

## **Trade and Investment policy**

### **Purpose of report**

For discussion.

### **Summary**

This paper provides the basis for a discussion of trade and investment policy, which is one of the Board's agreed priorities for this year. It analyses the findings of new research by Oxford Economics on national projections and the potential to boost city region performance, as well as proposals on next steps for members' consideration.

### **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. Earlier this year, members agreed that there were significant gaps in national trade and inward investment policy in terms of harnessing the full potential of city regions. There was a strong sense that English city regions were not on the whole well-served by the current system, which neither recognises their unique selling points nor offers them tailored support to capitalise on them. As a result, many city regions found themselves having to work around the system to secure inward investment deals and boost local export performance. Members agreed that the LGA should develop proposals for reforms to policy and delivery arrangements that could be promoted to the next government.
2. To set the stage for this work, we commissioned Oxford Economics (OE) to produce long-term projections of national economic performance if current trends hold, with additional reference to the role of England's city-regions in generating exports and attracting investment. The key findings of this report and their implications for the case that the Board is seeking to make is set out in the next section, with the rest of the paper focusing on proposed next steps.

### **Analysis of current trends and future projections**

3. The OE report confirms that there is cause for serious concern if the UK's current pattern of trade and investment performance continues. Broadly, the report shows that the UK's global economic competitiveness is at significant risk of deterioration based on current trends. For many years now, the value of the UK's imports have been greater than what we export, which is not an ideal position to be in as in simplistic terms it means that we send more money out of the country than we bring in. The difference generally has to be made up by borrowing or selling assets. According to the OE, economists tend to start to worry when the gap between imports and exports equates to about 5% of GDP. The report shows that the UK's gap has reached the danger zone and seems likely to stay there. Over the long-term, this means it will get harder to reduce borrowing or avoid running down assets if we cannot boost export performance.
4. The research also shows that current trends seem unlikely to deliver a rebalancing of the economy, either across regions or sectors. The projections are that the UK will become increasingly dependent on the export of services, which in turn places a greater reliance on the economic clout of London (which has a higher share in exports in this sector). Similarly, on current trends, inward investment seems set to continue to be heavily weighted towards London and a small number of sectors (and companies) in specific regions.
5. The report confirms that there is significant scope for city-regions to play a greater role and help boost national performance. For example, the analysis points to key specialisms and competitive advantages in different English city regions ((e.g. road vehicles in the West Midlands, personal services in Bristol) that could be better

leveraged in our national policy and delivery arrangements. The report also adds weights to the Board's skills agenda, highlighting the importance of boosting productivity to enhancing the UK's attractiveness to global investors. Critically, the report suggests that efforts to enhance exports, inward investment, innovation and skills need to be integrated through a localised approach in order to be effective.

### **Next steps**

6. This research provides us new leverage to open up a more substantial conversation with UKTI and BIS about reforms to future trade and investment policy. The UKTI has been a reluctant player in the City and Growth Deals processes, preferring for the most part to maintain its centralised approach. However, with this new analysis showing that there is an opportunity to capitalise on specialisms and competitive advantages in different city-regions, we have a good case to press for the UKTI's policy and operational framework to take a more tailored approach to working with city regions. Officers have been testing UKTI's willingness to engage and the door is certainly open to deeper discussions.
7. Given that a number of city regions already run substantial investment and export operations, we are also working closely with them to develop the principles that could underpin a new model of working between UKTI and city regions. Nottingham City Council, Marketing Birmingham and Plymouth City Council have already been helping us to flesh out our ideas, and, pending members' steer, we intend to seek input from a wider range of city regions in the coming weeks.
8. We have also had a number of productive discussions with business and third party groups with an interest in trade and investment, including the British Property Federation (BPF), Institute of Chartered Accountants of England and Wales, the British Chambers of Commerce and Universities UK (UUK). They have all indicated that they are keen to engage in the development of our proposals and have offered intelligence and analysis from the sectors they represent. The BPF, for example, has highlighted the pull of city regions outside of London to international property investors in its own policy work and have expressed a strong interest in joining up. Similarly, UUK is keen to work with us on the localisation of high level skills provision and look at how greater coordination of local intelligence on trade and investment opportunities could be coordinated.
9. The key issue now is to ensure that this work influences the thinking of ministers from May 2015. We now need to use this research to help change thinking in government and to move forward with a more detailed proposal. The LGA has already had meetings with front-bench teams in the Coalition and Labour Party to set the scene for this research. Former LGA Chair, Sir Merrick Cockell met the Trade minister in BIS and current LGA Chair has briefed developed Chuka Umunna MP. Both BIS and the Shadow Team have asked to be briefed on the work. Members may wish to consider providing a copy of the Oxford Economics report to both their front bench BIS and City teams. The important issue of debate is that the research helps to define that a more

city-focused trade policy would help solve a long-term and negative national trade problem. We would ask to open a debate on how the work and agreements with UKTI through City and Growth Deals could be better devolved to city regions.

10. The next stage would be to engage our third party supporters to help develop a more detailed proposal for May. Subject to members' steer, it is proposed that a deep dive event with external stakeholders and UKTI be held in March to review this research and to examine where existing models of city-based trade work could form the basis of a proposal for future UKTI work.