EMU debate will not deter inward investment

The UK economy is doing incredibly well. Who says so? Not just Chancellor Clarke and the rest of the Cabinet. It is international companies who continue to pump vast amounts of money into Britain.

The UK is one of the biggest recipients of inward investment. The money is being attracted from many countries. Some 40% of Japan's investment in Europe comes to the UK. American business has been a consistently large investor, although US firms are now diversifying. Even German firms are coming, like Siemens earlier this year. The latest was the Korean conglomerate LG, which last month announced it was to invest £1.7 billion in Wales. This will generate 6,000 jobs but there will be many indirect jobs created too.

These will either be from new UK-based suppliers or, as the newly employed spend their money, in local shops and on new homes. Since 1979 an estimated 800,000 jobs have been created or safeguarded by inward investment.

It is not only good for the regions where it creates jobs, it is having a profound effect on the UK economy. The manufacturing base is receiving a much-needed boost and highly skilled jobs are being created.

Why Britain? There are many reasons. The UK is very competitive. Within Europe, labour costs are only lower in Portugal, Greece and Ireland. Furthermore, despite popular perception, UK workers are viewed as highly skilled and hard working.

A survey in 1994 by the Japan Institute for Overseas Investment highlighted the reasons why Japanese firms chose the UK. Apart from speaking English, the main reasons were the quality of labour, the infrastructure and local investment promotions. This was followed, in order of importance, by incentives, labour costs, the UK domestic market to sell into and the fact that many Japanese companies were already established here.

There is little doubt that success breeds success, as the same factors that are likely to attract firms from Japan entice those from America, Korea or elsewhere. And almost two-thirds of the investment last year in the UK was from companies already based here.

Many factors arise from this. There is the need for the UK to remain competitive, with a flexible labour market. Another is to ensure that our labour force remains sufficiently skilled to continue to attract inward investment. Although skilled labour is mobile, the UK would face a problem if shortages of skilled labour were expected.

Britain's low rate of corporation tax is also important.

The importance of regional economic policy has been highlighted by successful inward investment. The Welsh Development Agency, for instance, has been incredibly successful at marketing Wales, attracting foreign firms, especially from Japan, and making them welcome.

Such marketing has also had to be supported, where necessary, by financial incentives, whether in the form of tax breaks or attractive sites at cheap or very competitive rates. In the case of LG, the Government is reported to have offered a £200m incentive.

Financial incentives can clearly make a big difference to the rate of return on a project, even if such an investment is long term. Given this success, this use of tax payers' money can be viewed as guaranteeing a good return. It also raises the question why such incentives cannot be made more readily available to UK based firms, as opposed to international corporations. If tax breaks work in one area of the economy, they can probably work in another.

I firmly support appropriate tax incentives for investment. The cost in terms of lost jobs and output of an investment project not taking place is far higher than the cost of ensuring that it does. The counter argument is that such incentives merely subsidise investment projects that would have taken place anyway. This can be true but at least it is money well spent and in many instances it will make a big difference as to whether an investment does go ahead.

The foreign direct investment in the UK should also dispel one of the myths in the European Monetary Union debate. The myth is that Britain would miss out on such inward investment if sterling were not part of the single currency. The UK has continued to attract inward investment in the face of severe competition, and at a time when the UK has an opt-out from monetary union and there are widespread doubts if we will enter EMU. Foreign investors have not been deterred, although there has been a rise in inward investment in France. There is every reason to expect continued investment in the UK from American and Asian companies.

As long as the UK continues to pursue sensible domestically orientated policies, geared to steady growth with low inflation, further inward investment is inevitable. However, while such investment is welcome, it begs the question, why can't we do it ourselves?

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The UK economy will continue to attract foreign investment, but we should be using incentives more in our own backyard, says **Gerard Lyons**

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