

## **Trade and Investment policy**

### **Purpose of report**

For discussion.

### **Summary**

This paper is intended to set the context for a substantive discussion on trade and investment policy, which was agreed as one of the Board's priorities for the coming year. Members sought an opportunity to focus on the key issues and start scoping out the opportunities to shape future policy to be more responsive to city regions' ambitions to attract inward investment and encourage businesses to export.

The following speakers have been invited to open the debate and stimulate discussion:

1. Cllr Paul Watson and Cllr Jon Collins will start by sharing local perspectives on supporting trade and investment activity within the current national framework.
2. Annika Pattberg, Representative for the UK at Germany Trade and Invest, will introduce a comparative perspective by discussing the role that German city regions play in their system.
3. Ken Dytor, Managing Director of Urban Catalyst and Regeneration, will share insights on how place acts as a factor in investors' decision-making.

### **Recommendation**

Members are asked to discuss the issues and provide a steer.

### **Action**

Officers to take forward as directed by members.

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## **Trade and investment policy**

1. At the inaugural meeting in April, members agreed that the Board should initiate a debate about what a progressive and dynamic economy requires in terms of a technology and trade capability, and whether the UK's present arrangements position our economy to be globally competitive. The discussion at this Board is intended to help flush out the key issues, look at them from a number of angles and identify the openings for the Board to shape future policy in line with city regions' ambitions.
2. The rest of this paper sets the context for the debate by providing
  - 2.1 Reflections on why these issues matter for national and local economies
  - 2.2 A summary of current national policy and delivery arrangements
  - 2.3 An overview of local perspectives on how the current system is working
  - 2.4 A comparative perspective looking at how city regions operate in this arena in other countries
  - 2.5 A private sector perspective to bring in an understanding of how considerations about place factor into investors' decisions
  - 2.6 Proposals for next steps

## **Background**

3. Increasing the UK's exports and attracting more inward investment is a key part of the route to sustained and balanced growth. It has been estimated that in 2011/12 international trade activity helped create or secure more than 170,000 jobs.<sup>1</sup> To build on this, British firms need to secure more high value successes and to fully develop our trading links with emerging markets. Recent data shows that the UK's trade deficit has started to improve marginally, but this growth is not sufficient to reverse the trend which has seen our share of global exports decline over the past two decades.
4. The UK remains the leading destination for foreign direct investment in Europe, but the national figures obscure a more worrying trend at regional level, with the number of foreign investment projects secured by most English regions having declined 25% between 2010 and 2012. By contrast, London and the South East the devolved administrations recorded rises over that same period. Experts have warned that this imbalance could damage the UK's overall ability to attract foreign investment in the long-term compared to countries such as France and Germany, which are seen to have much more balanced regional portfolios.<sup>2</sup>
5. English city regions have a long history of involvement in international trade and investment activity, including attracting foreign investment, encouraging small and medium-sized businesses to export their products, and developing new trading links with emerging markets. They also have ambitions to do much more; for example, many of the City Deals have a strong focus on positioning city regions to attract and secure inward

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<sup>1</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/225424/UKTI\\_Inward\\_Investment\\_Report\\_2012-13.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225424/UKTI_Inward_Investment_Report_2012-13.pdf)

<sup>2</sup> [http://www.ey.com/Publication/vwLUAssets/Ernst-and-Youngs-attractiveness-survey-UK-2013-No-room-for-complacency/\\$FILE/EY\\_UK\\_Attractiveness\\_2013.pdf](http://www.ey.com/Publication/vwLUAssets/Ernst-and-Youngs-attractiveness-survey-UK-2013-No-room-for-complacency/$FILE/EY_UK_Attractiveness_2013.pdf)

investment, e.g. Siemens investment in Hull and Humber, or Nissan in Sunderland and South Tyneside. The recognition that moving into export markets can help businesses increase their productivity, create good jobs and increase the value of the local economy is a common theme that emerges from many of the Strategic Economic Plans developed by Local Enterprise Partnerships (LEPs).

6. The LGA has had an intensive programme of work promoting councils' offer as facilitators of export trade and investment activities. Our work has demonstrated that councils abroad (especially in the emerging economies) are keen to use English councils as a conduit to UK firms. This connection takes on even more significance as foreign national governments devolve more freedom and funding to state and local entities. For example, control over about 70 per cent of all public sector spending in Mexico was with regional and local government, but there was a new expectation that they would promote greater commercialisation. Mexican local government sought the LGA's advice on how to privatise without losing a public service ethos, recognising English local government's USP on public commissioning. To capitalise on these opportunities, the European and International Board led work to connect UK-based companies with representatives of Mexican regional and local government, which succeeded in opening up the Mexican market for UK firms.
7. Nevertheless, the strong track record and ambitions of city regions on trade and investment are not necessarily being reflected in national policy and delivery arrangements. There is a strong sense that English city regions are not being served well by the current system, which neither recognises their unique selling points nor is able to tailor support to turn leads into deals. If we continue on the current trajectory, our economy will be at significant risk of not achieving the rebalancing that experts agree is fundamental to the UK's long term prosperity.
8. The next section looks at the current framework for policy and delivery in more detail.

### **Current policy framework and delivery arrangements**

9. Prior to 2011, inward investment activity was managed on a regional basis with dedicated teams who were expected to have an in depth understanding of their 'patch', its strengths and weaknesses, emerging opportunities etc. After the closure of the Regional Development Agencies (RDAs) inward investment responsibility was centralised in Whitehall with responsibility handed to UK Trade and International (UKTI), which is the UK's international trade and inward investment promotion organisation. Annex A sets out more detail on how the UKTI operates.
10. The UKTI introduced a new "UK First" system, whereby all enquiries regarding inward investment are meant to be forwarded to a hub in London that manages a single national pipeline. They have signed Memoranda of Understanding with each LEP that sets out the expectation that LEPs are expected to share leads with the central pipeline and then act on a responsive basis if/when UKTI passes leads back to them. A consortium led by the PA Consulting Group and the British Chambers of Commerce was appointed on a

three-year basis to help attract investment into regionally-based projects and support the negotiations between prospective investors and local partners.

11. These new arrangements only apply to England, apart from London. The devolved administrations and the Greater London Authority (GLA) have been allowed to keep their own agencies to oversee policy and delivery in their jurisdictions. That said, not all trade and investment activity in London is led by the GLA. London boroughs have been highly active and successful in this arena for years; for example, Hackney's instrumental role in the establishment of Tech City. Members' views on how successfully the London approach targets activity and taps into expertise at sub-London level would be welcome.
12. City regions have expressed serious misgivings about the current arrangements since their inception. These have grown stronger rather than weaker as the new system has bedded in. The model is seen as contributing to "investment bias" against areas England outside of London, evidenced by the decline in new projects in those areas. Questions persist about the capability of UKTI to capitalise on opportunities emerging from local intelligence and its lack of industry-specific expertise. LEP capacity to deliver is also an urgent concern, although LEPs themselves have concerns about the effectiveness of the support they are receiving through the PA Consulting contract. All this leaves city regions trying to fill some serious gaps without having the same levers as London and Scotland.
13. On the export side, businesses that need support to break into overseas markets are also coming up against the shortcomings of the current system, which is strongly reflected in the City Deal bids and Strategic Economic Plans. In particular, local plans have picked up that businesses are not being reached by national programmes to assist them to start up, expand or export. Even firms that are aware that there is help available often find the plethora of programmes confusing and heavily bureaucratic so choose not to apply. City regions are increasingly stepping in to try to help firms with high growth potential reach export markets but end up working around rather than with national programmes that are seen as not being adequately responsive to local business needs.
14. The UKTI has started to recognise that there are limitations in its current approach and sought the LGA's assistance in exploring how to improve the current arrangements. Areas they have been particularly keen to explore with us include looking at how local government can help the UK break into high value markets in developing economies where there may be better leverage through local rather than national relationships and exploring how local regeneration schemes could be more attractive to overseas investors. On that last point, outgoing LGA Chairman, Sir Merrick Cockell, recently attended a roundtable at No. 10 with Trade Minister Lord Livingston and leading investors and developers, which the UKTI is keen to follow up on.
15. Nevertheless, the UKTI's reluctance to engage in any systematic way with the City Deal and Growth Deal negotiations seems to support the prevailing view that they are not open to substantive change. Where city regions have sought to explore the potential to roll out the model used in London and Scotland more widely to boost trade and investment performance, UKTI are more comfortable offering customised conversations about minor tweaks to their current arrangements. Nor are there any indications that they are being challenged to go much further by the Cabinet Office or Department for

Business, Innovation and Skills (BIS). The section on proposed next steps sets out a number of options to ramp up the pressure and unblock the discussion.

### **City region perspectives**

16. Cllr Paul Watson, Leader of Sunderland City Council and Cllr Jon Collins, Leader of Nottingham City Council have been asked to share their perspectives on promoting trade and investment activity within the current system to kick off the debate.

Sunderland City Council.

17. As traditional industries have declined, Sunderland City Council has been extremely active in helping new industries to grow. Foremost of these is automotive manufacturing, anchored by Nissan and a strong local supply chain. Sunderland's work has benefitted from good relationships with UKTI staff based in overseas countries, who have in turn found the local intelligence shared by the council very useful. There are nevertheless opportunities for improvement: e.g. more opportunities from the foreign investment pipeline need to be distributed more equally across the country and much more could be done to tap into the local expertise that councils have developed over decades about the needs of specific sectors and types of firms.

Nottingham City Council

18. The city council has an international strategy focused on identifying investment and trade opportunities' from high growth markets within countries such as India, China and Germany. In collaboration with a range of local partners, the city region has made particularly good use of the universities' footprint in those markets, e.g. University of Nottingham has campuses in Ningbo, China and Malaysia. There has been collaboration with UKTI in particular via the Embassy and High Commission networks and UKTI Regional Investment Organisation. Local partners feel that even more could be achieved through a dedicated trade and investment apparatus for the city region, with the ability to create bespoke packages of incentives and support, akin to that in London and Scotland.

19. Members may wish to reflect on how these issues play out in their areas, including:

19.1. What are their local businesses saying about their plans to export? What are the barriers they face?

19.2. What are the industries and schemes attracting interest from foreign investors? What do investors say they need in order to be able to set up in the area and are local partners able to deliver?

19.3. How responsive is UKTI to local requests for support? What could be improved?

### **International perspective**

20. There is an emerging view internationally that it is not countries that compete with each other for trade and investment; rather, cities do. To that end, it is worth looking at how city regions in other countries operate when it comes to trade and investment, in order to inform our own thinking about how to flex or reform the UK's model. Moreover, we could also inject greater urgency into our case by pointing out that if city regions in other countries are able to be more agile in responding to investors' needs than ours, our own national economy will be at a disadvantage.
21. Take the situation of an English city region trying to nail down a major investment scheme: in all likelihood, local partners will spend months, if not years, chasing funding and policy decisions through dozens of departmental silos, with no guarantee of being able to deliver the outcomes that investors need. If, by contrast, city regions in other countries have more leverage within and are more able to streamline the process for prospective investors, there can be no doubt which place will be more attractive.
22. We believe that the German model holds some lessons for the UK and provides a good starting point for starting to think about the propositions the City Regions Board may want to develop. The German experience is particularly pertinent for the UK, as they are one of our leading competitors for trade and investment. Recent data shows that Germany is closing in on the UK when it comes to attracting foreign investment and has a stronger export record.
23. In the German system, individual German states,<sup>3</sup> (Länders, including city regions) form an integral part of the German foreign trade promotion landscape. Their local investment promotion agencies not only offer extensive assistance for foreign firms interested in local markets, but also provide information on the location and development of regional industry clusters.
24. We have invited Annika Pattberg to speak to the Board about how the German system operates. Having Länder-level experience, Ms. Pattberg is now Senior Economist and Representative for the UK at Germany Trade and Invest, the foreign trade and inward investment agency of the Federal Republic of Germany. Her presentation will explain how the German system recognises the role of the Länder in both policy and delivery; cover the type of support offered to local businesses; and set out some of the challenges in the model.

### **Private sector perspective**

25. It is not only local government that has expressed concern about the current system; businesses, particularly small to medium-sized enterprises, also often feel that they are not being particularly well-served by the current arrangements. The feedback from city regions involved in City Deals and SEP development is that this is in part due to a poor understanding at national level of what matters to businesses on the ground combined with a national framework that has made tailoring policy and funding to the needs of the

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<sup>3</sup> Germany is a representative federal democracy, which is made up of 16 states (Länder).

market the exception rather than the rule. In effect, national policy related to local growth is operating in a manner that no successful business ever would.

26. Research shows that there are a number of factors linked to what a place is able to offer that can influence a firm's decisions about where to locate and whether to expand, including:
  - 26.1. The availability of a skilled workforce
  - 26.2. Good connectivity, including ports, rail, airports and broadband
  - 26.3. Availability of land and physical premises
  - 26.4. Housing, schools and amenities to attract skilled workers
  - 26.5. The presence of or potential to link up a local supply chain
  - 26.6. Pro-growth planning and development policies
27. We have invited Ken Dytor, Managing Director of Urban Catalyst and Regeneration Investments, to bring a private investor perspective into the debate. He is a chartered surveyor by training and has a long history of working in real estate development and cross border investment, focusing particularly on infrastructure-led regeneration as well as mixed-use development. For the last 6 years he has focused on developing relationships in China and the Far East and most recently represented the British Government in meetings in Beijing and Shanghai with senior members of Chinese Government.
28. Ken will be sharing his thoughts about the importance of place as a factor in investors' decision-making and what that may mean for city regions. He has been asked to reflect on what is possible under the current system and whether local partners are using the levers available to them to best effect. We have also asked him to identify where there is likely to be private sector support for city regions to press for greater freedoms and flexibilities.

### **Next steps**

29. The purpose of this discussion is to give members a chance to consider what work they wish to deliver in this area. It is suggested that the Board consider a two-pronged strategy to maximise on existing openings with UKTI/BIS while developing some compelling longer-term propositions in collaboration with other influential stakeholders that can be acted on by an incoming government.
30. On the first point, there are a couple of UKTI priorities on which the Board may wish to offer assistance in return for a more substantive discussion progressing city region priorities. For example, UKTI are keen to discuss how local government can help the UK break into high growth markets in emerging economies and how local regeneration projects could be made more attractive to overseas investors. Members may wish to press for these to be considered as a part of a broader discussion that would include the scope for flexing the UKTI future offer in line with the key themes emerging from the SEPs. Moreover, with the contract with PA Consulting and partners to coordinate inward investment activity at regional level due to expire in 2016, there is an opportunity to work jointly with the LEPs to influence the re-letting of that contract.

31. In the longer-term, though, members may wish to explore the roll-out of the London/devolved administration model to English city regions. To that end, it may be useful to commission analysis to get a better handle on the advantages and limitations of the UK's devolved models, as well as similar models in other countries. The Board's discussion at the meeting will have focused on Germany, but there are also other countries that have made local apparatus a central plank of their operations, e.g. Australia has eight export hubs, each with the ability to tailor support packages to the circumstances of the particular region.
32. It should also be noted that although the UKTI is the delivery arm for trade and investment in the UK, ultimately their approach to local and regional partners has its roots from broader strategies set out by the Department for Business, Innovation and Skills on trade and investment, technology, higher education and industrial sectors. On the whole, these can be characterised as "place-blind", with little, if any recognition of what local partners have brought or can bring to the table. This would suggest that future work in this area may need to target BIS ministers and shadow ministers, as well as senior civil servants.
33. Many city regions that are the most active in trade and investment have already made fairly well-developed pitches for the levers and influence that local areas need, for example, through City Deals. As with the skills agenda, it is not necessarily the case that the roadblocks are coming from the lack of evidenced proposals; rather, there is still a lack of recognition within Whitehall the top that excessive centralisation impedes local growth, which in turn affects the country's long-term prosperity. On this point, we have some allies warning of the same risks when it comes to trade and investment policy, whom we may wish to engage in the development of our work; e.g., Ernst and Young and the Institute for Public Policy and Research.
34. We also know that major business stakeholders also have a keen interest in this area and have their own concerns about the shortcomings of current policy and delivery arrangements, e.g. for example, the Confederation of British Industry and Federation of Small Businesses, and are in the process of arranging meetings with them for the Chair of the Board to explore the potential for collaboration on this, and other, elements of the Board's work programme. We have also had interest from Universities UK and the Universities Alliance to engage more closely on issues related to local growth. Given that one of the UK's competitive advantages is the presence of world class universities in every part of the country, we may wish to explore how these institutions can play a bigger role in future.
35. Our proposal is to hold a deep dive early in 2015, with key stakeholders from government departments, the business sector, think tanks and universities to test new proposals for a city region offer on trade and investment. The timing is intended to enable us to build on the recommendations of the City Growth Commission, set to be published in late October. Following the Board's steer, we will be working with nominated chief executives to deliver new analysis and flesh out more detailed proposals to bring back to members in the autumn.