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**EMU MEMBERSHIP,  
TRADE AND INVESTMENT FLOWS  
Enhancement Beyond The Single Market Effects?**

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**ABSTRACT**

One of the key arguments advanced in support of entry into the EMU by hesitant countries is the expected increase in trade volumes. Previous work on measuring the impact of EMU membership on trade has usually captured the effect using the Gravity Model of trade and dummies representing membership status. Results obtained vary widely from a 5% trade effect to almost 200% in the original contribution. This paper adopts a new approach by analyzing the effect on trade due to increased investment flows in the wake of actual or expected membership. The final impacts on trade thus traced are close to the estimates on the higher side in the previous studies. The coefficients for country and partner GDP product, FDI product and geographical distance are all highly significant, and FDI inflows are seen to have a strong impact, with an elasticity of 0.42, on bilateral trade.

**Keywords:** EMU, trade, investments flows, FDI, single market.