, as well as laying-off employees at its other plants in France, and focusing its activities on producing low cost models outside France – most probably outside the EU altogether – for both mature and emerging markets.

In Germany, the decision by General Motors to de-localise production of its new Astra model to Poland and the UK (at Ellesmere Port) has raised eyebrows, though massive de-localisation of production outside Germany is precisely what VW and the other German owned groups have been doing for decades. General Motors is well aware that UK membership of the EU cannot be counted on indefinitely.

These French and German examples reflect Europe's chronic production over-capacity and illustrate the long-term global trend to site production in low-cost economies (inside and outside the EU) where market potential far exceeds that of mature markets such as those of the original EU member states.

However, the UK's car industry is in a different position to the car industries of other Western European countries. According to LMC Automotive's 'September 2012 West European Car Sales' data, UK car sales are bucking the region's trend and looking

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[39] Milne, I and Hamill N (2012): Withdrawal From the EU Would Not Damage Our Car Industry: True or False? *Civitas, Europe Debate No.1* http://www.civitas.org.uk/pubs/EuropeDebateNo1.pdf last accessed 01/8/2013

[40] It should be noted that Peugeot has recently been granted a loan guarantee by the French government, approved by the European Union, of 7 billion euros.

much more promising than the rest of Western Europe; September 2012 was the twelfth consecutive month of declining car sales for this region, with the UK as the only country in West Europe with growing sales, up 8.2 per cent on September 2011 figures[41].

There are very few ‘British’ manufacturers that persist in the UK and those that do (such as Morgan) tend to cater for niche markets. The vast majority of the UK’s industry is owned by overseas companies. These companies are investing heavily in plant sites and R&D across the UK; 2011 alone saw more than £4 billion worth of investments announced. These overseas investors have breathed life into an industry that was struggling, bringing new models and processes to the table.

As a result, the UK’s car industry has adapted and modernised in a way that Germany and France did not need to until recently, and as a consequence the UK’s automobile sector finds itself weathering the Eurozone crisis better than other EU countries and with a stronger foothold in growing, non-EU markets – some foreign car manufacturers (e.g. Jaguar Land Rover) have even announced plans for site expansion in the UK.

Foreign investment is therefore extremely important to the UK’s car industry. To assume that leaving the EU would automatically lead to a reduction in such investment is questionable − many of these foreign companies are already significantly invested in car production in the UK. For example, the Japanese firms Nissan, Toyota and Honda have been investing in their UK factories since the 1980-90s, and both Toyota and Honda have recently announced further investments for their UK plants. Single Market membership might be inviting; however, these companies have laid solid foundations for continued and expanding production.

Industry expertise in the UK is world renowned and is not related to UK membership of the Single Market. In 2012, the chief executive of the Society of Motor Manufacturers and Traders (SMMT), Paul Everitt, outlined engineering expertise, workforce flexibility and the UK’s motoring heritage as key factors that make the UK an important location for the global automotive industry.4”

Indeed, Japanese companies in the past have threatened to leave the UK if it didn’t join the Euro currency[42] and, despite the continued use of the Sterling currency, the very same companies have expanded their operations[43].

Nonetheless, Ian Milne continued:

“But given these domestic trends, whether or not a country belongs to the EU (which accounts for only five per cent of global population and around 20 per cent of global GDP) is unlikely to be the key determinant in global car groups’ decisions on where to site production. If the UK were outside but trading freely with the EU (see above), free of

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[41] LMC Automotive, ‘European Monthly Sales Report, September 2012’ http://lmcauto.com/publicdata/(need to register to access data) in Milne, I and Hamill N (2012): Withdrawal
From the EU Would Not Damage Our Car Industry: True or False? *Civitas, Europe Debate No.1* *http://www.civitas.org.uk/pubs/EuropeDebateNo1.pdf*

[42] Honda tells UK Join the eurozone or else:
http://www.telegraph.co.uk/finance/markets/2809443/Honda-tells-UK-Join-eurozone-or-else.html in Daily Telegraph, accessed 1/10/2013

[43] Honda plans car sales in boost for UK plant
http://www.telegraph.co.uk/finance/newsbysector/transport/9559348/HondaplanstodoublecarsalesinboostforUKplant.html in Daily Telegraph, accessed 1/10/2013

the burden of Single Market regulation, and no longer having to apply the EU Common External Tariff to its imports of all categories of goods, it could well attract more rather than less investment from global car groups than at present."

Indeed, it should be noted that despite the UK being in a very different position to other countries in Western Europe when it comes to the automobile industry, the UK is treated the same by the European Union. This is despite historic differences in where the cars are sold. In the UK, roughly 50% of cars are sold throughout the EU, however, it has been less for French manufacturers such as Peugeot who have over the past few years sold roughly 70% of cars into the relatively mature markets of the EU - with a large proportion of its production being sold within France[44].

FDI - An Alternative Perspective

This submission has now established that the effects of the Rotterdam-Antwerp Effect, the Netherlands Distortion, the Customs Union and entered into a conversation concerning FDI - especially with regards to the automobile industry. However, there is an alternative conception of FDI and the relationship that the United Kingdom has with the European Union that was published by the Hampden Trust in association with The Freedom Association and submitted to BIS in the previous round of the Balance of Competences review. This was of course the submission written by Professor Patrick Minford CBE.

In the submission Professor Minford suggested that the ongoing crisis in the eurozone, and the EU's expected response, will harm the United Kingdom. Indeed, measures such as the Financial Transactions Tax and the EU cap of bankers bonuses[45] could be just the tip of the iceberg. In his submission Professor Minford quoted from a 2005 paper that was written by him, Mahambare and Nowell which estimated the total costs of EU membership to the United Kingdom to be 11.2% (minimum) to a potential 37.7%[46]. In doing so the understanding is that regulation is not just an immediate drag on the economy but acts as a disincentive for companies and countries that are looking to invest abroad to invest in the UK. Opponents of this view may very well contend that the UK attracts significant amounts of FDI whilst still in the EU. This confuses the point. The question is not how much EU membership currently attracts FDI to the UK but how much it is (or might in the future) sending potential FDI abroad due to the high costs of regulation.

There is another point about FDI and regulation, however. Professor Minford et al's 2005 estimations included a potential 25% of UK GDP on regulation, which is something that should concern BIS. But, as pointed out in The Freedom Association's last submission to BIS, the UK has a number of economic competitive advantages that means, if set free from the regulatory burden that is currently being imposed, it could in fact operate on different terms without such a dependence on FDI. This was specifically mentioned in the review with concern to the activities of the City of London, one of the most efficient

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[44] Bloomberg (2013): Peugeot Quarterly Sales Fall 20% on European Market Drop: http://www.bloomberg.com/news/20130109/peugeot2012vehiclesalesdrop17oneuropencarmarket.html Bloomberg, accessed 1/10/2013

[45] Which at the time of writing are still on the cards

[46] Minford, P (2013): *Setting Business Free: Into the Global Economy* , (The Hampden Trust and The Freedom Association, London)

and valuable assets to the UK economy. The financial industry in the UK is another exception when compared to our EU neighbours and with the jobs, wealth and tax generated from activities in the City the UK would be wise to continue to bear its importance in mind.

Indeed, given that nearly 2,500 bankers based in the UK earn over €1m per year - substantially more than in the rest of the European Union[47] - it would be unwise for the Government to ignore the banking community. However, this figure shows that the UK is exceptional in this circumstance and, with regulations such as the EU-wide cap on bankers bonuses, the City is being affected by regulations made by other countries without similar interests.

When considering the exceptional nature of the City it is worth considering Ruth Lea and Brian Binley MP's comments on the financial services industry and the impact of EU regulation on it:

"There is increasing concern about the EU's legislative programme for the City which, for all its difficulties, is still a major overseas earner (£35bn of net exports in 2010) and revenue generator (11-12% of tax revenues came from the financial sector in FY 2009). The City of London is still the top global financial centre, and a huge asset to Britain as an international economy, but its position is being challenged[48].

Financial Services came into the orbit of the Single Market when the EU leaders agreed to develop a Financial Services Action Plan (FSAP) at the Cardiff Summit in 1998, under the British Presidency. Since then the EU, especially since the 2008 financial crisis, has ramped up its legislative programme to regulate and control the financial services industry[49]. The EU also introduced three supervisory bodies: the European Banking Authority (EBA) in London, a European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt and a European Securities and Markets Authority (ESMA) in Paris.

There is little doubt that the EU is establishing a "single rule book" for financial services, the appropriateness of which for the City, a unique global centre, must be questioned. Whilst accepting the need to tighten up financial regulation in the wake of the 2008 crisis, the often expressed desire to "complete" the Single Market in financial services now looks as though it can only damage the City.

Open Europe's recent report on the City concluded "regulation is now less geared to financial services growth but more towards curtailing financial market activity, irrespective of whether such activity is good or bad"[50]. They reported that there were 49 new EU regulatory proposals potentially affecting the City either in the pipeline or being discussed at EU-level, with very few aimed at promoting financial services trade. The UK

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[47] Wilson H (2013): Nearly 2,500 British bankers paid over €1m says EU regulator in Daily Telegraph http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/10180313/Nearly2500Britishbankerspaidover1msaysEUregulator.html date accessed 06/07/2013

[48] Z/Yen Group, Global Financial Centres Index 11, March 2012, Long Finance's "Financial Centre Futures" programme quoted in Lea R and Binley B (2012): Britain and Europe: A New Relationship, p3, Global Vision, London

[49] Open Europe, "Continental shift: safeguarding the UK's financial trade in a changing Europe", December 2011 quoted in Ibid.

[50] Keith Boyfield, "Selling the City Short?", Open Europe, December 2006, quoted in Ibid. This estimated that the measures under the FSAP to date would cost the UK at least £14bn whilst the benefits were uncertain. Later legislation, including the costly Alternative Investment Fund Managers Directive (AIFMD), was not included in this exercise.

was, moreover, already losing influence on the legislative agenda. Tellingly, this was happening at a time when opportunities in EU markets were limited whilst global opportunities were "exploding".

In addition, the EU continues to push for an EU-wide Financial Transactions Tax (FTT), or Tobin Tax, which would clearly have a much greater impact on London than on the EU's other financial centres. Business would leave the EU, including London, for more competitive non-EU shores.

The Commission has moreover proposed that any proceeds of the FTT should be funnelled into the EU coffers. The British Government has expressed its opposition and still retains the veto on tax matters. It is clearly vital that it maintains this stance. Using the Commission's rate of 0.1% for bonds and shares and 0.01% for derivatives, Open Europe has estimated that the potential FTT impact would be €24.3-80.9bn for the EU27. The UK would be subject to €17.5-58.2bn of the total (over 70%), in the absence of a burden-sharing system. The large range of estimates reflects uncertainties regarding the degree of relocation and evasion following the introduction of an FTT."

The Freedom Association understands that BIS has made its initial judgement on the effects of the Single Market in the previous Balance of Competences review semester; however, the increased regulation that the City of London is experiencing and, due to experience in the future, in the eyes of Lea, Binley and Professor Minford (amongst others), will have effects on FDI into the City of London.

Indeed, in a world of free flowing capital where banks and other financial institutions have a duty to a variety of stake and shareholders to do what is right for their business, companies will increasingly move elsewhere in the light of increased EU regulation. Given the global nature of financial services, jobs in the UK at investment banks from Goldman Sachs, Deutsche Bank and HSBC depend on a competitive environment to invest globally. Without it, and under increased pressure compared to other more favourable environments, the City of London (including professional services, Canary Wharf and the West End) could lose at least one third of its work force (therefore losing 150,000-200,000 jobs), over half of the GDP it generates for the UK economy (loss would equal roughly   of UK GDP) and could cost the UK around £20 billion in FDI each year[51].

There are also countries worldwide that are looking to take London's place as the financial capital of the world. New York is the obvious choice but, with the high amounts of regulation and unionised interests it is doubtful that the City would increase its market share dramatically. However, with the premise that light-touch regulatory systems do best, other countries are making ground against the UK in this area. Examples of this type of regulation system can be seen in countries such as Singapore and Hong Kong.

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[51] Figures for FDI based on City UK report (2013): Financial services continue to make important contributions to the UK economy: http://www.thecityuk.com/research/ourwork/articles/financialservicescontinuetomakeimportantcontributiontoukeconomy/ date accessed 01/07/2013. Other data based on estimations of those working in the financial sector, including a paper produced by the House of Commons Library that estimates the number of jobs in the UK at 1.1 million and recruitment figures that put the number of staff working in the City of London at approx 350,000 and statistics from Office for National Statistics, Business Register and Employment Survey, September 2012 quoted by the City of London Corporation (2013): http://www.cityoflondon.gov.uk/business/economicresearchandinformation/statistics/Pages/Research%20FAQs aspx that put the total number of those employed in both the City of London and Canary Wharf at 510,000.

Through the regulatory stance taken by their respective governments, they continue to attract foreign direct investment from around the world due to the competitive environment that exists there and the lack of regulatory burdens placed on banks.

Investment inflows into countries like Singapore reflect the favourable light in which businesses have come to view it. With its light touch regulation and competitive business / taxation policies - coupled with the rule of law - Singapore is growing into a force to be reckoned with. Indeed, as the Columbia Vale Centre has illustrated[52], the increase in FDI into Singapore from 2000 to 2010 is quite extraordinary. In terms of investment from developed economies in Europe, Singapore attracted $55.4 billion in 2000. By 2010 this investment from developed European countries had increased to $181 billion. In this time countries like the Netherlands more than doubled their investment into Singapore (from $21.9 billion in 2000 to $50.9 billion in 2010) while the UK's investment rose over six times from $6.8 billion in 2000 to $39 billion in 2010[53]. Elsewhere, the United States doubled its investment into Singapore over this period ($24.3 billion to $52.2 billion) while developing economies also increased their contribution to the Singaporean economy (India, for example, increased their investment from $0.2billion in 2000 to $18.7 billion in 2010).

The movement of interest towards countries like Singapore and Hong Kong is further illustrated not just by FDI but by how many professionals actually work in a territory. To illustrate the drain that is occurring and due to continue, figures now show that the number of bankers actually in Hong Kong are due to overtake London in the number of years time[54]. This indicates, above everything, that people want to work in these countries and businesses want to locate in them. For more on this, The Freedom Association recommends that everyone in BIS (and across Government departments) reads JP Floru's "Heavens on Earth". This book investigates - and illustrates - the reasons for wealth creation and destruction across countries and eras. It is a must read for any official wanting to understand how wealth creation could be enhanced in the United Kingdom.

It should be understood that the potential job losses coming as a result of being under the yoke of EU regulation will not just be high net wealth individuals. Over 1 million people work in the financial services industry in the UK and only 2,346 bankers earning over €1m per year[55]. However, jobs in banks, hedge funds and other financial services are dependent on the revenues generated from activities of traders and deal-makers throughout the industry. Indeed, in the City of London (and related areas) there are approximately 500,000 working for firms involved in the sector[56].

However, as Professor Minford points out, not all industries based in the United Kingdom will act the same way to particular pieces of regulation or, indeed, if the UK left the

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[52] Hsu, L (2012): Columbia FDI Profiles: Singapore, Vale Columbia Centre of Sustainable International Investment: http://www.vcc.columbia.edu/files/vale/documents/Singapore_IFDI__FINAL__31_May_2012.pdf accessed 01/07/2013

[53] Ibid. 13

[54] Telegraph (2012): Hong Kong set to overtake shrinking City: http://www.telegraph.co.uk/finance/economics/9670713/HongKongsettoovertakeshrinkingCity.html accessed 01/07/2013

[55] Based on figures from the European Banking Authority. Previously quoted.

[56] See statistics from Office for National Statistics, Business Register and Employment Survey, September 2012 quoted by the City of London Corporation (2013): http://www.cityoflondon.gov.uk/business/economicresearchandinformation/statistics/Pages/Research%20FAQs.aspx

European Union. Therefore, in order to sustain investment for those industries that will find it harder to adapt to potentially new conditions, transitional arrangements can be made[57]. Nonetheless, as the current global financial centre, under a system outside the regulatory influence of the EU the UK could become more competitive and, because of its already established links, language, time-zone and other externalities that the UK has, the UK could be much more attractive to international finance than it even is today.

It means leaving the EU is a win-win for the UK financial industry - especially the City of London. Firstly, it will avoid any more onerous regulation from bodies responsible for the EU banking authorities and be more efficient to be less reliant (yet more attractive to FDI). It would allow for the United Kingdom's competitive advantages come to the fore and allow the financial services (along with the professional services in the UK) to ensure its place in the global banking community.

This side-step of EU regulation will also benefit a wide-range of other UK areas that depend not on the EU but on business to provide jobs, growth and international investment into the United Kingdom. For this I refer BIS to Tim Congdon's paper, written for the Hampden Trust in association with The Freedom Association, on the 3 million job lie and related discussion. This booklet - 'Europe' doesn't work - shows that the United Kingdom is being sold a lie in that EU membership equals trade and jobs. It doesn't. Companies will sell their products anywhere they can find a market. Combined with the publication previously cited by Tim Congdon[58] and Professor Patrick Minford[59], the evidence suggests that outside the EU there could be an environment that, far from the scare stories provided by others, would be more attractive to foreign investment without the UK actually needing as much of it for many of its industries.

[57] Minford, P (2013): *Setting Business Free: Into the Global Economy,* (The Hampden Trust and The Freedom Association, London)
[58] Congdon, T. (2012): How Much Does the European Union Cost Britain: http://www.timcongdon4ukip.com/docs/UKIP%20Cost%20of%20the%20EU.pdf accessed 1/06/2013
[59] Minford, P (2013); Setting Business Free: Into the Global Economy (Hampden Trust and The Freedom Association, London)

Conclusion

This study concludes that the European Union is affecting the UK with regards to third party trade and investment due to the burdensome regulations and structures it imposes on the UK. These regulations and structures are reflective of a “one-size-fits-all” approach that does not work. The result of this model is to raise prices for businesses and consumers while allowing other countries to sign and do deals internationally that the UK is restricted in forming.

It means that the UK membership to the EU is not in the economic interests of the UK or its people:

In terms of trade and the Rotterdam-Antwerp Effect (goods), the UK’s export statistics are over emphasising EU trade with effects on trading relations elsewhere; the Netherlands Distortion (income) means that the UK loses tax and possible internal reinvestment; the Customs Union inflates prices and holds the UK back in forming its own trade relations with other countries around the world; the EU’s one-size-fits-all regulation manner ensures that industries unique to the UK are held back through EU regulating, and that the nature of EU regulation (and future regulation) means that (a) UK industries (such as banking) are unable to realise its full potential and (b) FDI will continue to be directed elsewhere to more competitive countries (Switzerland, Singapore, Hong Kong etc).

In conclusion, The Freedom Association feels that the UK is being held back both in terms of attracting trade and investment from other countries and through its inability to create the environment necessary to maximise the UK’s competitive advantages on the global stage.