Inquiry into the Welsh Government's approach to the promotion of trade and inward investment

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The Welsh Economy Research Unit has undertaken a series of investigations into inward investment in Wales examining issues such as determinants, impacts of inward investment on Wales and policy response.[1]

The role of inward investment (particularly that from overseas) in the UK regional economic development 'toolkit' is not as prominent as it was during the 1980s. During the 1990s there was in Wales a far greater focus on indigenous firm development, and improvements to the supply side of the economy. Moreover, the level of funds available to market areas such as Wales overseas, and to provide monies for grants and other types of assistance has fallen, as competition to attract inward investment has intensified. With respect to the work of the Committee the following points can be made.

First, while there is a debate on the effectiveness and/or desirability of inward investment interventions, this sits alongside a strong evidence base on the positive economic impacts of inward investment. In the Welsh case concerns remain on the functional base of much of the inward investment stock. However, the contribution of inward investment, and particularly foreign firms to regional output, employment and exports is well established, and with evidence of spillovers to local firms.

Second, past reviews of inward investment interventions in Wales have stressed the importance of reflecting more carefully on whether the types of assistance offered to firms should be better connected to the expected level of benefits. Some projects in terms of skills base, technology, and embeddedness have greater development potential, but it is not clear whether these are 'rewarded' in the process.

Third, reviews have also centred on the problems of attracting inward investors who bring HQ-type functions. A large part of the older foreign manufacturing stock has a production-only basis adding to problems commonly associated with a 'branch plant syndrome'. These problems are now being carried forward into much of the services inward investment entering the regional economy. This undoubtedly feeds through into the type of low skills equilibrium that acts to maintain productivity gaps between the core and the periphery of the UK, and which has been highlighted as one of the factors contributing to the GVA per capita gap between Wales and the UK. More attention needs to be given as to whether, and how far policy resources can be tailored to attract, not just particular

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[1] Munday, M and Roberts A (2009) *Foreign direct investment: review of determinants and impact*", Welsh Assembly Government. See http://wales.gov.uk/statistics-and-research/review-econmic-evidence-determinants-effects-foreign-direct-investment/?lang=en

sectors of investment, but particular functions, that break this cycle. Clearly, one issue that will need to be considered in this respect in Wales is the role of tax varying as a means of attracting different types of inward investment.

Fourth, policymakers need to consider how well location marketing policies to inward investors are integrated into overall regional economic development strategy in Wales. The links between dynamic changes in the foreign direct investment (FDI) stock, the presence of new investors, and policies towards indigenous firms have not always been made clear. Then focusing resources on FDI is not necessarily at odds with the promotion of the indigenous business sector. Furthermore, discussion of foreign inward investment and its role tends to be sidelined in operational programmes dealing with the EU structural funds (and this includes draft programmes for West Wales and the Valleys and East Wales for the 2014-2020 programming period). There is a need for clarification of how policies encouraging foreign inward investment into Wales can be associated with the convergence programme, and how far the use of Structural Funds leads to benefits for the foreign sector. Given the new EU Smart Specialisation agenda involving the targeting of specific sectors in different regions inward investment attraction should be an integral part of this process in Wales.

Fifth are issues of comparative cost effectiveness. There has been a paucity of analysis in Wales comparing the cost effectiveness of resources used in marketing and grants to attract inward investment, with the funds employed to encourage indigenous SME development and entrepreneurship. The Committee may wish to consider the comparative strengths of the evidence base relating to the impacts of resources used to attract foreign capital as opposed to those used to support indigenous enterprise. As funds to support regional development become increasingly tight in future public spending rounds, issues of comparative cost effectiveness will become more and more important.

Sixth, In March 2012 the Regional Development Agencies (RDA) of the UK regions were abolished and replaced by Local Economic Panels. The role of these new organisations is very different from that of the RDA, and does not directly encompass Inward Investment attraction. Given the time it would take to build a successful inward investment attraction brand, there is a real opportunity for Wales to intensify its international marketing with changes to the nature of domestic competition from England. This should be done by working through the UK consular offices and other existing international networks.

Seventh, since 2007 there has been considerable pressure in most developed nations to cut tax assistance mechanisms offered to large firms in light of significant budget cuts resulting from continued austerity. In the USA this has lead to large numbers of corporations losing tax benefits and as a result moving to different cheaper locations. This “footloose” capital should be top of the list for the Welsh Government overseas offices.

Inward Investment promotion and policy

Key parts of the work of the Committee revolve around the promotion of Wales as an investment destination. The current performance of Wales in attracting inward investment (from the UK and overseas) is poor compared to the rate of success achieved in the 1980s and 1990s. In part this reflects factors outside of local control. However discontinuities in the overseas marketing effort following the loss of the WDA brand have had serious consequences.

Recent research by Cardiff Business School (2012), for example, examined the agencies (and attendant infrastructure) charged with attracting inward investment in the Cardiff City Region in particular. The amalgamation of the Welsh Development Agency (WDA) in 2006 and the retirement of the WDA brand saw the introduction of a Welsh Assembly Government (now Welsh Government) brand for inward investment, International Business Wales (IBW). Since this date a number of agencies, which had been operating during the time of the WDA, have taken a greater role in attracting inward investment, particularly from the rest of the UK and Europe. It must be noted that other agencies were involved in inward investment attraction during the time of the WDA, but were very much in supporting roles. The Cardiff Business School (2012)[2] analysis raised issues relating to:

- A haphazard approach to marketing Wales abroad, and poor co-ordination between the UKTI and Welsh Government, not helped by continuing changes in organisation in Wales.
- A lack of cohesion in operational and strategic coordination of services.
- Difficulties associated with the overarching branding of Wales.
- The 'key' sector 'approach' adopted by the Welsh Government causing confusion among inward investors

These issues were also raised in the Welsh Affairs Committee (2012) inquiry into inward investment.[3] For example, witnesses to the inquiry noted: "A lack of focus on marketing Wales overseas and that repeated Welsh Government re-organisation had detracted from the task of selling Wales to the world." Others cited a decline in Wales's visibility overseas. Reorganisation and prioritisation around a series of key sectors has been badly thought out, and with little economic evidence available as to why selected sectors are 'key' to the future of the Welsh economy. The Welsh Affairs Committee was also critical of the quality of the network of relationships between Welsh Government and UKTI. We believe that as a starting point the Committee in Wales examine carefully the findings and recommendations of Welsh Affairs Committee (2012) to see whether the concerns addressed in their report are still relevant.

[2] http://business.cardiff.ac.uk/sites/default/files/Selling%20Wales%20FDI.pdf

[3] http://www.publications.parliament.uk/pa/cm201012/cmselect/cmwelaf/854/85408.htm#a15