

International Trade Committee

Oral evidence: UK Investment Policy, HC 998

Wednesday 27 February 2019

Ordered by the House of Commons to be published on 27 February 2019.

[Watch the meeting](#)

Members present: Angus Brendan MacNeil (Chair); Mr Nigel Evans; Sir Mark Hendrick; Mr Ranil Jayawardena; Mr Chris Leslie; Faisal Rashid; Catherine West; Matt Western.

Questions 60 - 131

Witnesses

I: Dr James X Zhan, Director of Investment and Enterprise Division, UN Conference on Trade and Development; Alan Wilson, Head of International Investment, Invest Northern Ireland; and Chris Henning, Corporate Director, Development and Growth, Nottingham City Council.

II: Dr Axel Berger, Senior Researcher, German Development Institute; Dr J Robert Basedow, Assistant Professor in International Political Economy, London School of Economics and Political Science; and Dr Stephen Woolcock, Associate Professor of International Relations, London School of Economics and Political Science.

Examination of witnesses

Witnesses: Dr James X Zhan, Alan Wilson, and Chris Henning.

Q60 Chair: Good morning and welcome to our second session on our inquiry into UK investment policy. As ever, can I ask the panel to introduce themselves on their own terms—name, rank and serial number, please—starting from my left?

Chris Henning: My name is Chris Henning. I am Corporate Director for Development and Growth at Nottingham City Council. I have worked for a number of years with Core Cities UK Group on business growth, trade and investment. I am also involved in the Midlands Engine as accountable body for that organisation, and I started my career working for the Department of Trade and Industry in developing and delivering international investment policies and treaties.

Alan Wilson: My name is Alan Wilson. I am Head of Investment for Invest Northern Ireland. I have been in this role for about four years now, and previously I had a career in the private sector working for companies like KPMG, SAP, Shorts Missile Systems and Caterpillar.

Dr Zhan: My name is James Zhan. I am the Senior Director of Investment and Enterprise at UNCTAD; that is the United Nations Conference on Trade and Development. I am also the lead author of the UN's annual World Investment Report.

Chair: Thank you very much. It is very good to see you again, Dr Zhan. To kick off this morning we have the Committee vice chairman, Nigel Evans.

Q61 Mr Nigel Evans: Good morning, panel. Dr Zhan, the question is directed at you just so that we can get a bit of grounding, because we are all amateurs here. How do you define investment facilitation?

Dr Zhan: Investment facilitation is basically a set of policy measures and administrative procedures put in place by the Government. In essence, we say that investment facilitation is a set of measures to make it easier for investors to do business. That includes setting up the business, expanding the business, and also the day-to-day operations. That is investment facilitation.

It is about trying to ensure the transparency and availability of the information for investment in host countries. It includes efficient procedures in business registration and also reducing the costs of registration or doing business in the country. To put it simply, it is about removing the barriers on the playground for the investors.

Q62 Mr Nigel Evans: The Government would have to introduce policies or practices that ensured just that?



Dr Zhan: That's right. In terms of investment policy framework, there are four basic components: liberalisation, protection, facilitation and promotion. Facilitation is more at the level after you have set policy frameworks for entry and for protection. Then there is a level of administration—how to screen, monitor and register foreign investment. At that level there is a need for efficiency, and there is a need for efforts to facilitate investment in entry and operation.

Q63 **Mr Nigel Evans:** Can you put a bit of colour on to investment promotion, which you just mentioned? What sorts of policies would that involve?

Dr Zhan: Investment promotion, in essence, is to market the location or an industry of a host country to get investment into the country.

Q64 **Mr Nigel Evans:** It is being very proactive?

Dr Zhan: It is like marketing. It is promotion agencies trying to get investors in on the ground.

Q65 **Mr Nigel Evans:** Is this like when they went to Nissan and offered them whatever they offered them, to try to get them to—

Dr Zhan: That's right. It includes also incentives to attract them to the location. It is different from investment facilitation in the sense that investment facilitation is action of the whole Government trying to provide administrative services.

Q66 **Mr Ranil Jayawardena:** I would like to continue this line of questioning around promotion and facilitation. Could you outline your thoughts, and perhaps any evidence that there is, regarding the relative effectiveness of investment promotion and investment facilitation measures? I understand that Governments tend to favour investment promotion, but is that the best way?

Dr Zhan: That is true. I think that both investment facilitation and investment promotion are very important. As you rightly pointed out, over the last few years we have observed that across the world countries have made intensive efforts in investment promotion—that includes targeting and providing incentives—and less so on investment facilitation.

However, more and more we see today that investment facilitation is important. Why? There are a couple of reasons. One is that we see that investment liberalisation has run its course, meaning countries trying to open and to liberalise sectors for foreign investors. In the meantime, particularly in developing countries, we have observed this at the level of administration. When investors are trying to get in to set up business and all sorts of administrative procedures and barriers really hinder investment, it frustrates investors in the process of setting the business up and even into their day-to-day operations once the business is on the ground. That is why we see investment facilitation as important.

Looking at the data, we tracked the new investment policy measures put in place over the last two decades. For the last decade, the majority of



HOUSE OF COMMONS

the measures relating to investment promotion and facilitation were in the area of investment promotion—that is, giving incentives or targeting investors—and liberalisation, but less than 20% of the new measures introduced were in the area of investment facilitation.

Q67 Mr Ranil Jayawardena: What strategies can you see being put in motion today and what strategies could you see being put in motion tomorrow to promote the stability, competitiveness and attractiveness of the United Kingdom as a place for FDI, to facilitate greenfield investment by foreign companies?

Dr Zhan: In the short term, it is about trying to market the UK more and having more voice on the fundamental determinants for FDI, which is very sound, and which is superior, and to avoid being submerged by the voice of uncertainty. That is very important in the short term.

In the longer term I think that it is still about addressing the fundamentals. I think that DIT is now playing a key role in this area, and UK investment promotion agencies and the Government still rank among the top in terms of investment promotion and facilitation. There is one thing that perhaps the UK Government could do to further strengthen their investment facilitation, and that is an online, one-stop shop for business registration. That can be done—it is one of the best practices that we have advocated— and also a single window for investment information.

Q68 Mr Ranil Jayawardena: What country is the exemplar in that respect?

Dr Zhan: Quite a number of countries are doing that, including developing countries—some African countries. Of course, that is with the support of international organisations like UNCTAD. We provide the support. However, countries like Switzerland, Estonia, Ireland and New Zealand—quite a number of countries—are all doing well in this area.

Q69 Mr Ranil Jayawardena: Thank you. I will turn to local and devolved Governments. We have had written evidence saying that investment facilitation should include factors such as access to public utilities and the like, which are matters that local government and devolved Governments are very closely involved with. What efforts are local and devolved Governments making today, and what are you planning to do, as we leave the European Union, to attract further FDI?

Alan Wilson: With local utilities specifically?

Mr Ranil Jayawardena: With the utilities and infrastructure that are in your control. For example, local government has a big role in roads.

Chair: I think perhaps we will leave that for the moment, and come back to it in an upcoming section of our questioning.

Mr Ranil Jayawardena: On roads?

Q70 Chair: We can come back to that when we come to devolution. Dr Zhan, Mr Jayawardena mentioned greenfield investment. In our last inquiry, we



also heard about mergers and acquisitions as a form of FDI. The feeling we had from that inquiry was that merger and acquisition FDI was not as good or as welcome as greenfield. Do you have a view on that area?

Dr Zhan: Yes. This is a very important issue. Indeed, there is a tendency for many countries to pay more attention to greenfield investment and to take it as a priority, of course, because greenfield immediately puts up front the productive capacity and generates jobs right away.

With regard to cross-border mergers and acquisitions, we need to know the context and the situation, and sometimes the counterfactual. If a firm needs an exit—sometimes firms are in difficulties and heavily in debt—it is faced with a situation where it can either go bankrupt or get someone to take it over. Cross-border mergers and acquisitions sometimes play a role in job saving and productive capacity saving. With small and medium-sized firms, perhaps there is an opportunity to link with multinational companies and gain access to the global value chain. That is another potential benefit. The sellers have sold their firms, so the capital gains may be used for other types of investment; that, again, may add to it.

We need to look at the counterfactual and see that there is a role for M&As, even though the immediate benefit is not always up front. Of course, we need to bear in mind the sensitivity of national security and the sensitivity of technology-related issues. That needs to be taken into account.

Q71 **Chair:** Thank you. Chris Henning, do you want to come in on this point?

Chris Henning: Yes; I have a supplementary point about that. Part of the debate is not just whether one form of FDI is better than another, but the role of public authorities in that different form of investment. Clearly, where you have greenfield investment, the role of public authorities—let's say local authorities—in granting planning permission or supporting the development of highways to a particular site is critical, and they would not play the same role in an M&A situation. I think it is important to consider the role of the public authority in that context.

Q72 **Chair:** There is a role for Government to help private industry and to attract private industry in?

Chris Henning: That is right, yes.

Q73 **Chair:** Dr Zhan, this inquiry essentially sprang out of our Japan and Korea inquiry. We met with Invest KOREA and they told us they were modelled on UKTI, who are now part of the Department for International Trade. They highlighted the success of other bodies, and they were looking at and aware of the success of equivalent bodies around the world. Ireland, Malaysia and Panama particularly stood out from one of the slides they showed us. Which countries do you feel have the most effective investment promotion agencies and strategies, and why are they so effective?



Dr Zhan: In fact, the UK is among them as one of the most effective investment promotion agencies. There are others, of course; in Europe there is Ireland, and Estonia is the new one—the rising star—especially in using digital means in attracting investment. Switzerland is also very effective and efficient.

Q74 **Chair:** If we look at Estonia for a moment, why is it a rising star?

Dr Zhan: Because it uses digital means to attract, and it has new ways of attracting business. It has positioned itself as the business hub for that sub-region, focusing on developing skills in digital economies. It also has some new ideas like e-Residency as a way of attracting business and doing business globally. There are some good practices and new practices coming up. In Asia there are countries that are doing well. Singapore has been doing very well in attracting investment, and Korea, as you mentioned, where you visited that agency. In Latin America, Costa Rica, Chile and Mexico are all doing very well. In Africa, Kenya has been doing well.

Q75 **Faisal Rashid:** Just to follow up on that facilitation and promotion question, I totally agree with you, Dr Zhan, about having a one-stop shop and facilitating foreign investment into the country. How far would you go in terms of facilitation? There are some countries, I understand, where they provide some names of domestic companies when there are foreign investments coming in. However, we really believe in the tender process, full tendering and making it more transparent for trade. How far would you go and where would you draw a line in terms of facilitation?

Dr Zhan: In the case of the UK, in the recent past I have been interacting with the DIT, and I looked at their new strategies and the new methodology in assessing the impact of investment. I even wrote the foreword for that study. I think that the UK has done a lot. Almost all the checklists that we have are basically measures put in place because we have 10 action lines of what we call the global investment facilitation package. We even recommended that to the G20 and it was discussed there. The only thing I would mention that can be done to improve things further is this single-window portal and online one-stop shop.

There are other ways of improving the UK's investment climate, and one of the key issues—I guess you will discuss this in the next session—is the investment treaties. So far, the UK has signed 110 bilateral investment treaties and is also a party to the EU agreements, so that is a further 70. The current situation will raise a challenge for the UK. Brexit means that the UK needs to accelerate the process of these rollover arrangements in order to stabilise the economic relationships and trade investment relationships with non-EU members. That is critically important. For the time being, I think there is advancement with regard to the relationship with Switzerland, but there are many others that need to catch up.

Secondly, the 110 bilateral investment treaties were all concluded in the 1980s, 1990s and the beginning of the century. We call them the old



generation of investment treaties—"old generation" in the sense that we have a database of global investment treaties and almost none of the UK's bilateral investment treaties mentions sustainable development. That is one thing. Another thing is that in all these treaties, provisions regarding public health and the environment are absent. Then there are ongoing reforms with investor-state dispute settlement mechanisms, so how to update the bilateral investment treaties is also a challenge. For the time being, there are over 70 investor-state dispute cases involving the UK's bilateral investment treaties, so we need to look into that and modernise it.

Q76 **Chair:** Chris Henning, did you want to add to that?

Chris Henning: I was going to respond, Mr Rashid, to your specific point around facilitation and how far we go. Obviously, we work within the rule of law. We are a public authority and clearly we are making connections, so public procurement rules come into play and we do work through that. One of the ways in which economies can differentiate themselves is through the health and vibrancy of their economic growth and innovation ecosystems. Those ecosystems are networks of businesses, universities, business clubs and investors. Of course, one of the things that we as local agencies can do is to ensure that inward investors find it easy to navigate their way around that ecosystem, so they find it easy to get a foothold in the economy and to grow as a result. There is a difference; there is a kind of hard procurement and then there is a softer approach to that.

Q77 **Faisal Rashid:** My next question is to Mr Wilson, on ecosystems. Your organisation's current business strategy refers to providing an ecosystem that attracts international entrepreneurs to locate in Northern Ireland to establish and grow their business. What does that mean and how do you go about trying to deliver it?

Alan Wilson: Our ecosystem comes from a strategy that is at least 20 years old, and it is about attracting product development companies with high-value jobs. Because we are pretty focused on that, all our recent successes—including the one just announced on Monday for Signifyd, with 150 new jobs—are high-value jobs that depend on high-capability talent. We have built our ecosystem around fantastic A-level results in Northern Ireland, leading in the UK, and because of that we have focused on product development companies, as opposed to lower-end services.

Those product companies bring really high-end skill demands into the country. The fact that they are demanding that pushes interaction with the universities, and the universities then turn and push interaction back into the Government and back into Invest Northern Ireland. We work very collaboratively together to create an ecosystem that is welcoming for foreign direct investments, but also to help international entrepreneurs and to enable local businesses to grow. That is predicated on a strategy of focusing on high-value investments.

Q78 **Faisal Rashid:** How do you identify particular sectors and clusters in that



area? How do you target?

Alan Wilson: Each devolved Administration will have their own economic profile. We have what we call our contestable FDI sectors. We do not go into paper and pulp because we do not have a reputation in Northern Ireland for that type of business, but we do go after financial services, legal and professional services, life and health sciences, software, ICT, advanced manufacturing, aerospace defence—those types of high-value FDI. Those are the clusters and sectors that we focus on, but we are always foresighting and looking at what the top 10 trends are globally.

For example, a few years ago we went after what was called grid computing. Grid computing, of course, is now cloud computing and everyone is doing it, but we were first to latch on to this global trend on grid. We created some university research around that. We brought some industrial linkages with companies that were developing those technologies for real, and then we were able to attract companies like SAP Research from Germany to come to Northern Ireland to set up their grid research centre, which is now their leading cloud research centre.

We do focus on what we have core strengths in, and we also look at the global trends. For a few years now we have been pushing AI and machine learning as new sectors, but it is all based on the same core—on smart kids coming out of university.

Q79 Faisal Rashid: Obviously, you have been doing it for 20 years. What are a few of the achievements over those 20 years that highlight this system? Is there anything you would like to improve on?

Alan Wilson: I know that Northern Ireland does have a good reputation in the global markets that we are active in for FDI. We have been achieving our numbers from the four-year business strategy—overachieving—and this year we are on target to overachieve again. Generally, we are doing really well.

For example, in 1998 we had Allstate Insurance come into Northern Ireland with a 250-person project. Spin on 20 years and that company now has 2,500 people in Northern Ireland. It has built its own new building in Belfast city centre. It has brought a lot of investment into Northern Ireland over the years, and it has diversified. Initially, it was doing mainframe engineering; now it is doing cyber security and network management for its assets across the globe from Belfast. It has grown that, and that is just one example.

We also have Citigroup, which came in; it is also around the 2,000 figure. We have Chicago Mercantile Exchange, and Tullett Prebon came over from London. A lot of financial services and technologies have come in and grown. We have great case studies that I am happy to share.

Q80 Matt Western: Very briefly, to illustrate what you were saying about the aerospace ecosystem, can you give an example of the number of businesses in that ecosystem and how many people are employed?



HOUSE OF COMMONS

Alan Wilson: There are about 8,000 in the aerospace supply chain; there are 4,000 up front working on Bombardier and about 500 in Thales Air Defence in Northern Ireland. Those would be the tier 1s, if you like, in Northern Ireland's ecosystem, and then there is a supply chain of companies underneath that.

Q81 **Mr Ranil Jayawardena:** The route to this question has been tortuous, but that demonstrates the infrastructure problem we face in this country. Can I put the point again to you around the work that you do, and that you plan to do post Brexit, to facilitate further trade? I would very much appreciate your thoughts on road and rail, which are critical to getting businesses to move from London and the south-east to the rest of the country. What are you doing? What are your successes? What are you planning to do?

Alan Wilson: There is no road or rail link from London to Northern Ireland, so it is air, obviously.

Mr Ranil Jayawardena: Unless a bridge is built, as one politician has suggested.

Alan Wilson: Which may or may not happen, let us say. That could be a wee while off. We do focus on good air route connectivity between Northern Ireland and London and all major cities. Edinburgh, Glasgow, Birmingham, Exeter—you name it, we have an air route to it. We have really good connectivity there. I did work in London for three years but was based at home. Every Monday morning and Friday evening you will see lots of flights of white-shirted professionals leaving Belfast to come to work in GB cities and going back again. That has built expertise and capability.

Within Northern Ireland we have a regeneration pitch book, which has £1.3 billion in assets that we are seeking investors for globally. One of those investments is a £450 million transport hub that we call Weavers Cross. That is a 15-acre site in Belfast, and we will be promoting that at MIPIM next month alongside other investments in the city. That transport hub will be to connect the road and rail infrastructure on the rapid transit system we have in Belfast all the way to Dublin. The ambition is to have much better connectivity on the island of Ireland, and that connectivity will bring in additional business.

Another point about Northern Ireland compared with GB—obviously the transport link is one. I can see Scotland from my house—it is 18 miles from where I am—but there is a micro-economy in Northern Ireland. It is disconnected slightly from the main GB economy. If you Google the average house price in Northern Ireland, you will find that it is £130,000. If you Google the average house price in GB, you will find that it is more like £230,000. There is a big cost difference, and that helps to attract business to Northern Ireland.

Q82 **Mr Ranil Jayawardena:** Would you welcome a bridge?



HOUSE OF COMMONS

Alan Wilson: I would welcome a well-thought-through scheme that improved transport links between Northern Ireland and the rest of the world.

Q83 **Mr Ranil Jayawardena:** Excellent; thank you. Mr Henning?

Chris Henning: Of course, at a local government level our transport powers are more local.

Q84 **Mr Ranil Jayawardena:** But you are responsible for the SRN, and even MRN through regional bodies.

Chris Henning: Local, but of course not the train network; that lies without. Obviously, we have the ability to influence, but—

Q85 **Mr Ranil Jayawardena:** The trams, for example?

Chris Henning: The trams, for example. The period until recently has been about major investment in transport networks, and we have seen the development of lines 2 and 3 of the Nottingham tram. Line 1 was undertaken over a decade ago. We have extended those lines. We have invested in a new station hub in Nottingham, because the entrance to any city or any place is very important in the eyes of an investor. There has also been investment in dualing roads that connect the city to the M1. The A453 was the particular investment in Nottingham.

That local investment is starting to pay dividends and bring forward private sector investment. Of course, the next big stage of transport investment will be, we hope, HS2. That will be seen as a huge opportunity for the East Midlands as a whole to benefit from national investment in rail infrastructure. The critical thing will be to ensure that we connect that investment in the HS2 hub at Toton, in our case, to the city to enable jobs and people to travel between the two.

Q86 **Mr Ranil Jayawardena:** On the point you made about dualing, do you have any evidence that shows that dualing the roads has created economic uplift in your area, and do you have plans to dual more roads as a result?

Chris Henning: At the moment the specific evidence is anecdotal. Certainly, the conversations that we have had with businesses pre and post dualing have indicated a hugely marked change that has enabled some of the developments at the fringes of the city to deliver on their early promises. Do we have a full evaluation of what has taken place on that? Not at the moment, but it will be forthcoming.

Q87 **Chair:** Alan Wilson, a couple of things you said were quite interesting. The first was a minor point—that you are 18 miles from the Scottish mainland. Where I live, I am about 50 miles from the Scottish mainland, as the crow flies.

The second interesting point that you raised was about connectivity within Ireland. It is no secret that we are in the middle of a Brexit



HOUSE OF COMMONS

process that could result in a barrier down the middle of Ireland. What is business in Ireland saying about this, and what is your own view about investment into Northern Ireland? There is going to be a barrier either way, with the current trajectory; it is going to be either a sea barrier or a land barrier. Is there a view from within your organisation, or is this just too much of a political hot potato to be dealing with at the moment?

Alan Wilson: It is a political hot potato, for sure, and we know it is four weeks to the potential decision on what way we are going to do things. However, we have not held back. Since the referendum vote took place, we have stepped up our efforts to talk to our local businesses and find out what issues concern them. We have been putting out advice clinics regionally across Northern Ireland.

Q88 **Chair:** What is the view that has come forward that you are not holding back on?

Alan Wilson: The view is that businesses want to do business. The Invest Northern Ireland board did write to all the Northern Ireland political parties.

Q89 **Chair:** I am assuming that everybody wants to be in the customs union and the single market.

Alan Wilson: No one wants to turn down access to any market. That would not be sensible. We want to keep our channels open to Europe as well as all new markets that we can get access to, absolutely, so closing down markets is—

Q90 **Chair:** If GB is leaving the customs union and the single market, is Northern Ireland happy to do that with GB, or does it want to keep its foot in the backstop, whether you have a sea border, or you want to be—

Alan Wilson: I can't answer that. That is a political—

Chair: It is a political hot potato; fair enough.

Alan Wilson: It requires a political answer. I would say on a business level that businesses want to do business with everywhere in the world and keep channels as open as possible.

Q91 **Chair:** If you are forced into a choice, you do not have a view on the choice yet?

Alan Wilson: I don't have a view on the choice.

Q92 **Matt Western:** Mr Wilson, you clearly have an impressive strategy at Invest NI. I was most struck by the targets for creating new employees, and so on. Can you give us a bit more detail about the role of financial assistance and other support you provide, and how that is facilitating inward investment?

Alan Wilson: Sure. We have 23 offices around the world. We are very professional in our engagement with businesses around the world, and



HOUSE OF COMMONS

we bring those businesses into Northern Ireland based on a business plan that they provide to us. We have a step called an acceptable business plan, which then goes forward for appraisal with an internal due diligence unit. That business plan then goes to a casework panel with the delegated authority to sign off. Then we sign a contract with that company, and those contracts will be for a three to five-year period, and there will be a three-year control period at the end of the contract. Any grants that we agree to with the company are paid out in arrears. If it is a job-related grant, it is typically six months in arrears once the jobs have been created, so we are not risking public funds; we are minimising the risk to public funds. That is our basic process.

Once the company has been established, we then have a client team that engages with those companies. We make sure that the preconditions in the contract are met. We then do quarterly monitoring of those companies. We get their management accounts on a quarterly basis. We measure at a company level and at a project level for the full duration of the project. At the end of the six or eight-year period, depending on whether it is a medium-sized or a large-scale enterprise, we then do a post-project evaluation. The whole process is managed tightly, I would say, from end to end.

However, the types of incentives—this is more to your question—that we offer are such that a company will normally invest initially because they come for the talent that is in a region; they do not come for the incentive that the grants give. If the project is mobile and another region is offering some grant incentive, like the Republic of Ireland or some other European country, then under state aid rules we are allowed to compete for that mobile project and offer some level of grant funding. We are very careful to offer only enough to attract the company and no more, and it is managed as I have stated.

The first investment is typically an employment grant paid out in arrears as the company grows, and then after perhaps six months the company looks at the talent it has acquired, and it goes for a skills support plan. We call it a skills growth programme. If it wants to develop the skills over a two-year timeline, for example, then it might say at the one-year mark, "We have this great talent. We were all for doing this R&D project in our headquarters in California or in Hong Kong, but let's do it in Northern Ireland because we have great people and great universities, and so on." Then it would engage potentially on a research and development project.

All of those separate interventions are managed by the client team throughout the investment journey with the companies. We would typically see that any grant incentive we give, measuring on just a two-year investment period—even though the company stays for eight years plus, just using the two-year measure that we use—gives us a 10 to one return on the investment of our employment grant. We are content that that is a good return that we are getting, and it is helping to build our economy and ecosystem.



Q93 Faisal Rashid: Do you work with the Department for International Trade, and have you shared any learnings? If you do, to what extent?

Alan Wilson: Absolutely; we do have a very good relationship with DIT. I have to say that years ago it was not so close, but over the last couple of years we have definitely stepped up engagement on both sides. We have an executive forum where our chief executive meets with the directors general from DIT, and the other devolved Administrations also get together and discuss strategic matters. That is working well.

We have been encouraged to use the FCO platform in global posts. In the last two years we have added eight additional co-located resources; so about eight locations with about 30 resources, mostly across Asia-Pac at the moment, but also going global on that model. We intend to keep doing that. That means we are co-located and then we are engaging with those sector teams in country. That has really helped the relationship. I know the other DAs also have a similar approach. In Scotland and Wales, for example, they also have this co-location strategy. That has been really useful.

The third thing I would say is we do a lot of collaboration on trade. If DIT is doing trade missions or a trade visit is being led by a Minister, then we have the opportunity to get our companies to come along if they are relevant to that particular mission. A slight criticism I would make is that we would like more notice of those VIP visits. We do not need to know who the Minister is; we just need to know if it is a VIP or a VVIP. That is fine. With a bit more notice on the timeline, the sector and what it is about, I think all the DAs would have an opportunity to offer up really good representative companies that could attend those missions and they could be invited or not afterwards—so just a little bit more co-ordination there.

The other thing I think could improve is this. All the DAs receive a monthly cut from the data hub, which is all the leads that DIT have gathered globally across their posts. There are quite a lot of projects in there that the DAs would not call projects. If a company is putting a new oven in an assembly line somewhere, that could be seen as an investment in DIT terms, whereas we are very exacting that a greenfield investment has to be a net new investment coming in. That brand must not have existed in Northern Ireland before. We are very exacting in our definition. We would receive maybe 20 or 30 leads per month, but only perhaps one or two that are real and that we can count. It is being able to measure the same, because measurement and targets drive behaviour. We want our behaviour to be around investable opportunities for us and the other DAs.

Q94 Catherine West: Nottingham is reported to have been developing its science and tech hub and looking to expand links with China and India. Can you outline for us your authority's strategy for attracting inward investment from abroad?



Chris Henning: Yes, of course. We have both a proactive and a reactive strategy in regard to investment. It starts with what we were talking about before, which is the creation of a solid economy locally, a growth infrastructure and an innovation infrastructure. That is being built through the universities, through businesses, and through public authorities. The first thing is that you have to have the product that people want to buy.

The second thing is to work out—if you are looking at a proactive strategy, as we do—how we use our scarce resources in order to best market that product. We have to be quite limited in what we do, and quite surgically focused and targeted. We have three targets: China, India and Germany. We work through three significant cities in each of those geographies, partly because we have existing links that we can build on, whether that be links through the University of Nottingham in Ningbo, through our diaspora links in the Punjab and Chandigarh in India or through our civic relationships with Karlsruhe. We leverage those in order to bring businesses back from those markets or take businesses out to those markets, in liaison with the DIT, quite often, in the local market and with local businesses. Our proactive strategy is very much focused, as you would expect. We do not have huge resources. We have to use other people as our shop window, mainly.

We then have a reactive strategy, which is about ensuring that we are putting our best shine and our best package together around the assets that we have. We are particularly strong around science and technology. We are a knowledge-intensive economy with two world-class universities and a student population of over 60,000, and some real strengths in R&D. We have particular sector clusters that mean we are able to respond very positively, with our universities and with our businesses, to investment inquiries that come into the UK. It is part proactive and part reactive strategy.

Q95 **Sir Mark Hendrick:** Just on you being proactive, I am aware of the excellent work that Nottingham University is doing in terms of its investment in University of Nottingham Ningbo. I did a visit there once. Also, as I am sure you are aware, there is now a fast link between Ningbo and Shanghai. Obviously, your relationship with that university is quite old. What made you go there and what were the factors that you had in mind by making that investment and doing what you have done? I think that it is quite ground breaking in terms of co-operation between a British university and a Chinese one.

Chris Henning: Yes, you are absolutely right; it is ground breaking and may even be unique in the nature of the setup of Nottingham's campus in Ningbo. The strengths of the relationships that they have developed there are longstanding—well over a decade now—and they run deep into the local community.

We have over the past decade or so developed a sister-city relationship with Ningbo to complement that relationship. We were invited into that



HOUSE OF COMMONS

relationship by the University of Nottingham because the nature of the Chinese economy is such that the alliance between governmental bodies, local authorities and the university is seen as a hugely positive thing. It is seen as almost an added kitemark in terms of that relationship and the business that can be done.

We were invited into that relationship and we have used that relationship in order to grow not only the academic-to-academic side of things, but the business-to-business and civic-to-civic side of things. We have a set of relationships that started with the university but have now blossomed around that and involve Government-to-Government relationships. We have an investment pipeline that is coming through from Ningbo, supported heavily by the Ningbo government, and we take a number of trade missions over to Ningbo. In April we are visiting with a cultural and creative industry trade mission and a life sciences trade mission that has been built out of the relationship that the university originally established. It is a widespread and very positive relationship, which is resulting in jobs, growth and investment in Nottingham.

Alan Wilson: I will just add that a similar relationship also works with Queen's and Ulster in Northern Ireland, and across many UK universities. There is that same sort of sister university.

Sir Mark Hendrick: My own university in central Lancashire has a relationship as well, but I think that there is a difference between having a relationship, running joint courses, and making the major investment that Nottingham has made in Ningbo. Chris Rudd, who I know quite well, has been part and parcel of that.

Q96 **Chair:** Building on the university side, from the area of the local enterprise zones and the local enterprise partnerships, what roles are they adding to the facilitation of links with other areas? You also mentioned diaspora. How important is that diaspora? Has that been the seed that the rest has grown out of?

Chris Henning: It has very much, in terms of our relationship with Punjab in India. We have a very successful Punjabi diaspora NRI population in Nottingham that has very good business links.

Q97 **Chair:** Language maintenance among the ethnic Punjabi group in Nottingham should be a key and important thing to do, then?

Chris Henning: It may be. My experience is that business is largely done in English, certainly when we are there as English speakers.

Q98 **Chair:** That is a feeling the Welsh have quite often. People tend to speak English when English speakers are about.

Chris Henning: Understood. Certainly, those cultural and geographical links between the two countries, and the business links that grow up with that, have proven quite important in getting a foot in the door and



HOUSE OF COMMONS

establishing that level of trust, after which you can start to do business successfully.

Q99 **Catherine West:** What three actions by central Government would help in attracting foreign direct investment? Give us three things to give back to the DIT, or whichever Department.

Chris Henning: Inward investment really is a process from the sales front end through to landing the investment at the last mile. Clearly, central Government, with their network of embassies and posts overseas, can perform that sales front end really effectively. The last mile is what we provide—the actual places that people want to come and invest in, and the people that they need to operate in their business. Investing in the connectivity between that shop window and the last mile, and recognising the roles that all players have to play, is absolutely critical for me.

The second is about mobilising our universities, as Mark was talking about. We have a network of universities that are utterly international in their focus and have a set of R&D specialists. While in a sense they are competitive, they are also collaborative in terms of bringing knowledge into the UK. I would mobilise our universities to work together, and central Government can start to do that.

Alan Wilson: What would be useful at a DIT level is that focus on what we want to measure as a successful greenfield FDI project, and in our case I am talking about greenfield. I think tightening up on those measures of what a project is and what we want will give us more focus and clarity around the types of investments that are going to change the economic needle—that focus on high value, on higher-value investments, higher-paid jobs and investments, and then looking at our products and services across the UK and being able to map on to that.

I feel that the DAs sometimes miss out. We have the leading cybersecurity region in the UK—so we say, and so says *The Financial Times* and many others—but we missed out on a trade mission to New York a couple of months ago. We did not know about it, it happened, and we were like, “Oh.” We are the leading region, and we should have been on that cybersecurity mission. Sometimes the communications could improve a bit as well.

I just think that measurement of projects, tightening up on communications, and being able to take across the UK all of the DAs’ five-star capabilities and being able to map them and sell them globally would be fantastic.

Q100 **Catherine West:** From a resident’s point of view—and as a council employee you will understand how important that is—obviously, if you look at the GCSE scores in science and technology in our own schools, you will see that there are some schools in the Nottingham area or in the country of Northern Ireland where there is a deficit. I would hope also



that you are using the relationships that you have to promote more expenditure and investment on local education so that more of the local people can enjoy going to Ningbo University and so on, and so that they are gaining access to those high-paid jobs as well. I do not know if there is a spelled-out strategy around that, but to me it seems quite obvious.

Chris Henning: Yes, broadly we have a strategy in place that understands that the journey from early years to employment for all our residents is critical. Certainly, for children from deprived areas, that journey is much more difficult than it is for others. We do what we can to help. I will not stray beyond that because then we get into education policy, which is well outside my brief.

Dr Zhan: In response to the question about what more can be done by central Government, I think one of the important things is to further improve trade relationships with other countries because that will attract investment, especially efficiency-seeking FDI, taking the UK as an important place for manufacturing high-value-added goods for export.

The second thing is fostering the UK's comparative advantage in terms of hosting regional headquarters—aside from the UK hosting the headquarters for Europe, also for North America, the Mediterranean, the Middle East, and other places. We have seen that close to half of the multinationals have headquarters worldwide. In Europe close to half of them are located in the UK. There is a need for further efforts to keep them here in the post-Brexit period, and also to expand their functions in terms of going to the other parts of the world, especially north Africa and other areas. That is the second function.

The third thing is still to promote outward investment, because outward investment plays a key role for linking the UK to the global economy, and that is very important. So far, we know that the outward FDI stock of the UK is about US \$1.7 trillion, which is equivalent to close to 70% of GDP. It is very important for the UK and, of course, it also generates investment income back home. That world link is very important.

Q101 **Sir Mark Hendrick:** Dr Zhan, how do you view the idea that international bodies such as the OECD could adopt investment facilitation principles and that there could ultimately be an investment facilitation agreement under the WTO?

Dr Zhan: The OECD certainly has the capability for international rule making. The thing is that if we observe the need for investment facilitation, it is more in the developing countries. For the advanced countries like the UK and other European countries with OECD membership, their investment climate is quite good, and the investment facilitation measures are in place. If we set rules on investment facilitation at OECD, there is an issue of how to get the developing countries on board because, after all, developing countries need to improve their investment climate, particularly with respect to investment



HOUSE OF COMMONS

facilitation. Liberalisation in developing countries has run its course already.

If you look at investment climates or investment laws and regulations in African countries, for example, they are quite liberal. The only challenge is that at the level after implementation of laws and regulations, the enforcement capacity is not there. The administrative discretion is too much, and bureaucracy, corruption and lack of transparency are the problems. It is about how to get developing countries on board, and the OECD may be limited because of its membership.

Regarding WTO, there is merit in linking trade with investment policies, because the two are intrinsically linked. As we know, basically, global trade is mainly carried out by the multinational companies that are integrated into the international production network. The GVC, or the global value chain, carries out close to 80% of the global trade. Trade investment is linked. Even over the past few years, we have seen that the continuous decline of global FDI has affected the growth of trade in the sense that there is a slow growth of trade. Indeed, we have observed the stagnation of growth of global value chains. We have the data. For example, in the 1990s and up to 2010 the global value chain was at a steady growth rate until 2012, when it reached 31%. Since then it has stagnated, and by 2017 it was one percentage point less.

Q102 **Sir Mark Hendrick:** Why is that?

Dr Zhan: It is because of the lack of global investment—FDI.

Q103 **Sir Mark Hendrick:** What is causing that lack of investment?

Dr Zhan: Investment slowed because of the policy uncertainty and the lack of aggregate demands, and protectionism is also rising. There are a number of factors for that.

There is a close link between trade and investment and, in that sense, there is a need for investment rules linked with trade. Having said that, there are also political and systemic challenges. The political challenge is that, for the time being, half of the WTO membership is not on board and not supportive of the efforts to have the investment facilitation rules set at the WTO. The systemic challenge is that, as I mentioned at the very beginning, the investment policy framework consists of four components: liberalisation, promotion, protection and facilitation. If we just take one component out—

Chair: Can you do so quickly, because of the time?

Dr Zhan: Yes. If we just take one component part out and then there is a problem with the investment system, in and of itself, and also in terms of separating the issues, it is very difficult because investment promotion and investment facilitation are closely linked, as well as investment protection.



Q104 **Chair:** Thank you. I have a final question I want to ask Alan Wilson. You exist in the island of Ireland. Beside you is an internationally recognised, successful investment-embodiment country. How does that interaction work? You mentioned working with Wales and Scotland but, more immediately, probably competing with you is the Republic of Ireland. Is there co-operation or competition, or do you feel that their hands are less tied in any way? Could you be as brief as you can, because we are running out of time?

Alan Wilson: We collaborate on trade, so we attend a lot of trade missions that Enterprise Ireland run, and they will also join some of ours, so that works.

On FDI we compete. We obviously don't share anything with each other, and we arm wrestle for every project.

Q105 **Chair:** Do you think that arm wrestle is happening in all the four provinces of Ireland? Is that a struggle that is going on within Ireland anyway, or is there more Republic and Northern arm wrestling?

Alan Wilson: We only see it as a Republic and Northern Ireland issue. We tend to be stronger on talent plays and they tend to be stronger on profit centre plays, where tax is an issue. Those are almost incontestable from our point of view, so we have focused on talent for the last 20 years and that has been successful. Last year, two of our 22 investments came from the Republic of Ireland and this year we have some to report as well, so we are actually seeing some northbound flows.

Q106 **Chair:** Is there any evidence of any flight that a hard Brexit might cause towards the Republic of Ireland from Northern Ireland?

Alan Wilson: Not from our FDI companies. There have been some indigenous businesses who have opened up facilities or capability in the Republic, but not on the FDI side.

Chair: Thank you. I would like to ask a lot more, but our time is limited. I thank the panel very much for their time and expertise and their willingness to share with us.

Examination of witnesses

Witnesses: Dr Axel Berger, Dr J Robert Basedow and Dr Stephen Woolcock.

Q107 **Chair:** Can I ask our second panel on the second session of our UK investment policy inquiry to introduce themselves—name, rank and serial number—and can I just say at the beginning: apologies, but we have about 38 minutes to rattle through? When I say “about 38 minutes,” I think I now mean 37 minutes.

Dr Basedow: My name is Robert Basedow. I am an Assistant Professor at the London School of Economics at the European Institute. Before



HOUSE OF COMMONS

joining the LSE I was a Fellow at the European University Institute in Florence and Italy and I was an official working on trade and regulatory co-operation at the OECD. I have worked on numerous policy consultancies with Dr Stephen Woolcock for European institutions and the German Government.

Dr Berger: My name is Axel Berger. I am a Senior Researcher at the German Development Institute. I am working on the politics and economics on trade and investment agreements.

Chair: We are starting to get the distinction between trade and investment.

Dr Woolcock: My name is Steve Woolcock. I am an Associate Professor at the LSE where I teach international trade and economic diplomacy. I run an international trade policy unit, which is a link between academic work and policy work, and I see trade and investment as one and the same thing.

Q108 **Chair:** The term investment liberalisation—is it something you all agree with? Can I get a definition from the centre, Dr Axel Berger?

Dr Berger: Sure. Investment liberalisation means that foreign investors have a right to invest. Typically, international investment agreements did not grant that right, so host countries have the right to choose which investors should come into the country and which should not.

If you look at international investment agreements, there are typically three types of provisions that are facilitating market access for foreign investors. First, there is a pre-establishment national treatment provision. With regard to market entry and the establishment of an investment, foreign investors are treated similar to or like national or domestic investors.

The second provision is pre-establishment MFN, or most favoured nation. That means that all foreign investors have to be treated similarly with regard to market access.

Then a third category of provision is the prohibition of performance requirements. These are obligations imposed by the host country on foreign investors, such as requirements to source a certain percentage domestically or transfer technology requirements.

With regard to market access, it is also important to take into account that obviously host countries do not want to open up the market fully, so they would like to have exceptions. There are two possibilities to list those exceptions: a negative list approach and a positive list approach. With regard to the negative list approach you only list exceptions. That, in theory, leads to deeper liberalisation because you more or less automatically bind commitments at the current level of investment liberalisation, and you automatically bind further unilateral liberalisations.



HOUSE OF COMMONS

In the positive list approach only the liberalisation measures are listed. That is similar to the general agreement on tariffs and services at WTO, which in theory leads to shallower liberalisation.

The last aspect is that in some treaties, in particular by the US, you will find that the market access commitments are covered by the investor-state dispute settlement provisions, so they can be enforced by ISDS.

Chair: Do your colleagues on the panel generally agree, or do they have any major disagreement with that? No? Okay.

Q109 **Matt Western:** I have a question for Dr Woolcock. We just want to talk about multilateral and plurilateral approaches to investment for a moment. What provisions on investment—and investment liberalisation in particular—are enforced through the WTO? This is something that was alluded to on the previous panel.

Dr Woolcock: In the WTO existing agreements, it is the general agreement on trade and services. It is one part of that, the so-called mode 3, which is establishment. As Axel was saying, it is offering to treat foreign investment the same as national investment. It is pre-establishment national treatment under mode 3 of the GATS. That is just for services, and that is based on a positive listing in the WTO in the GATS agreement and is, therefore, fairly limited. It dates from 1995—1994.

In the WTO agreement—the Uruguay round results—there is also the TRIMS agreement, or trade-related investment measures agreement, which covers the performance requirements. That bans six core performance requirements. In other words, it bans the imposition of conditions on inward investment on specific aspects, such as local content and trade balancing—that the investment should contribute to exports as well as imports. These are, of course, the provisions that host Governments seek to use to ensure that the investment contributes to the local economy. Under the WTO that is the extent at the moment.

As you heard in the previous session, there is a discussion about an investment facilitation agreement, which is sort of under WTO. It is a plurilateral initiative that has been started by 15 countries, but it is at early stages.

Q110 **Matt Western:** Can I ask you a specific question? Why have other multilateral and plurilateral initiatives on investment, such as the multilateral agreement on investment or the inclusion of investment as a “Singapore issue” during the Doha Round talks, not come to fruition?

Dr Woolcock: Essentially, it is the difference between capital exporting countries and capital importing countries. Capital exporting countries want to protect their assets and investment, and therefore have had a different interest. Capital importing countries have wanted the right to regulate; in other words, to shape that investment to ensure that it contributes to the local economy.



HOUSE OF COMMONS

This goes back to the 19th century, essentially, when you had British investors in Latin America wanting to protect their assets and the Latin Americans came up with the Calvo Doctrine, which was that it should be national laws that determine investment.

There have been repeated efforts. In the late 1940s there was an effort to establish a trade agreement that included investment, but that failed. The MAI failed. For similar reasons, the MAI—that is the multilateral agreement on investment—failed in part because of differences between the Americans and the Europeans and in part because of opposition from civil society to binding agreements on investment.

Q111 Matt Western: Can I turn to Dr Berger? What particular role do investment liberalisation commitments play in investment agreements involving developing countries?

Dr Berger: Typically, in international investment agreements negotiated mainly on a bilateral level, liberalisation commitments did not play a big role. If you look at the numbers, 6% of international investment agreements include pre-establishment national treatment, 9% pre-establishment MFN and 8% performance requirement. Typically, you will find them more in free trade agreements with investment chapters than in bilateral investment treaties.

Developing countries are very hesitant to sign up to those rules, for various reasons. First of all, policy space—the interest to continue to be able to regulate incoming FD—but also you need very high administrative capacities to ensure that you only open up those markets that are ready for international competition and that you keep those markets closed where you have an active industrial policy.

You also need very high administrative capacities to establish linkages between foreign companies and domestic companies that ensure that there is a mutually beneficial relationship between international and domestic companies.

Hence, for most developing countries investment liberalisation commitments may not be a desirable policy option at the moment. There are huge discussions about investor-state dispute settlement and investment protection. A number of countries are withdrawing from the system, so investment liberalisation is, at the moment, not in the interest of many developing countries.

Q112 Matt Western: Presumably, it also impacts on their development goals, environmental protection, labour rights and so on?

Dr Berger: In theory, you can have exceptions on all those public policy goals, but you need high administrative capacities to make sure that you know what you are signing up to.

Q113 Chair: In the area of investment agreements, some seem to be controlled at UK level or at member state level, and some at European



HOUSE OF COMMONS

level. One of the things that Brexit has done is to raise little-known or unknown previous trade agreements, to be able to have our own trade policy and our own trade agreements. Why have investment policies not attracted the level of interest and, first, why are some controlled at member state level and some at EU level?

Dr Woolcock: The recent trade agreements that the EU has negotiated include investment chapters. That is since the Lisbon Treaty, when investment became an EU exclusive competence, or foreign direct investment did. Investment chapters have been included in the CETA agreement with Canada and the Singapore agreement, so anything subsequent will include investment.

Q114 **Chair:** Are our previous investment agreements with member states still in operation?

Dr Woolcock: Yes. Our existing member state bilateral investment treaties—which covered essentially only investment protection, not liberalisation—remained in place and the shift to EU exclusive competence was accompanied by a process in which collectively negotiated EU agreements would progressively replace the member state bilateral investment treaties. At the moment, the existing UK bilateral investment treaties remain in place and valid, but they cover only investment protection, not investment liberalisation, and some of them are now getting a bit dated. Robert may have other points.

Q115 **Chair:** Dr Basedow, looking at the EU's approach to investment liberalisation would be useful, particularly in the trade agreements it has pursued.

Dr Basedow: Do you want me to respond to this question?

Chair: Yes; do that first, and then move on.

Dr Basedow: To explain why there was a division in the task between the EU and the member states, you have to understand that capital movements and establishment were always the fundamental freedoms of the single market and therefore came under shared or union competence, so the EU was in charge of the investment liberalisation principle. On the other hand, protection of property rights was always something that the member states were competent on and, therefore, until 2009, when this competence transfer happened, the member states were in the lead with regard to bilateral investment treaties that primarily focused on investment protection. That is why we have this two-track system in place.

If we look at the EU's approach to investment liberalisation, it basically started in the early 2000s with the EU-Chile and EU-Mexico agreements. Then the EU tried to codify it on the minimum platform on investment, where the EU basically said that it would pursue a so-called positive list approach to investment liberalisation. It also said that it would always



HOUSE OF COMMONS

aim for sustainable development clauses in investment liberalisation chapters.

Since then it has evolved a little bit, but since the early 2000s it has included investment liberalisation commitments in all its free trade agreements, and now it is also negotiating two standalone investment agreements, namely with China and Myanmar.

Q116 **Chair:** How commercially significant are the investment liberalisation provisions in EU trade agreements, and how important is it that the UK secures their rollover? We know that the UK has a lot of rolling over to do of agreements, but I have to say that the investment liberalisation provisions are not the number one topic of conversation on the Clapham omnibus, if such a vehicle still exists.

Dr Basedow: The first point to bear in mind is what Mr Berger has already pointed out, which is that investment liberalisation commitments and agreements tend to lock in a minimum level of openness. They do not normally reflect the real degree of openness of economies. Economies tend to be much more open in reality than is codified under these agreements, so in that sense—

Q117 **Chair:** If that is correct, the investment agreements are not as significant as the trade agreements because, in reality, things are more open for business?

Dr Basedow: Yes, you could say so. I think that you should consider them to perhaps be insurance policies in case there is a global economic crisis and there are protectionist trends rising. You have basically an international law obligation to maintain your economy open for investment. That is how I would respond.

Dr Berger: Yes. It is also interesting to differentiate between the most recent treaties the EU signed with other countries. For example, if you look at the EU FTA with Vietnam and with Singapore, if I am correct, there are no pre-establishment national treatment provisions, so they do not grant open market access. You have these provisions in the treaties with Canada and Mexico, I believe. Obviously, with these countries the FDI regimes are a bit more open, so the relative effect might be limited.

Where the effect would be very substantial is with regard to the EU-China bilateral investment treaty, which is under negotiation, where market access is the number one priority for the EU and obviously a very, very contentious issue. There you would expect that if China opens up more markets for foreign investors, you will have a substantial and significant effect on FDI flows.

Q118 **Chair:** If the EU manages to get that liberalisation open with the China agreement, the UK would want to benefit from that as well. The fear could be that as an offensive—to use the term as gently as possible—investment interest, you might not be able to benefit from that and, therefore, you do not have the insurance policy that was mentioned. Is



HOUSE OF COMMONS

that correct?

Dr Berger: Yes. The short answer is that I guess the main problem is that these negotiations will take a while. I guess they will only be finalised after Brexit, so the UK will not be a party to that agreement any more.

Dr Woolcock: The area of commercial interest is probably in services, because in the Canada agreement and in future EU FTA agreements there may be more of an issue in terms of getting right of establishment in the service sector—so, in banking and insurance, where the UK will have interests. It is probably less important in manufacturing.

Most countries are happy to see greenfield investment coming in because it creates jobs, but with service sector investment there is more competition with local suppliers, so that is where it may be more crucial, and then in the emerging markets you may well have difficulties. Certainly, in terms of China and conditions attached to investment, it would be quite important to be able to match what other investors are getting in the Chinese market.

Q119 **Catherine West:** I have a supplementary on that. Therefore, is it going to be much more difficult, from a negotiation point of view, for the UK to gain as much as the EU will probably get with China, as China will be able to drive a much harder bargain because it already has a market of 500 million?

Dr Woolcock: Very much so. The UK is an open economy for investment and has been for a long time. The UK has virtually no bargaining position in terms of investment with China. This is one reason why it would be important to follow any agreement that the US or the EU has concluded and use that as a model to try to get equivalent conditions.

A second point is probably—and this is speculation—that because the UK is in a weak bargaining position, and I say that because it is an open market for inward investment, it would be better to include investment in a wider trade agreement rather than try to negotiate separately on investment.

Q120 **Catherine West:** In the view of the panel, given last week's announcement by the Defence Secretary around Chinese foreign policy and defence policy, do you think that Whitehall is currently equipped with the expertise that is needed, particularly around sensitive topics like human rights? The EU will no longer be able to do that on behalf of the UK. The UK will have to take responsibility for those elements and that complex and sensitive negotiation. In your expert view, are the UK and Whitehall set up and ready to go on that kind of negotiation?

Dr Woolcock: I am sure that Whitehall is probably capable of doing it, yes. I am not quite sure of the question. If it is on whether in negotiation with China you include a human rights clause, that is a political decision. If it is about the screening of inward investment—there is a debate now



within the EU about how you screen inward investment, and a loose co-operation between Germany, France and Italy on looking at that—that is a slightly different angle, I think.

Q121 Catherine West: We are going to come on to that later in the questioning, but that is the sort of expertise that I feel in scrutinising the current arrangements—

Dr Woolcock: It is not so much a question of expertise. If you are trying to negotiate an agreement with China and you want to include a human rights clause, you have a difficult problem, so do you exclude the human rights clause? But then what does that mean in terms of the political statement? That is a political choice, rather than an administrative issue.

Q122 Chair: Dr Woolcock, you said something quite interesting about the open investment climate that the UK has, which can be trumpeted sometimes as attracting money coming in. For the UK to go to other countries and for investment agreements there is very little leverage, because it is very open. Would that be the sort of investment policy that is enabling Russians to buy property in London quite freely? Would that also be a message to a UK that thought of dropping its tariffs, because then you go into negotiations with very little to bargain with? Is the open investment policy similar to the approach of getting rid of your tariffs and then trying to have a negotiation on tariffs?

Dr Woolcock: Yes. The UK is not about to start closing off its market for inward investment at a time when it is leaving the EU and when it needs to retain inward investment, because there is a danger that investment will begin to seep out. It is not going to impose controls on investment and, therefore, it has no leverage in trying to access other markets in a reciprocal negotiation. Bear in mind that this is all subject to what Robert said—these are insurance policies, so a lot of investment can still take place.

Q123 Chair: In OECD countries, is the UK an outlier in how open its investment market is or is the UK in a mainstream of the OECD grouping?

Dr Woolcock: It is in the mainstream of the OECD, I would say.

Q124 Sir Mark Hendrick: Can I ask all three of you what you think are the three most important objectives that the UK should pursue in any international investment agreements that it seeks to conclude after Brexit? Just as an example, we have mentioned China. Let's use China. What are the three most important things in negotiating an investment agreement with China?

Chair: Good luck with that one; it is a very good question.

Dr Basedow: We discussed this yesterday in preparation. In general, I think our joint conclusion was that probably before the UK goes out and starts negotiating with other countries—and China is probably one of the toughest partner countries to negotiate with—the UK should probably



have an open, democratic and transparent debate about what its investment policy should look like in the future.

I don't know to what extent you followed the European debate. It turned out very, very heated and many citizens were very opinionated about it. There are a lot of choices to be made. To what extent do you want to bind yourself in terms of liberalisation? What kind of substantive protection standards do you want in this agreement? What kind of investor-state dispute settlement body do you want? Do you want the investment court system? Do you want to push for a multilateral investment court? There are a lot of questions that have been hotly debated in Europe but also in the US and Canada. There is a global trend towards challenging these approaches, and I think this debate has to take place in the UK.

Dr Berger: Looking at the broader picture, I would like to emphasise two points. This session and the previous session focused very much on inward FDI, so I would like to draw attention to outward FDI. There is mounting evidence that that can also be very beneficial for home countries, so for the UK as well, if UK investors invest outside of the UK. That is one point: we should focus also on promoting and facilitating outward FDI.

Then we have discussed bilateral arrangements, which obviously place a huge burden on the capacity of the Government, particularly if the UK would like to roll over or negotiate new agreements, so we should focus on the multilateral system, which is much more time efficient in terms of negotiating agreements with a number of countries.

I am not focusing here on protection, liberalisation or ISDS but on investment facilitation, a topic that was discussed in the previous session. This is a topic being very much pushed at the moment by emerging countries, like China and Brazil, whereas developed countries like the EU and Germany are a bit hesitant. They are slightly positive, but they are taking a back seat. I think that this is an area where the UK could make a very positive contribution in terms of facilitating investments.

Q125 **Sir Mark Hendrick:** Let us just come back to my question, though; you threw a lot of other things in there. You are saying that we should have a look at outward investment, because we focus perhaps a bit too much on inward investment. If we want outward investment into, for example, China, what are the three most important things you would highlight in trying to get an international agreement with China—or anybody else, for that matter?

Dr Berger: I would highlight the issue of MFN, because the US is currently negotiating with China about a comprehensive agreement, including market access, and the EU is negotiating a treaty. We have discussed it. I think the leverage part of the UK is limited vis-à-vis China compared to the US or the EU, so one crucial aspect is to have a pre-



HOUSE OF COMMONS

establishment MFN provision where you benefit from the market access that is negotiated by the EU or the US with China.

- Q126 **Sir Mark Hendrick:** Just coming back to that, when we were in Japan it was before they actually got through the Japan-EU trade deal. There was all this talk about a rollover and, "We want the same conditions that the EU has," when actually we will not be members of the EU. It is all very nice for us to say, "We would like those sorts of conditions and we would like to be treated equally to the EU," but we know very well that we are not the European Union. We will no longer be in the EU and we will no longer have the leverage of being in the EU, so why should any country give us that status?

Dr Woolcock: The point with MFN is that if you have an MFN agreement with other countries, if they then negotiate an agreement with a third country, the UK gets the same treatment, so the more MFN clauses you can have in trade or investment agreements, the better.

Dr Berger: In the end, it will be about China's own interests. Is China willing to open up its markets? Is China willing to limit the role of state-owned enterprises? Then you will see that China is also signing up to international agreements that bind those unilateral commitments, but it is about China in the end.

- Q127 **Sir Mark Hendrick:** Another example is joint ventures. To do really big business in China, you need to get into bed with a Chinese company. How are you going to negotiate that away?

Dr Woolcock: That is a company-to-company decision, if it is a joint venture. The only policy dimension is that if you have performance requirements or if you negotiate an investment agreement that limits performance requirements, it gives you some stronger position in resisting, for example, clauses that will oblige a UK investor to transfer technology.

- Q128 **Sir Mark Hendrick:** There is a long discussion there about parallel companies and getting into bed with companies that set up other companies to steal technology, but that is—

Dr Woolcock: Most investment in China is company-led, so the policy framework is only the insurance policy.

- Q129 **Catherine West:** I want to carry on with that theme and the advice from the panel earlier about the need to have a wider debate and to set the parameters, rather than rushing into a strategy that then is democratically turned down at some point. We heard from the earlier panel about the strength at a regional level with Ningbo. We know that there are a number of best practices throughout Europe, particularly in Germany, in terms of relationships with regions in China. I think it is important to stress that not having an agreement does not mean that there is no trade. Sometimes with experts it is a little bit all or nothing. It is important that we put on the record that you can continue as you are



while you have the wider debate, and while you get to know what an independent trade policy might look like, and not to rush at it.

I know that with some countries or regions, Governments decide it is just not possible to have an FTA or an agreement, but carry on. Could the panel give examples of any particular countries or regions where you think you could spend a long time having the national debate and then having negotiations? In certain trade agreements, they do three years of rounds of negotiations and then decide not to do it. That is quite a big investment in time, energy and so on. Are there examples that you think we should look at where having a debate but not necessarily rushing into a free trade agreement might be sensible?

Dr Woolcock: The existing UK policy, as I understand it, is to roll over the core EU FTAs, and that probably makes sense.

Getting back to the earlier point, the key commercial interests probably lie in the service sector. The UK would want to ensure that it has the same access to banking, insurance and other service sectors in emerging markets. China is a much harder nut to crack in terms of any trade agreement, but agreements with emerging markets such as EU-Mercosur or EU-Mexico or EU-Indonesia would be the core agreements to focus on from a practical point of view. That is simply adopting the EU policy on investment, so the debate then is whether the UK wants to diverge in any way from its existing policy within the EU.

Q130 Catherine West: This question is specifically for Dr Berger, on the China bilateral with the EU—the standalone international investment agreement—which does not feature any trade liberalisation provisions. Can you update us as to why those negotiations have not been concluded yet?

Dr Berger: The short answer is because China has not yet been willing to open up its markets further. That is the core offensive interest of the EU. There are other interests of both parties, but that is the core. The parties agreed to focus on a comprehensive agreement in 2016, so an agreement that covers protection, liberalisation and dispute settlement, but they only exchanged market access offers in 2018. This obviously takes a while, and China internally is experimenting with a negative list approach. It set up a free trade zone first in Shanghai and then it included other regions and cities. It has experimented with a nationwide negative list, but this takes time. The current mood in China is also perhaps not going in the direction of more liberalisation but quite the opposite: a focus on state-owned enterprises.

Q131 Catherine West: Specifically on international investment agreements, what would you describe as the aims that China has been pursuing generally?

Dr Berger: With international investment agreements, you can distinguish three interests if you look at it historically: first, inward FDI



HOUSE OF COMMONS

promotion; secondly, the establishment of diplomatic relations; and recently the promotion of outward FDI.

Chair: Thank you. We are coming up against time. We thank the three of you for shining a torch into what is, in some ways, a very dark cavern for us. We have had a fascinating glimpse. Thank you for your expertise, your time and your patience with us, and for coming along this morning. It is much appreciated.