

# International Trade Committee

## Oral evidence: Inward Foreign Direct Investment, HC 124

Wednesday 26 May 2021

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Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Paul Girvan; Sir Mark Hendrick; Anthony Mangnall; Mark Menzies; Martin Vickers; Mick Whitley; Craig Williams.

Questions 1 - 28

### Witnesses

I: Emily Kent, Head of Economy, Skills and Culture, Cornwall Council; Neil Francis, Interim Managing Director, Scottish Development International; Professor Riccardo Crescenzi, Professor of Economic Geography, London School of Economics; and Professor Susan Scholefield CMG, Visiting Professor of Politics, University of Surrey.



## Examination of Witnesses

Witnesses: Emily Kent, Neil Francis, Professor Riccardo Crescenzi and Professor Susan Scholefield.

**Q1 Chair:** Welcome to this afternoon's session of the International Trade Committee. It is our first session on inward foreign direct investment. We have two panels today, a panel of four for an hour to 3.30 and then the second panel will be until approximately 4.30. The first panel are Neil Francis, Professor Riccardo Crescenzi, Professor Susan Scholefield and Emily Kent.

I will ask you all to introduce yourselves on your own terms—name, rank and serial number—starting with Neil Francis.

**Neil Francis:** My name is Neil Francis. I am the interim managing director of Scottish Development International at Scottish Enterprise.

**Professor Crescenzi:** My name is Riccardo Crescenzi and I am a professor of economic geography at the London School of Economics. Thanks for having me here today.

**Professor Scholefield:** My name is Susan Scholefield. I am a visiting professor at the University of Surrey, Department of Politics.

**Emily Kent:** Good afternoon, I am Emily Kent, head of economy, skills and culture for Cornwall Council.

**Q2 Chair:** A beautiful part of the world, one I have not been to yet but one I see on television from time to time. Thank you all very much for coming here this afternoon. Your time is always appreciated.

To Neil Francis and Emily Kent, the DIT provides a range of services directed to inward investors, from bespoke capital investment arrangements for major investors in property and infrastructure to online self-service systems. In your experience, how adequate and effective do you think those are?

**Emily Kent:** In terms of a national policy, trade is incredibly important as a tool to level up regions across the UK. From a regional perspective, it has to work for all the regions. From a Cornwall Council perspective, I would say that nowhere is more important than Cornwall, where our productivity is 72% of the UK average. In terms of exporting and inward investment, we have performed poorly compared with the UK average and export significantly less than a number of other UK regions.

In that respect and in terms of the services that DIT provides, it is incredibly important that they respond to the needs of regions and of local areas in addressing the needs that we have and the opportunities that places like Cornwall present rather than a simple one-size-fits-all offer, which I think is more of their provision at the moment. In the past the policy has not been as successful as it could be in spreading trade evenly across the country. There has been a tendency to focus on quick



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wins in those places that are the usual suspects. That often leaves places like Cornwall feeling like they have missed out from those opportunities because of the types of businesses we have here.

**Chair:** Good answer, case well put and well advocated for Cornwall. Thank you.

**Neil Francis:** I will start with the second part of your question in relation to the digital services to attract inward investment that you set out. The first thing I would say is that, obviously, I am not a consumer of DIT services directly, so my comments need to be seen in that context.

The UK as a whole has a very strong track record in attracting global FDI. If you look at digital services, they are focused on, in the main, the factors that we know are most important to inward investors in making location decisions, as well as delivering against a number of hygiene factors, which are also important, things like how to open a bank account and how to register the company in the UK. From that point of view, they cover all the bases.

What is important with digital services is the execution and the follow-up. They are there to respond in a reactive way, and at some point the engagement with the client has to come from being online to being a physical relationship, and ensuring that execution is efficient and effective is very important.

The first part of your question, which is the second bit I would like to talk about, is very important. That is about the proactive work DIT leads on in identifying companies that are likely to or would consider the UK as a location. In doing that part of the work it is important, as Emily said, that the propositions that are taken to market, that are taken to prospective investors, reflect the best that we have right across the UK, reflecting appropriately the strengths, resources, skills and talents that are located right across the four nations. Sometimes that isn't done as well as it might be done.

There is a two-way responsibility there. There is the responsibility of colleagues in DIT to ensure they reach out to colleagues right across the UK to ensure they have a deep and clear understanding of the advantages and resources, et cetera, in every part of the UK. There is also responsibility on agencies like my own, and obviously the council Emily represents, to ensure we are also putting our best foot forward and ensuring that we are being proactive in putting forward our contributions to those national propositions. I am sure we will come on later to talk about the high potential opportunities.

The final thing I would say is that we have a protocol where all the prospective opportunities are shared on a single UK pipeline. We all have visibility of what is going on. That is a good thing that enables us to be proactive in ensuring that we have the opportunity to pitch our respective



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propositions against any of the opportunities. I will pause there, Chair. I will not go on forever.

**Q3 Chair:** Two cases well made from the nation of Scotland and from the old nation of Cornwall, not to be overlooked.

I will bring in Professor Crescenzi and Professor Scholefield. The DIT measures its success in promoting inward investment by counting successfully landed investment projects for which the DIT network has given the investors significant assistance. How adequate do you feel that performance metric is, and is it fostering the right environment?

**Professor Scholefield:** For me the most important thing is actually that it happens. I suspect all are sharing in the effort of attracting, and the important thing is that it is a truly coherent, integrated, national, regional, local, even distribution. Who is taking the credit for it, in a sense, as long as we have those good understandings—I am very encouraged to hear what colleagues who are regionally based and nationally based, being Scotland, have said. I am encouraged that there is some of that common pipeline, if you will.

It seems to me it is more important that a good investment has arrived and that it is of the right quality. On foot of Covid, quality means secure, in all senses of the word, and green. That is absolutely key. In some ways I would be looking for the quality of the investment being the metric that we ought to be looking at. The most important thing is to get it here.

**Q4 Chair:** Quality being a greenfield investment rather than various acquisitions, investments and purchases?

**Professor Scholefield:** Yes, quality and value do not just mean financial. They must essentially be to do with, at the moment, security in every sense of the word. These must not be, in any sense, ways in for those we would not wish to invite here. We can see an enormous level of ransomware, fraud and other things, including conceivably for some very shady operators, maybe even hostile states. I am obviously going off on to a different discussion. Quality in every sense of the word is important.

**Q5 Chair:** I think that area will raise its head at some stage this afternoon. Professor Crescenzi, do you have any additional comments that you would like to add in this area?

**Professor Crescenzi:** The LSE has just published what is possibly the most comprehensive study of investment promotion efforts in Europe, comparing the UK with a large sample of other European countries, focusing on both national and subnational investment promotion efforts. This research shows that it is the overall investment promotion architecture that matters. It is about how the DIT's—if you think about the UK we also have a private operator, Invest UK—overarching investment promotion architecture works in terms of co-ordination across the different layers.



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If we compare the UK with other countries, we see that the UK architecture is significantly more complicated, vis-à-vis other countries. This might also be part of the problem. It is not only about DIT but how DIT co-ordinates its action with other layers of the investment promotion architecture.

In terms of the metrics for the success of the investment promotion efforts, I think that focusing on the number of investments landed or their value is a very narrow approach to the assessment of the success of investment promotion efforts. First of all, we need to take into account our capability to embed investments. The fact that investments arrive does not necessarily mean that they generate impacts. It does not necessarily mean that the foreign investor connects with the external ecosystem, so benefits cannot be taken for granted.

The extent to which the investment is embedded in the local economy is also crucially important for their potential capability. How and to what extent, particularly in response to Covid and the global restructuring of value chains, we can be successful in retaining the investments is missing in this type of metric.

The bottom-line message is that local is incredibly important. When we look at the global competition for foreign direct investment, we see that localities more than countries compare with each other for the attraction of FDI. This should be taken on board when thinking about investment promotion under the umbrella of an overarching value proposition. What is the unique selling point of the country as a system for foreign investors? These unique selling points, these overarching value propositions to investors, are somewhat in transition at the moment and are not so clear and visible to foreign investors in a moment that is particularly challenging globally. This is a very important aspect to reflect on.

**Chair:** There is a lot to unpack there, which hopefully we will touch on during the afternoon, but I am aware of the way time is going for us. Without much further ado I go to Mick Whitley.

Q6 **Mick Whitley:** Good afternoon to all our witnesses. Professor Crescenzi and Professor Scholefield, could you please summarise for us what information is currently available on the quantity and type of UK inward investments at the subnational level and what it tells us about how investment is distributed across the UK?

**Professor Crescenzi:** This is a very important point, so we need to think about two issues. The first is the size of FDI, so where the FDI is going within the UK. It is very important, so we will likely discuss this later, but official information on this is extremely limited because the ONS does not provide detailed data, geographic data on foreign direct investment. The existing data is mostly national, so we have to rely very often on private suppliers to track what happens at the subnational level. This is already a



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weakness of the system, given the importance of this type of question to inform public policies in terms of investment attraction.

For the data that we have, for example, looking at the data that came from Ernst & Young monitoring of FDI, we see that London dominates the landscape of foreign direct investment, attracting almost 50% of total FDI coming into the UK. They looked at the period between 1997 and 2019. London accounts for almost two thirds of all investment reaching core cities in the UK. There is a clear dominance of London in the FDI landscape in terms of quantity, but we should also be reflecting on the quality of FDI. It is not only about sectors but about functions. That is what foreign investors are doing in different locations. I might be making an investment in manufacturing or services, say in automotive, but this can be about retail, it can be about a shop, it can be about logistics or it can be about R&D, for example.

Investments, apart from their value, also have different meanings and very different implications in terms of the jobs and positive impacts that they can create on external environment, depending on the function. What is it that foreign investors are doing in different places? On this, we probably don't know enough.

From preliminary data, from what we can see from the information that we have, this is also an important part of the big divide between London and the rest of the country.

**Professor Scholefield:** As you might expect, I would focus very much on the hubs that will attract out of London and what they can offer coming from, for example, university towns. All of those—as we have seen very much around vaccines, for example, with universities working with particular industries—can transform and make a particular hub very attractive as a destination. We might then focus very much on where those particular hubs are. And when one is looking at universities, one has a reasonably good distribution on which one can build countrywide, as it were.

If there is not such a hub, we should think very strongly about creating one. In this recovery—we are almost in war mode at the moment—at the same time as beating Covid through vaccines, we need to be creating hubs for our future. We need to be doing these things at the same time. This is, it seems to me, one of those moments that is like a reward for the nation after all we have suffered. We need to get that sense of urgency to create hubs for investing for the kinds of industries we will want here in the future. It includes things like advanced manufacturing. It also includes having, countrywide, a highly skilled workforce. This is the moment to start investing, after what people have been through, in refreshing skills. We can see this coming forward in very good proposals for apprenticeships being very much part of the future, and we can start doing this now, particularly bringing in apprentices, of all ages arguably but particularly the young, as an alternative to graduates into major



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companies in a whole range of sectors. That is one example where we can now start to build for the future, and to build the hubs countrywide that will attract with the urgency that comes from what we have experienced as a nation.

That makes co-ordination at every level very important. This is where I think the Government absolutely can help, critically by ensuring that the policies of all Departments are co-ordinated, and that means the Cabinet Office is co-ordinating them. We are then clear on what the nation's centres are on these islands and what the regional centres are because, in some cases, metro Mayors, for example, are probably best placed to know in much more detail the strengths and weaknesses of the areas that need development for equal shares in our national wealth. That is where the co-ordination in the Cabinet Office for Government Departments is crucial, and also regional co-ordinators, and then in some cases there may be particular localities that will be the closest to the particular issues. We need to be sure we are all working together in sharing, bottom up as well as top down, good ideas, things that really have worked.

Perhaps I will stop there. I see good signs, though. There is a lot of important legislation recently in place and coming in that all looks very positive if we use it well.

**Q7** **Mick Whitley:** Thank you. I have a supplementary question to Neil Francis and Emily Kent. What data is available to you on inward investment at the subnational level, and how useful is that information?

**Emily Kent:** In terms of data that we are able to see at the Cornwall level, it is incredibly problematic for us. We see data at a south-west level but, of course, the performance of Cornwall in that regard is completely masked by some large city areas—Bristol and Exeter—that completely outweigh anything we may be able to see at a Cornwall level. We obviously have our own local data from Cornwall Trade and Investment and its direct activity. Clearly, that is something that is locally funded and doesn't necessarily reflect the full impact of everything that is happening.

**Q8** **Chair:** Would you prefer that Cornwall was treated distinctly in statistics and not masked by the Bristol/Exeter effect? Is that a plea you would have?

**Emily Kent:** At a regional level, all areas should receive data at a close enough level that they are able to see the impact of that work on their local authority. At the Cornwall level, the Cornwall and Isles of Scilly footprint is absolutely right for us. It is our functional economic area and it is the area that we best understand how our economic strategy works and how the ecosystem of those businesses is working together in terms of supply chains and our sectors. That is the level we would want to see and be able to access that data at—our local authority level.



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I appreciate it is not quite the same for the rest of the UK because of the differences in local authority structures, but it is the footprint that is aligned to our local enterprise partnership that absolutely drives the economic strategy. That is the correct footprint for us, and for us to be able to see, interrogate and then act on that data.

**Mick Whitley:** Thank you, Emily. I think Neil Francis is having problems.

**Chair:** We will move on to Mark Menzies now.

**Mark Menzies:** My question is directed towards Neil Francis, so come back to me.

Q9 **Anthony Mangnall:** Professor Scholefield, I would be very interested in hearing your thoughts about the legislation that is coming forward in due course, about how you can create that more joined-up approach, how you can create that apprenticeship programme when the legislation comes, so do not be surprised if you hear from me.

My question is to Emily. I am a south-west MP for Totnes in south Devon, and I am interested in the Cornish approach here. Local enterprise zones across the country have different levels of success and ability. First, from your perspective, I would be very interested to hear how you think you are performing and what your early key indicators of that success are, and then I have a couple of follow-ups.

**Emily Kent:** Cornwall and Isles of Scilly is a distinct economic region. It has been something we have collectively worked on as the Cornwall and Isles of Scilly region since early 2000 and has been supported by high-level investment programmes in terms of stimulating economic growth and beginning to tackle deprivation. Over that time we have grown significant capacity in being able to engage with the private sector and businesses to understand their needs, but also, in terms of the conversation that we have just had around quality and impact, to understand how we are bringing and driving a local skills and jobs market that responds to business need, provides skills, training and opportunities for those who live here and absolutely promotes everything that Cornwall has to offer as a fantastic place to relocate, to live, to work.

On our sector strengths, we absolutely know and have over that time really honed those key competitive advantages that respond to our natural environment, to the skills that we have here, to the historical foundation sectors of the economy and traditional industries that call and speak to our strengths. Being able to measure that performance is about driving our economic strategy towards those.

Clearly, in terms of where we are economically there are still a number of issues we are tackling, but we have got better over time at being able to identify and understand the markets that we are operating in and are best served to respond to.

Q10 **Anthony Mangnall:** I should just say, for balance, that Devon is an equally good place to live and work. I feel I have to get that in, otherwise



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I would not be allowed to go back.

You are taking some quite niche industries. Let's take the aerospace industry that you are basing in Cornwall. How much is that diverting attention away from the traditional industries and businesses that you might want to be expanding and helping promote rather than going for what are quite shiny new projects? I do not say that in any way that is derogatory, because I think they are great projects, but I am just wondering whether that is affecting the strategy you have in Cornwall at the moment.

**Emily Kent:** It is absolutely on strategy and, in terms of the set of skills, being an engineer who is able to fix a marine engine on a boat is not very different from being able to fix an engine on a space rocket. As to how we are providing skills and opportunities for young people and people looking for employment, we are making sure that the training that is provided and the sectors that we attract will be able to respond across the economy and, in terms of the strategy, respond to where it is most needed for providing good jobs, good employment and increased earnings, which ultimately impacts on productivity and wellbeing.

Those sectors have been incredibly well thought about. They respond to the environment. Our focus around georesources, agrifood and agritech is increasing the value and productivity of those traditional sectors and is making sure that we can pay the people who work in them the earnings that they need to live well, rather than just to survive.

Q11 **Anthony Mangnall:** The way in which you are going about it will have a knock-on impact that is positive for all the south-west. I saw in a previous report that you talked about Government directly funding the LEPs. I am interested in how you think that will work in a pragmatic sense and whether or not you feel it is even likely at this point. If the Chair will indulge me, my own view is that such is the variability of LEPs across the country that it makes it very hard to imagine that the Treasury would suddenly turn around and say, "We are going to go ahead and fund this." They are all going to have to reach a certain standard before we move in that direction. I am interested to hear your views.

**Emily Kent:** Our LEP has directly attracted over £100 million-worth of investments through various funding programmes since it was established, as well as being strategically responsible for the delivery of our £60 million European programme, which is just coming to an end. The LEP is also key in terms of the conversation we need to have going forward about the shared prosperity fund and the levelling-up fund. The opportunity there links to the coterminous footprint of the two local authorities, Cornwall Council and the Isles of Scilly Council, the LEP, our local nature partnership and our health and wellbeing partnership all have the same geography and, therefore, in terms of strategy and our ask to Government, they are absolutely joined up around what the ambition is and how all those things work together in supporting that business and societal ecosystem. In terms of the LEP and the strategies all being



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joined up, those are absolutely the right building blocks for making that success happen.

**Anthony Mangnall:** Thank you very much. That is really helpful.

**Chair:** It is interesting to see that south Devon/Cornwall exchange, with some remarkable restraint I am sure from Cornwall. Mr Menzies, do you want to come back to your point now?

Q12 **Mark Menzies:** Yes, I will come back to Neil Francis. Neil, Scottish Development International says that Scotland has attracted the most foreign direct investment in the UK after London for six years in a row. That is quite an achievement. What do you think are the key factors that brought it about?

**Neil Francis:** I will try to be brief. It is seven years now. It is a track record we are very proud of. If you think of inward investment and what drives FDI, there is market access, there is resource seeking and there is efficiency seeking. We have been clear on the type of inward investment we wish to attract, and it builds on some of the very good points that Susan made earlier.

Our focus has been on resource-seeking inward investments. That is inward investors who are looking for assets, talent, skills, resources that are in short supply elsewhere, and being very clear on what we have in that regard and then, as Emily said, building very focused propositions that we can take to market, knowing the type of investors we wish to attract and, importantly, the type of investment. We are not really interested in supporting mergers and acquisitions because, at one level, a transfer of ownership adds nothing to the economy. There are future growth opportunities that might come into play, but ours really have been about attracting organisations that will establish operations within Scotland.

The final thing, I think, builds on the point that Riccardo made. It is very important that you can embed the potential investor into your ecosystems. What we have in Scotland, starting with the Scottish Government and then working through the economic development agencies, is a coherence and co-ordination that runs across our public and private sector infrastructure, where it might be the principals of our leading universities and colleges, some of the senior leadership we have in existing investors. The ability to convene and project a unified, coherent ecosystem to prospective investors, I cannot stress enough the importance of that.

If you look at our statistics, you will find we are even more successful in attracting research and development-type opportunities. That plays well to the resources, talents and assets we have in Scotland.

The other thing I would say is that all areas have a decision to make about how much they want to invest in whatever they choose to do. We have been fortunate in Scotland that we have had consistent investment



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through the Scottish Government into our international activities. We have 38 international offices overseas that complement the extensive network provided through FCDO, but we have our own ability to be in market and get alongside those prospective investors early on.

**Q13 Mark Menzies:** That is interesting to hear, and certainly you have a track record of success. Just for the interest of transparency, I am one of the Prime Minister's trade envoys and I have responsibility for Colombia, Chile, Peru and Argentina. We had some huge success with a company called Grupo Daabon, which invested in a company called Soapworks in Glasgow and secured 140-odd jobs. That is an example whereby they invested in an existing business, albeit a distressed asset, and they have used that as a design hub and are now exporting from Scotland and have turned it into a global hub.

**Neil Francis:** Mergers and acquisitions in themselves do not, but that is a great example of using it as a springboard for future growth. Of course, a lot of Scotland's export performance comes from our foreign-owned companies. They use it as a springboard to export not only to the European Union but to Africa and the Middle East as well, which is important for us.

**Q14 Mark Menzies:** I will celebrate your success, but I want to make sure you do not have Grupo Daabon down as one of your successes because, let me assure you, it is most firmly on the list of mine.

Professor Phil McCann of the University of Sheffield has said that Scotland punches above its weight in attracting quality foreign direct investment. He attributes this to Scotland having "enough autonomy and power to get engagement with business". How accurate is that assessment, and is there anything else you would add to it?

**Neil Francis:** I think I alluded to some of that. The most important factors in location decisions and those that fall to, in the broader sense, Government to facilitate are around skills, infrastructure, business environment and quality of life. What we know is some of those, not all of them, are devolved to the Scottish Government and the Scottish Parliament. The ability to make decisions that drive forward the objectives that we have for the economy in Scotland is very real. That is important. Quality of life is one that is important to investors and, not only at a national level in Scotland but at a regional and a city level, there is a lot that people can do to influence that quality of life.

I return to my initial comment. The ability for Scotland to convene and co-ordinate all the decision makers behind the opportunity is crucial. That is part of the design behind the new Office for Investment that has been set up in the Cabinet Office to co-ordinate across Whitehall. That is a much bigger job just by the size of it. Size allows us that fleetness of foot, that agility, that is so important.

**Q15 Chair:** I have a quick question for Cornwall, listening to what Neil Francis has said. Do you look at the powers and advantages that Scotland has



that Cornwall does not have, and would you like Cornwall to have that level of devolution, for instance, to be able to effect economic decisions a little more?

**Emily Kent:** Cornwall was the first rural area in England to successfully negotiate a devolution deal back in 2015, and additional decision-making powers were subsequently added to that around our European programme, given the significance of it to Cornwall's development. We have huge ambitions as a local authority to be able to make our own weather and to have more of that decision-making power, especially when it comes to the economic race. I think that is a reflection that often national one-size-fits-all programmes do not have the resonance that is needed in places like Cornwall, where our business make-up is incredibly different.

**Chair:** Okay, it was just a brief point. I could see that Neil Francis was making the pitch for Scotland, and I am aware that we have Cornwall here as well that does not have that ability to act on a level playing with Scotland. That prompted the question.

Q16 **Mark Garnier:** Neil, if I can come back to some of your international presence, I used to be the Investment Minister in DIT and one of the great things about all the offices overseas is that the Government's approach is one Government overseas. You go to the mission and you have the ambassador, you have DIT, you have MoD and all the rest of it, all in the same office. Scottish Development International has 30 offices in 23 countries, which are not necessarily within the British diplomatic mission. How do you work with DIT? Do you see yourself partly in competition with DIT in terms of investment for Scotland, as opposed to the rest of the United Kingdom? Are you collaborative or in competition?

**Neil Francis:** We are collaborative. We now have 38 overseas offices. In the vast majority of those we are now part of the mission in those localities, we are a partner across Government. We see a lot of advantages in being collocated with our colleagues in DIT and with other colleagues in Invest Northern Ireland or Welsh Government, or even with some of our regional colleagues. It is trade and investment we are obviously interested in.

Trade is really additive. It is highly collaborative, it is always a win-win situation for the company. Support from us, support from our colleagues in DIT, it can only ever help the company.

With inward investment you have to be mature about it, because wherever investment is secured it has to go somewhere within the UK. Clearly, all of us here are interested in winning the investment for the UK. Emily wishes as much of that investment to go to Cornwall as possible, and I wish to see as much of it come to Scotland as possible. Having said that, it is highly collaborative. I think I said in an earlier answer that we operate a single pipeline across the UK, so whatever leads we are generating we make sure our colleagues in DIT and in the other parts can



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see those opportunities and vice versa. The protocols that we have are very good and, by and large, they work, so if a prospective investor says, "I am only interested in going to Cornwall," then everyone else leaves that one alone. If an investor says, "I really don't know where I want to be in the UK," that is when we all come together to create a proposition that highlights the strengths across the four nations to allow the investor to have an opportunity to see which location, given its requirements, would work best for it.

It is collaborative, and we have to have a mature approach because, at the end of the day, the investment goes somewhere and that somewhere does matter.

**Mark Garnier:** What a fantastic answer. Thank you very much, that was very helpful.

**Chair:** We are about three quarters of the way through the time but not quite halfway through the questions. It is not our fault, time just goes too quickly, as I am sure you know. We are moving now to Paul Girvan, who is a master of watching time and will be picking up the pace brilliantly.

**Paul Girvan:** Thank you, Chair, compared to the advantages of a lean, mean, fighting machine, with reference to a party political broadcast in relation to the SNP, so thank you.

**Chair:** I was thinking it, I was not saying it.

**Paul Girvan:** I was watching your face.

**Chair:** Yes, I saw that. I was watching yours back.

Q17 **Paul Girvan:** Professor Scholefield, the Economic Diplomacy Commission, of which you were a member, concluded that there was a need to decentralise policies around foreign direct investment. Can you summarise the evidence that led you to that conclusion? As an add-on to that, how do you envisage such decentralisation being brought about?

**Professor Scholefield:** We will need to decentralise in some things, but something we have not mentioned is that one of the very important areas where we need to be international as well as national is things like norms and standards. They are very, very important, and that is where we shoot ourselves in the foot if in any of those areas we are decentralising, doing our own thing. We want as many of them to be international with our key allies and friends, so "it depends what it is" would be my not answer to your question. In the Economic Diplomacy Commission, we looked across the board. I think it is how you decentralise—what I have been hearing—always in a very co-operative way. I think it is very important.

If you want to ask me a slightly more specific question, I can write back to you perhaps—that is probably the best thing to do, given time—with particular recommendations in a particular area.

Q18 **Paul Girvan:** Thank you very much indeed for your answers thus far. I



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will possibly take you up on that point, and there might be some areas that I would like to look at, how we could actually work on that. I am making reference to our own Department in Northern Ireland, which is Invest NI, in relation to how it has attempted to engage in this way, and I appreciate you have had some involvement with the NIO—

**Professor Scholefield:** Indeed, yes, for two very interesting years, a very important part of the Good Friday follow-on negotiations.

**Paul Girvan:** Yes, round about 2000 and—

**Professor Scholefield:** 1998 to 2000.

**Paul Girvan:** Yes. If there is a way that we can get some input from the likes of Invest NI, I might put a more direct question to you in writing if that would be possible, please.

**Professor Scholefield:** Yes, gladly.

**Paul Girvan:** Thank you very much indeed.

Q19 **Craig Williams:** I am very interested in what you are saying, Professor Scholefield, and I will tease out a bit of detail about decentralisation.

I am talking to you from the middle of Wales. There is a very porous border between the mid-Wales economy and the West Midlands economy so, while I perhaps have very different views from Angus on what that border should mean for lots of this decentralisation, what I am told in terms of securing FDI and dealing with business on an international level is they get HMG, they get the UK Gov and they get, of course, the Welsh Gov, which is a properly constituted Welsh Parliament—before Angus starts—but what they want is a one-stop shop and they want to understand very quickly how they can secure a business or an investment in the middle of Wales. They are tempted, time after time, to go to the West Midlands because they see it as simpler.

How do you weigh up those two in terms of the localised, decentralised policies and offering international business and investment opportunities the simplest of solutions?

**Professor Scholefield:** I think that is the importance of “building back better”, to quote a phrase. What we want the new normal to look like, in terms of the way we work with each other on these islands, I think it would be having an understanding that in some cases we would direct things to Wales. We would say, “Yes, you are thinking of the Midlands for obvious reasons but did you know that this, this and this would be available to you in Wales? We are wanting to work with our Welsh people on these islands to develop in that area. Now, could we interest you in that?”

I think we will need to have a much more generous foreign and now, usefully, development programme. It used to be the Foreign and Commonwealth Office. We now have the D, Development, so I would argue that we will need to operate in this way internationally as well as in



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these islands. For me, this is going to be: what are almost the ethics? How do we want best to work with each other for the future? I would like to see a future that is very different from where we have been.

**Professor Crescenzi:** It is very important, when we think about decentralisation of FDI attraction, to think what is the right scale. We need to make sure that powers and responsibilities are devolved at the right scale, given the size and the nature of the investments we are trying to target, so there is an issue of size. Sometimes LEPs might be too small, so there may need to be alternative arrangements that can work best for investors.

The issue of simplification is incredibly important. At the moment, there is a little bit of overlap between the new approach of the Government and what was done before. Different things are overlapping and there is a risk of confusing investors, so it is crucially important to restructure thinking of a way that we can send a clear signal rather than increasing confusion at all levels. I think that investment promotion cannot be separated from an industrial strategy. Otherwise, investment promotion becomes mostly a communication exercise, and we know that communication plays a very minor role in terms of FDI attraction. Investment promotion is about being plumbers of local institutions, making sure that everything works for investors.

This is achievable only if these efforts are part of a very clear, well-targeted industrial strategy. An industrial strategy is also crucially important to avoid generating a race to the bottom across different localities because in what we were discussing, when an investor arrives and has no clue where to go in the UK, we don't want to be poking and pulling the investor because otherwise we are basically using taxpayers' money to give a good deal to the foreign investor. We are not playing for our constituencies.

What we really want is to create the conditions for investors to go where they can generate the best possible local impact in terms of jobs and innovation, and we can avoid a race to the bottom if all constituencies and local authorities work in the framework of very clear priorities that are part of an overarching industrial strategy. The Industrial Strategy Council was ideally positioned to play this role in terms of co-ordination, the same way as the National Infrastructure Commission is playing a role for infrastructure. There is a long-term view that these messages, in terms of targeting and priorities, are consistent and investors can rely on them.

**Craig Williams:** That sounds like evidence against decentralisation of some policies, but I won't open that up, Angus, because I know time is up.

**Chair:** My only comment is that the Welsh Government, as with the Scottish Government, do not have the powers of the Irish Government. We see how successful those guys are. Anyway, before I open that one



up, I shall move on to Mark Garnier.

**Mark Garnier:** I am slightly conscious that we are running out of time, and my question is not necessarily one of the most earth-shatteringly important ones so, in the interests of moving along, shall I pass—

**Chair:** That is very well accepted. Thank you. You have made a man happy here. Anthony Mangnall, are you still wanting to come in?

**Anthony Mangnall:** I do very briefly. It is nice of Mark to give way to the young guns.

**Chair:** Are you talking about me again?

Q20 **Anthony Mangnall:** Of course, Chair. I am conscious that this question could go to all four of you, but I am going to go to Professor Scholefield. There has been a lot of conversation recently about HPOs, and obviously there has been a lot of deliberation within DIT on this. The Government announced, I think, 19 HPOs in 2020. Can you provide a bit of thought on how effective they are likely to be? Is this a shiny, new idea that does not have the backing to actually work, or is this something that we should be proud of and bring out more of?

**Professor Scholefield:** We should probably bring out more of it and give it the chance.

Can I say that this is a wonderful moment? We have not mentioned—but we should, surely—the fact that we have our Prime Minister hosting the G7 summit in Cornwall in June. This is all leading to a very important six months with COP26 in Glasgow in November. This is an enormous opportunity for this country, and there could not be better circumstances in which to trial all these new organisations, including HPOs, including everything else that we are seeing brought in by this new legislation, and seeing whether it works under the best possible circumstances we could have, taking any lessons and adapting accordingly. This really is our national moment in every respect, I would argue. Let's not miss it.

Q21 **Anthony Mangnall:** Fair enough. No one would disagree about being ambitious. I am going to go to Riccardo on this as well. HPOs, what is your view on them? Do they supersede growth deals and LEPs, or do we have these in addition to them?

**Professor Crescenzi:** This is a very important question because, to the best of my knowledge, there is still a question mark as to the extent of the new high potential opportunity programme, like how and to what extent it is co-ordinated with LEPs. We don't know exactly, and this needs to be addressed, like Susan was suggesting. Given the moment, this needs to be addressed as soon as possible. We need clarity to send a clear, unequivocal message in this regard.

This can have a signalling power that can be leveraged. It is not so important who is leading, provided that someone is leading. It is very important that there is leadership and that there is a direction that is followed consistently. The risk of shiny, new policies is that they show to



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investors that there is discontinuity. If discontinuity means that we understand something from the past that we want to change and to do better, so if it is evidence-based change, it is welcome. But discontinuity comes at a cost because it is confusing to investors, so we need to make sure that investors have the perception that we will follow a consistent plan and that this plan will be in place now and in a number of years to come.

**Neil Francis:** Very briefly, the HPOs are just a means of servicing the ecosystems around the UK so, if someone is interested in aquaculture, what we are saying is there is an ecosystem and a structure that would potentially make a good home for them. That is what the HPOs are trying to say.

The trade-off here is that, in terms of a desire to level up, there is a lot of pressure on colleagues in DIT to have an HPO for every region, every subregion across the UK, and whether they actually represent the best place for that investment is a moot point. I think the Chair would recognise if I said that aquaculture and Scotland, rather than Dorset, are synonymous. I think those are the challenges. That is what it is trying to do.

Q22 **Anthony Mangnall:** Neil, for balance, I might also say that Devon is synonymous with aquaculture as well, but there is not enough time to go into that.

**Neil Francis:** Yes, but you can see the real challenge in trying to identify ecosystems on a geographical basis in the UK.

**Anthony Mangnall:** Thank you, that is a good point.

Q23 **Craig Williams:** We have spoken a bit about how we all work together. I just want to ask about the Office for Investment that is going to be using the power of No. 10 and all of HMG. How would you like to see that integrating with, or working with, the four new trade and investment hubs in Scotland, Wales, Northern Ireland and the north-east? In your opinion, how do you see that working? Would you like that to work?

**Neil Francis:** Yes, I think we would very much like it to work. As I said earlier, the ability to convene and co-ordinate across Government in Scotland has been a really powerful thing for us. As I said earlier, the job across Whitehall is so much bigger, so having the Office for Investment with the convening power of No. 10 and the Cabinet Office is something to be welcomed. It is about how we play into that and ensure that we have the opportunity to say, if it is a Tesla Gigafactory, we have something to offer. It is how the different regions will play into that overall proposition. That will be co-ordinated through the Office for Investment. That will be the key, so as a principle and as a strategic thing it is really good. It will all be about the execution and the engagement.



So far the engagement has been good. We have had a number of conversations. The team is small and just getting up to speed. Similarly, with the hubs that will be across the three nations—Northern Ireland, Wales and Edinburgh—it is about ensuring it is additive, it is complementary and, most importantly, that it does not confuse the customer.

**Q24 Craig Williams:** I am interested in that because, from your tone, you seem to imply that DIT is the additive bit to trade, rather than the DAs working with the UK Government. How do you view that? Clearly, Scotland is getting the best of both worlds with the DA putting money into trade and the UK Government stepping up with their entire FCO base to support. What do you mean by the UK Government being additive?

**Neil Francis:** Because of what you just said. In terms of trade and investment, it is a parallel power. The devolved Administrations can do their own thing as well as Westminster, and I think it is that combination. When I said “additive” I meant there is no competition. What we have to make sure of is that it is additive and complementary. For example, if you think of the trade perspective, we are in 38 markets but HMG is in 105 markets. Our job is to support exporters to execute on the opportunities they see in any market. That is why working with our colleagues across the HMG platform is very important for our exporters.

It will be similar for our colleagues in the Welsh Government and their overseas platform, how that is complementary and works alongside our colleagues across HMG, as well.

**Craig Williams:** I know that is an entire conversation, Chair, so I will drop it now and we will have an entire inquiry about that at some point.

**Chair:** All I was going to remark is that it would take about two worlds to help poor devolved Scotland to be as good as independent Ireland, of course, but we will leave it there. That intra-debate might be attractive but maybe not more relevant to this afternoon.

**Q25 Martin Vickers:** In view of the time, I will just go to Professor Scholefield on this one. The Government’s Plan for Growth envisages using infrastructure, skills and innovation to facilitate levelling up, green growth and “Global Britain” as a beacon for free trade. How sound a basis is that for promoting and facilitating inward investment, and how well is inward investment policy integrated into the Government’s Plan for Growth?

**Professor Scholefield:** In my understanding it is integrated. There is interesting work precisely to ensure that that is the case. In terms of policy, legislation and, at the moment, standards and norms, that is almost the area where I think we have to be the most active. That means being in international standing bodies, having writs there, to make sure we are aligning ourselves correctly.



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All that is good is there. For me, the key thing is now delivering what we are promising in practice. It means that the precise locality where the investment is will immediately need to wrap around all this wealth of infrastructure, talent, innovation that we are promising, in practice, and it will not be good enough for it to turn up in three or four years maybe. No, now. That is a huge challenge to us.

Q26 **Martin Vickers:** The policies are integrated and in place, but the jury is out?

**Professor Scholefield:** In my view, they are integrated and there are one or two extras coming in. I think the apprenticeship action is extremely important, for a highly skilled workforce, to get that second skill quickly, because you have a person of whatever age who is doing the day job and being trained through it, as well as maybe going off and doing the odd course. It is absolutely hands on, so the effect starts from as soon as they start that apprenticeship.

Q27 **Chair:** Finally, we are going to Mr Mick Whitley. Can I see him on my screen? No, he has had to dip out, unfortunately.

He was going to ask this. The Government have announced a global investment summit, created an Investment Council and begun a drive to secure sovereign wealth fund investment—something we, of course, find very interesting in Scotland—in green energy projects. How confident are you that they will form part of a coherent inward investment strategy, and how involved are you in that? Particularly looking to Cornwall and to Scotland in that area, have you heard very much about this?

**Emily Kent:** We picked up the initial announcements on some of these things. I guess, with all these things, the devil is always in the detail and we would want to make sure that, in terms of that wider principle around levelling up, we are able both to be part of the creation of these things and to respond to them on a level playing field with those areas across the rest of the UK that we are both working with, in terms of joint sectoral responses, and in competition with. In terms of those investment opportunities and those plans, that they respond to the needs that we have in Cornwall and recognise the differentiated approach that needs to be taken, as you said before, but then that they focus on the achievements that are needed around quality, impact and opportunities for those local areas, rather than just solely on a national policy basis.

Q28 **Chair:** Professor Crescenzi, from an LSE perspective, what is your view of what the Government are doing and what its impacts might be? I suppose the potential impacts might be nearly anything at all, but from your perspective can you give a point of view, please?

**Professor Crescenzi:** We need to keep in mind that, in a global scenario, lots of different actors are at the moment emphasising and trying to attract investors along similar lines. The extent to which the UK's strategy can be successful in this respect very much depends on the ability to emphasise what is unique to the UK ecosystem and what type of



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conditions can be created for foreign investors to be successful and thrive.

In this respect, we should also take into account the wider policy framework that becomes very important for investors. Skills includes the role of universities as well as, for example, immigration policies, which are crucially linked with the decision of investors when it comes in particular to their highly qualified workers.

**Chair:** Thanks very much for that. That brings in a number of the areas that also matter for investment: as you said, immigration and the wider areas. I remember what Neil Francis said earlier about the environment that people might go to, the schooling they can expect and the amount of other factors, essentially, that people take into account when they are making these decisions.

Panel one, thank you very much for your time today. Time has literally been our enemy today. There is a whole load of stuff we could and should have unpacked and that we probably did not do justice to at all, but we are grateful to you, Neil Francis, Professor Riccardo Crescenzi, Professor Susan Scholefield and Emily Kent from Cornwall, who have given an interesting perspective. I thank all four of you for that. It probably won't be the last time we see you but, for this time, we are very grateful.