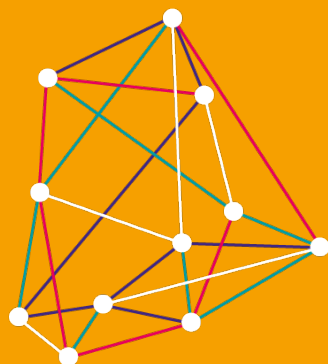


NP11



Policy Paper:
Trade & Investment

TRADE AND INVESTMENT

Northern Powerhouse Trade & Investment¹

In Brief:

If the North is to achieve its full economic potential it needs to deliver a step-change in trade and investment activity. This requires new ways of working and fresh investment to drive pan-Northern trade and investment.

To achieve this, the North should work with Government, especially the Department for International Trade, to establish a Trade and Investment Leadership Board to focus on long-term pan-Northern objectives for trade and investment.

Key Facts:

The size of the prize

The Northern Powerhouse Independent Economic Review (NPIER) in 2016 argued that the North's economy has the potential to generate an additional £97bn Gross Value Added (GVA) and an additional 850,000 jobs by 2050 relative to growth under Business-as-Usual – improved export and inward investment performance will make a significant contribution to realising this potential.²

The Ambition:

Headline export ambitions

- Match the UK average of 9.5% of firms exporting by 2030 through internationalisation of the Northern Powerhouse economy – delivering an additional 12,000 businesses engaged in exporting by 2030.
- Raise exports from 24% to 30% of Northern Powerhouse GDP by 2030 to match the current UK average – delivering an additional £53bn-£61bn of GVA a year by 2030.

Headline inward investment ambitions

¹ This paper draws on ongoing work by the Northern Powerhouse Trade & Investment Officers Forum – it is intended to inform debate rather than make firm proposals/recommendations.

² [Northern Powerhouse Independent Economic Review, SQW 2016](#)

- Double the rate at which Foreign Direct Investment (FDI) projects create/safeguard employment from 90 to 180 jobs per 100,000 population to match the UK average and thereby deliver an extra 30,000 jobs a year.³
- Ensure 70% of jobs created and safeguarded by inward investment are 'better jobs' (i.e. managerial, professional, and technical jobs) to drive productivity and raise earnings.
- Grow the value of Foreign Capital Investment (FCI) investments from £12bn of live projects a year (29% of the value of all FCI projects in the UK).
- Increase overseas investment in Research and Development from an estimated £832m to £1.04bn a year to match estimated UK levels of R&D investment per head – and work with DIT and UKRI to develop more fine-grained metrics to track overseas R&D investment; and
- Increase the share of Northern Powerhouse GVA generated by foreign-owned companies from 22.6% to the UK average of 26.6% – to deliver an annual prize of around £16bn by 2030.

³ Calculations based on: <https://www.gov.uk/government/publications/foreign-direct-investment-projects-by-uk-region-2012-to-2017/foreign-direct-investment-fdi-projects-by-uk-region-tax-year-2012-to-2013-to-tax-year-2016-to-2017> and <https://www.nomisweb.co.uk/query/construct/summary.asp?menuopt=200&subcomp=>

The Challenges:

The North has a significant gap to close in relation to exports as a share of GDP. The Northern economy exports around £90bn a year, approximately 24% of its Gross Domestic Product (GDP). The equivalent figure for the UK is 30%, and the Government's target is for 35% of UK GDP to be exported by 2030. Without a step-change in the scale and nature of its export promotion activity there is a risk that this gap could widen, as other parts of the UK strive to meet the Government's target.

One explanation of this is that a lower proportion of businesses in the North are exporting. Only 7.5% of businesses in the North export, relative to a UK average of 9.5% (a gap of c. 12,000 businesses). If the Northern Powerhouse is to deliver transformational growth it must further internationalise its economy.

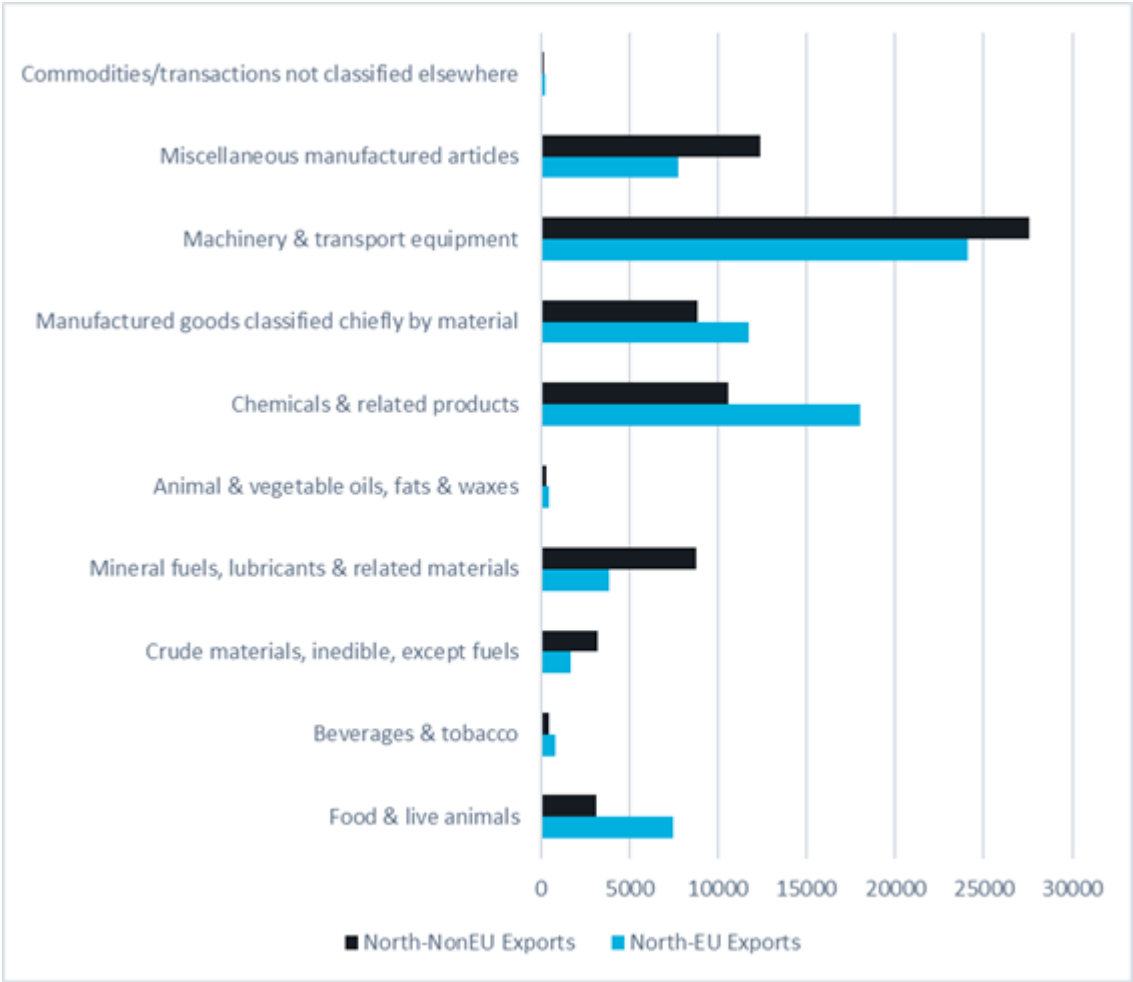
Greater internationalisation of the Northern Powerhouse economy:

- Means that additional growth will not displace economic activity elsewhere in the UK;
- Will link businesses to global supply chains – which will enhance engagement in global innovation networks and knowledge transfer; and
- Will build resilience by making the North's economy less reliant on domestic markets.

Around 64% of the Northern Powerhouse's exports are in goods, compared to a UK figure of 55%. The North, therefore, needs export promotion tailored to goods-intensive exports; particularly linked to its four Prime Capabilities, which account for around 50% of its exports. Service exports account for 36% of Northern exports, compared to a UK proportion of 45%. The share of Northern Powerhouse goods exports which go to the EU has been fairly stable over the past 10 years – fluctuating between 52% and 55%. Figure 1 provides a breakdown by sector of goods exports to EU and non-EU markets. It shows the North's goods exports are strongly linked to EU markets – particularly food and live animals and chemicals and related products. Given uncertainties in relation to Brexit and wider international trade tensions, exporters will need support to maintain current EU markets and identify new markets in the rest of the world.

Further work is required to understand the drivers of export performance in the North's service sector. This is particularly important given long-term structural shifts in employment from manufacturing to services.

Figure 1: Goods Exports from the North to EU and non-EU markets by Standard International Trade Classification (£million), 2017



Source: HM Revenue & Customs, 2019:
<https://www.uktradeinfo.com/Statistics/RTS/Pages/default.aspx>

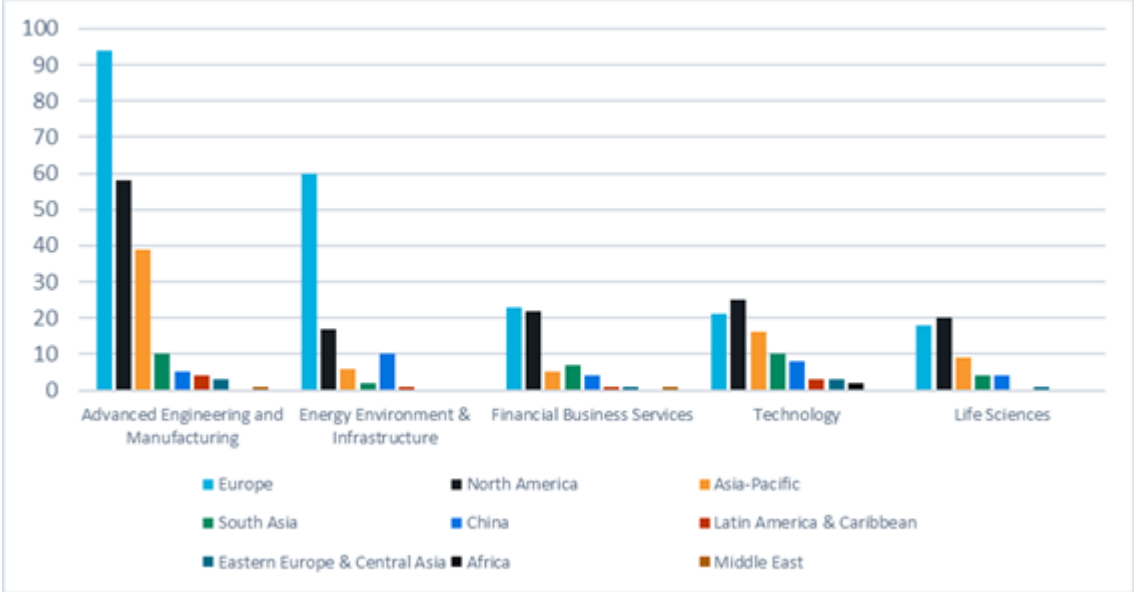
The North’s Inward Investment challenge

Inward investment is vital to the economic prosperity of the North.⁴ It is a driver of economic growth through employment and demand, generates exports, as foreign-owned businesses tend to export more than domestic ones, and internationalisation adds to the North’s resilience. Annually the North safeguards/generates 90 jobs per 100,000 population through inward investment – just 50% of the UK figure. This shows that the North can significantly improve the level and impact of its inward investment. If the North matched the UK average for jobs created/safeguarded by inward investment, it could deliver an additional 30,000 jobs a year.

⁴ Inward investment data can be patchy, in part due to commercial confidentiality. This makes it difficult to benchmark performance and set clear, measurable ambitions. So initial targets should be seen as a first step in the development of a more robust framework for managing Northern Powerhouse inward investment performance.

Europe is the North’s most significant source of inward investment. While North America is important for Technology and Life Sciences, South Asia is significant for Financial and Business Services, and China is important for investment in Energy, Environment and Infrastructure [figure 2]. At a time of uncertainty in relation to trade and investment – linked to Brexit and heightened tensions over trade more generally, the North needs to develop inward investment activity that maintains investment flows from Europe, while also developing investment relationships outside Europe.

Figure 2: Number of investment projects by region of origin and key sector, 2016-19



Source: Department for International Trade, 2019

Foreign Capital Investment (FCI) needs to be attracted to drive investment in infrastructure, particularly energy, transport and digital connectivity, and in land and property, including developments in residential, private rented, commercial and leisure sectors. The Department for International Trade (DIT) Capital Investment Team work on a number of live projects at any given time, which cover a range of asset classes, including, the Private Rented, Residential, Leisure and Hotel, and Advanced Manufacturing sectors. If the North is to achieve transformational growth, it must maintain momentum to maximise Foreign Capital Investment (FCI) by working in partnership with DIT to develop a pipeline of investment.

The North has a marginally higher percentage of foreign-owned businesses than the rest of the UK – but with significant variation between regions [table 1]. Foreign-owned businesses make a significant contribution to GVA, but in the North these businesses generate a lower percentage of the region’s total GVA than the UK average. The challenge for the North is therefore not solely to attract more foreign-owned companies, but to attract more high-value companies, which will help to raise GVA.

Table 1: Comparison of Northern Powerhouse foreign owned business profile with the whole UK

Region	Percentage of foreign owned firms	Percentage of GVA from foreign owned firms
North East	4.7%	27.3%
North West	3.7%	21.9%
Yorkshire and Humber	3.6%	21.5%
Northern Powerhouse	3.8%	22.6%
UK	3.6%	26.6%

Source: ONS Annual Business Survey, 2018⁵

⁵ Foreign-owned businesses in the UK: business count, turnover and aGVA, from the Annual Business Survey, ONS
<https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/annualbusinesssurveyforeignownedbusinessesbusinesscountturnoverandagvabreakdown>

Opportunities:

The North has economic strengths in high-value, high-tech industries. The NPIER identifies four 'international-class' pan-Northern 'Prime Capabilities', which are clusters of sectoral, academic, occupational, and infrastructural strengths, in:

- **Advanced Manufacturing Processes and Materials:** Automotive, Aerospace, Offshore Engineering, High Precision Engineering Chemicals, Marine Engineering, and Graphene and Advanced 2-D materials;
- **Energy:** generation, storage, and low carbon technologies and processes; in particular, Nuclear Energy, Offshore Wind Energy, and battery technologies;
- **Health Innovation:** Life Sciences, Medical Technologies and Devices, e-health and service delivery, and Stratified Medicine; and
- **Digital:** High-Performance Computing, Cognitive Computation, Data Analytics, Simulation/Modelling, Machine Learning, and Media

The NPIER also identifies three 'national-class' 'Enabling Capabilities': Finance, Business and Professional Services; Logistics; and Education – particularly Higher Education.

The challenge is to build on these existing strengths to stay ahead where the North is strong and develop routes to excellence in new markets where the combination of the North's Capabilities mean that it is well placed to develop new technologies and markets. Table 2, which was developed through consultation with trade and investment officers across the North, provides a summary of those key sub-sectors in the Prime Capabilities where the North is currently strong and those where there is potential to drive new routes to excellence. These sectors and their supply chains provide firm foundations for trade and investment promotion in the North.

To achieve transformational growth and build economic resilience, the North needs to deliver a step-change in:

- The value of exports as a share of Northern Powerhouse GDP;
- The share of Northern Powerhouse businesses engaged in exporting, especially in global supply chains;
- Promotion of goods exports – particularly but not exclusively in the Prime Capabilities;
- Service sector engagement in exporting;
- Internationalisation of the North's economy across all sectors and geographies – to promote business engagement in exporting and participation in global supply chains and innovation networks; and
- Support to maintain exports to EU markets and expand exports to the rest of the world.

To achieve transformational growth and build economic resilience, the North requires a step-change in its approach to inward investment to:

- Create and safeguard more jobs so that the North can match the UK average of jobs created/safeguarded per 100,000 population – by attracting more and larger FDI projects;
- Attract more FCI by developing a pipeline of investment opportunities that are of strategic significance to the Northern Powerhouse’s long-term economic development;
- Attract more mobile global investment in R&D, by creating a vibrant environment that fosters research and innovation in public services, universities, and businesses, and provide incentives to companies to locate their R&D here; and
- Attract higher-value companies to the North to increase their GVA contribution to match the UK and to raise the value of exports as a share of GVA, as foreign-owned businesses tend to export more of their output than domestically owned businesses.

Big Ideas for Discussion:

Partners in the North will work with Government, especially the Department for International Trade, to develop a Northern Powerhouse Trade and Investment Leadership Board that will:

- Focus on long-term pan-Northern objectives for trade and investment, which are the key to real change;
- Build a culture among partners that is forward-looking and not driven by annual targets and the need to chase 'easy wins';
- Engage at Ministerial level – establishing parity with Devolved Administrations in Scotland, Wales and Northern Ireland – on investment and trade-related activities carried out by DIT, and other relevant central Government departments;
- Lead an export and inward investment plan with specific goals, objectives, that identifies:
 - Key strategic 'propositions', such as:
 - ❖ Research and innovation support based on the North's Prime Capabilities to build on existing strengths and to attract investment in that will develop routes to new excellence;
 - ❖ 'Northern proofing' future trade deals to identify risks and opportunities associated with new trade deals; and
 - Key operational issues, such as:
 - Enhanced key account management of major employers to build on existing strengths, including supply chain development; and
 - Internationalisation of the business support offer to support small and medium sized enterprises expand into global markets, including via participation in global supply chains.
- Establish a performance management framework to drive improvements in all trade and investment services delivered for the benefit of the Northern Powerhouse via national departments, as well as local and regional partners over a longer-term horizon.

Table 2: Current strengths, where we need export and inward investment strategies to stay ahead, and potential world-leading strengths where we need routes to new excellence

Strategic Approach/Prime Capability	Advanced Manufacturing Processes & Materials	Energy Generation	Applied Health Innovation	Digital Technology
<p>Staying ahead – Inward investment and trade support for the North's Prime Capabilities, particularly working with large multinational companies, such as Nissan and BAE Systems, which operate in the four Primes</p>	<ul style="list-style-type: none"> Advanced Materials Aerospace Automotive Chemicals/Pharma/Bio 	<ul style="list-style-type: none"> Offshore wind Nuclear (de-commissioning) Subsea 	<ul style="list-style-type: none"> Med Tech Drug Discovery Clinical trials Infection Anti-Microbial Resistance Ageing 	<ul style="list-style-type: none"> High Performance and Cognitive Computing Cyber Security Industry 4.0 – e.g. Digital Manufacturing and E-commerce
<p>Routes to New Excellence – Develop long-term strategic partnerships with key markets and overseas territories to promote the North as a partner in Global Value Chains and Global Innovation Networks, and as a location with which, and from which, to do business</p>	<ul style="list-style-type: none"> Light-weighting – including Graphene and 2D Materials 	<ul style="list-style-type: none"> Hydrogen Nuclear and Advance Modular Reactors/Small Modular Reactors Battery technology – to complement West Midlands' offer All subject to UK Energy Policy 	<ul style="list-style-type: none"> Digital Health Tissue Regeneration Health Economics 	<ul style="list-style-type: none"> Artificial Intelligence Virtual Reality Big Data

Source: Northern Powerhouse Independent Economic Review 2016