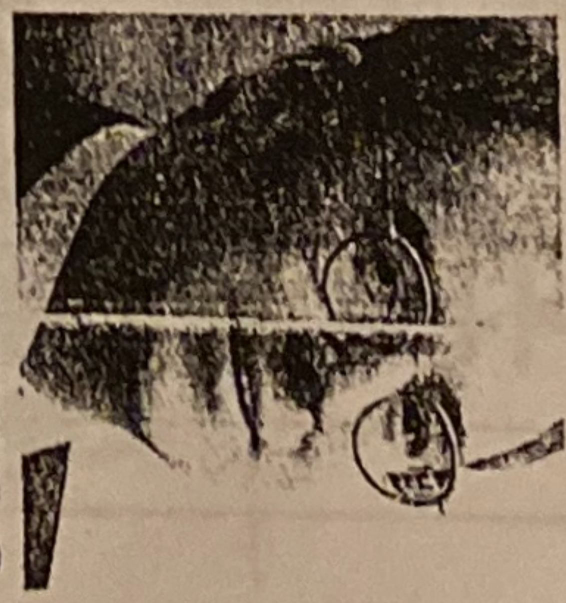
# Investment actions will speak louder than words



ECONOMICS WEEK

Firms have invested in the UK despite our known scepticism towards Monetary Union, says **Gerard Lyons**

The issue of European Monetary Union (EMU) will prove a key point during the election campaign, even though neither major party wishes to make it central to their agenda. The intervention last week of Hiroshi Okuda, Toyota's president, has once again focused attention on the economic debate.

Okuda said if the UK stays outside a single currency then Toyota may not invest further here. Although Toyota has since backtracked on Okuda's comments they are already being seen as how international firms will react should EMU proceed.

Okuda was criticised by some Eurosceptics for interfering in UK politics. This is unfair. He, like the head of any company, is welcome to discuss his firm's policy whenever he wishes. And ahead of EMU the general public may be keen to hear what multinational firms, who invest globally, are thinking.

Just as many UK firms wish to remove the exchange-rate risk of dealing with Europe, the same is true of international companies. If the UK stays outside the euro area then Japanese firms who invest here have to additionally take into account sterling's movement against the euro. Thus many international companies, when asked what they prefer, are likely to say complete currency stability within Europe. This is just one factor to take into account and it should not be allowed to dominate economic thinking on EMU.

It is wrong to conclude that we must enter EMU or else economic isolation beckons. Actions usually speak louder than words. Toyota, like many other companies, have invested heavily in the UK. Indeed, on the day Okuda spoke, the Korean company LG was having the so-called ground breaking ceremony at its new plant in Wales, which is the single largest investment into Europe. The UK has received the lion's share of inward investment in Europe and much of this has arrived despite the well-known scepticism of the UK towards EMU. It has always been the case that if EMU went ahead then France and Germany are more likely to be in than Britain. On this basis it seems that EMU is not the only factor determining investment decisions. That also appears to be borne out by surveys of why firms invest.

A 1994 survey by the Japan Institute for Overseas Investment, for instance, found the main reasons for investing here were, apart from English being the indigenous language, the quality of labour, the infrastructure and local investment promotions. This was followed, in order, by incentives, labour costs, the UK domestic market to sell into and the fact that many Japanese firms are already established here.

Could all this be changing? Admittedly, in Japan, like the US, there has been a transformation in the last six months in attitudes towards EMU. Whereas many Japanese did not expect it to happen, they now think it will go ahead.

Hence the fear that the UK will not attract inward investment and will thus lose jobs. The key will be the relationship between those who enter EMU and those who stay outside. The UK is still a member of the European Union and should be able to sell into European markets, even if we are outside a single currency.

The problem is not if the UK does not enter EMU but if by staying out the Euro bloc then tries to erect special tariffs against us. That is not allowed under current treaties, but it is a threat. In that scenario one has to ask whether the UK would want to join what amounts to a projectionist bloc. Of course, if this risk does not materialise, then the UK should have nothing to fear regarding trade.

A second fear that is often voiced, is that the UK will suffer a premium on interest rates, because the markets will expect sterling to depreciate against the euro. Again this fear may be misplaced. Even though the European Central Bank will be keen to prove its credibility there is no guarantee the euro will be a hard currency. That will depend on who is in EMU as well as economic prospects. Similarly, how the British economy performs outside EMU will not just influence UK interest rates and sterling, but will greatly determine whether international firms view the UK as an attractive location to invest.

If the UK pursues sensible economic policies, firms will invest here. One of the factors that has made the UK attractive has been the flexibility of the labour market. A flexible labour market can attract investment but it can also make it easy for firms to leave. If the UK enjoys a healthy economic performance then, alongside a flexible labour market, this should encourage inflows.

Reducing unemployment and boosting living standards should be central to any government's economic policy. The fear of losing jobs created by inward investment is important but it is not clear-cut that we will lose out and, even if we did, it does not necessarily mean we should jump headlong into a single currency. Monetary Union, after all, is unlikely to be good news for jobs. This is not just evident from the employment picture on the Continent but it will be a consequence of the inflexible policies that EMU will impose on us.

Events in the last few days should also highlight that rather than relying on inward investment flows there is the need to encourage more UK firms to invest at home.

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