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Inward Foreign Direct Investment

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The International Trade Committee

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Summary

Foreign Direct Investment (FDI) occurs where an investor acquires a stake of at least 10% in an overseas company. Various underlying advantages make the UK a leading global destination for inward FDI. As well as directly enhancing business-turnover, job-creation and exports, inward investment brings indirect "spill-over" benefits in employment, skills, technology and managerial practices.

The Department for International Trade (DIT) publishes statistics regarding numbers of FDI "projects" that have successfully "landed" in the UK during each financial year and associated jobs. The Office for National Statistics (ONS) publishes figures on UK FDI flows, accumulated FDI (stock) and associated profits. Our predecessor Committee noted several deficiencies in this data. DIT and ONS have been addressing these issues, but the rate of progress is slow. There must be greater transparency about progress, quick implementation of changes and broader engagement of users.

DIT is responsible for: marketing the UK as a host country for inward investment; and measures to make it easier for overseas investors to invest in the UK. The Department has an Investment Strategy but does not publicise all aspects of it, so as not to reveal too much information to countries with which the UK is competing for inward investment. DIT says the Strategy is aligned to the Government's long-term objectives and is being developed to ensure it meets investors' needs.

The Department operates a "multi-channel strategy" for communicating with investors, including digital marketing campaigns and use of existing investors as "Investment Champions". The High Potential Opportunities programme promotes major investment opportunities, in various parts of the UK, to potential investors. DIT's services to inward investors include specialised packages targeted at specific investor types, such as the Capital Investment and Global Entrepreneur programmes. It also works closely with other Government departments "to ensure the investor perspective feeds into regulation policy". Lord Grimstone, the Minister for Investment, has a particular role in liaising with existing inward investors. The Department works collaboratively with sub-national bodies, including the devolved administrations' investment organisations.

The stated purpose of the Office for Investment (OfI), which was created in 2020, is to "support the landing of high value investment opportunities into the UK which align with key government priorities". The Office is based in DIT and led by Lord Grimstone, "in close partnership" with the Prime Minister's office. The OfI's role is to "corral an approach" across Government to resolve the "practical, security and policy complexities" that often accompany the most significant investments and act as barriers to inward investors. The Office is intended to be a very small, strategic, elite "crack team of specialists". The Government should be mindful that the roles of the OfI and the Minister for Investment function as integral parts of a coherent overall investment strategy. There also needs to be further clarity on how the Office relates to 10 Downing Street, DIT and other departments. In addition, we ask the Government to keep us updated on the staffing, developing role and performance of the OfI—and to develop criteria for measuring its success.

The Government's Plan for Growth identifies inward investment as part of its strategy to recover from the Covid-19 pandemic and pursue the vision of a "Global Britain". In October 2021, the UK will be hosting a Global Investment Summit to "galvanise foreign investment in the UK's green industries of the future". DIT has created an Investment Council, consisting of senior international private sector figures, to advise the Government on how to "enhance the UK's business environment for foreign investors." DIT has also announced the creation of four "Trade and Investment Hubs" in Edinburgh, Cardiff, Belfast and Darlington, each with an OfI presence. The Government needs to show how all these initiatives fit effectively into its overall investment strategy, rather than just being ad hoc. We ask the Government to explain why it is creating a Hub for each of the devolved nations yet only one in the English regions.

DIT has made progress in developing a "Gross Value Added" measure of the economic impact of inward investment, which opens the possibility of a more sophisticated performance metric and better targeting. We ask the Department to keep us updated on progress in this regard.

The Government sees inward investment playing an important role in achieving the goal of "levelling up" opportunities across all parts of the UK. However, data show that FDI is unevenly distributed around the UK in a way that strongly correlates with the very geographical disparities which levelling up is intended to address, with London and South-East England capturing the lion's share. These variations both reflect and help to perpetuate sub-national differences in levels of economic development. Maximising the benefits of FDI for all parts of the UK entails addressing issues including infrastructure, skills, involvement of the Higher Education sector, integration with Global Value Chains and the role of sub-national agencies (including in relation to possible further devolution of powers in the English regions). We recommend that the Government set out in its forthcoming levelling-up White Paper how it expects investment promotion to support and align with wider levelling-up goals. We also recommend the Government consider how to create a coherent sub-national geography that works for investment promotion. Consideration should be given to the lessons that the experience of the devolved nations might hold for the English regions as regards investment promotion. The Government should also bear in mind that the UK's investment promotion "architecture" needs to be straightforward, transparent and easy for investors to navigate.

Government-owned investment funds—known as Sovereign Wealth Funds—and other Sovereign Investors (such as public-sector pension funds) are likely to play an increasingly important role in UK inward investment as sources of "patient capital" in areas such as infrastructure, technology and life sciences. We welcome the Government exploring ways to encourage this potential source of major investment and recommend the development of an appropriate strategy for better engaging with this type of investor.

Under the National Security and Investment Act 2021, the Government is planning new arrangements for reviewing, and potentially intervening in, inward investment transactions that raise national-security concerns. We welcome the new legislation and support the Government's intention to screen on an "actor-agnostic" basis (without targeting any particular nationality or type of investor).

While the underlying principles of the legislation have been widely welcomed, significant concerns have been raised among business stakeholders and legal analysts about aspects of the new regime, with fears that it will cast the net too wide. We recommend the Government use its discretionary call-in powers sparingly and in a carefully targeted way, while setting out the criteria it will use. The Government should communicate clearly and transparently to investors the principles underlying the regime, along with its processes and timeframes. It should also set out the roles of DIT, the OfI and other Government bodies in implementing the new regime. We recommend the Government monitor closely the functioning of the new regime, undertake a review of the first 12 months of operation and publish the findings.

1 Introduction

Background

What is inward investment?

1. Foreign Direct Investment (FDI) occurs where an investor acquires a stake of at least 10% in an overseas company. From the perspective of the receiving, or host, country this is "inward investment"; while for the investor's home country it is "outward investment". FDI is typically broken down into:

- greenfield FDI–where an overseas company creates a new enterprise from scratch;
- brownfield FDI–where an overseas company purchases or leases existing production capacity;
- expansions–where an existing overseas investor expands the production or operational facilities of an existing enterprise using additional investments; and
- mergers and acquisitions (M&A)–where a foreign investor acquires a substantial stake in an already-existing company.[1]

The UK as a destination for inward investment

2. The Department for International Trade (DIT) acts as the UK's Investment Promotion Agency (IPA). As such, it has responsibility for: marketing the UK as a host country for inward investment ("investment promotion"); and measures to make it easier for overseas investors to invest in the UK ("investment facilitation"). International rankings cited by DIT show that in 2020 the UK had the third highest level of accumulated FDI in the world, and the second highest in Europe.[2] According to the Department, UK inward investment has "a greater impact on the economy than in other advanced economies"; and the UK "has a higher accumulated value of FDI companies equivalent to GDP (72% in 2019) than any other G20 or Five Eyes partner."[3] In 2020, when the Covid-19 pandemic caused major economic disruption (with the year seeing a 57% fall in the flow of UK inward investment), the UK's accumulated stock of inward FDI as a proportion of GDP rose to 81%.[4] The Minister for Investment, Lord Grimstone, referred to a survey which "found that the UK is the most attractive destination for investment in Europe and has the most compelling coronavirus recovery plan".[5]

1 Office for National Statistics (IFD0007); Department for International Trade (IFD0014); Department for International Trade, *Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services: Phase 2 Analytical report*, March 2021, pp 7, 9, 39, 40

2 Department for International Trade, *Trade and Investment Core Statistics Book*, July 2021, p 68

3 Department for International Trade (IFD0014) – the Organisation for Economic Co-operation and Development is cited as the source of this information. The members of the G20 intergovernmental forum are Argentina, Australia, Brazil, Canada, China, the European Union, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the UK and the US. The countries in the Five Eyes intelligence alliance are Australia, Canada, New Zealand, the UK and the US.

4 Organisation for Economic Co-operation and Development, FDI in Figures, April 2021, pp 9, 10

5 Q131; the publication referred to is EY, *A window of opportunity: EY Attractiveness Survey – UK*, June 2021.

3. DIT cited "underlying advantages, such as the reputation of our legal system, quality of infrastructure, world-leading research institutions and our position as a global financial centre" as factors behind the UK's attractiveness to foreign investors.[6] The Government also identifies "a high skilled workforce" and "our reputation for innovation" as attractions.[7]

The benefits of inward investment

4. DIT stated that "Inward investment provides a significant contribution to business turnover and job creation".[8] Lord Grimstone said:

> Only 4% of our local business units are foreign owned but they are 69% more productive than their British counterparts, they employ nearly 16% of the UK workforce and they generated 40% of business turnover in 2018.[9]

5. DIT told us that FDI has "wider economic benefits". As well as directly creating jobs, inward investment generates "indirect jobs through backward and forward linkages with small and medium-sized domestic companies". Also, it can "enhance human capital through the dissemination of new skills, technologies, and better managerial practices", benefitting both those working for foreign-owned firms and "local firms that act as suppliers and competitors".[10]

6. The Regional Studies Association (RSA) emphasised the benefits of FDI to local economies, noting that "other firms in the same local economy benefit from 'spill-overs' as they learn from foreign owned firms or benefit from the supply chains they create". Simultaneously:

> FDI generates local multipliers […] in terms of local employment generation over and above the new jobs directly created by the new establishment. These positive employment effects diffuse to the benefit of multiple sectors employing skills similar (related) to those typical of the original investment[.][11]

It further noted that "where a firm undergoes divestment—i.e., is sold to local owners—this is accompanied by a decline in output, profits, as well as export and import activity in the firm".[12] Dr Stephen Buzdugan and Prof Heinz Tüselmann, of Manchester Metropolitan University, also referred to "the export-enhancing nature of FDI within the UK".[13]

6 Department for International Trade (IFD0014)
7 HM Treasury, *Build Back Better: our plan for growth* (CP 401), March 2021, p 98
8 Department for International Trade (IFD0014)
9 Q131. The source of the figures cited by Lord Grimstone appears to be Department for International Trade, *Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services: Phase 2 Analytical report*, March 2021, p 6. Experimental analysis by the Office for National Statistics "shows that 1.1% of businesses operating in the UK in 2018 were foreign owned but they accounted for 13.4% of total UK company assets" – Office for National Statistics, Foreign-owned UK businesses, experimental insights: July 2020.
10 Department for International Trade (IFD0014). As discussed in Chapters 2 and 3, DIT is developing means of quantifying the wider economic benefits of inward investment.
11 Regional Studies Association (IFD0010)
12 Regional Studies Association (IFD0010)
13 Manchester Metropolitan University (IFD0013)

Our inquiry

7. Our predecessor Committee undertook a wide-ranging inquiry into all aspects of UK investment policy. Its July 2019 Report included recommendations on collecting data regarding inward FDI, investment promotion and facilitation, and investment screening (procedures to check that particular investments are not a risk to national security).[14] A year later, our Report on the impact of the Covid-19 pandemic on international trade included recommendations on promoting and facilitating inward investment, and on investment screening.[15]

8. In December 2020, we launched our inquiry into inward FDI, partly to follow up these previous reports. We looked at: official data on inward investment; DIT's role as an IPA—including the creation of the Office for Investment (OfI) and other investment-promotion initiatives that the Government took during the inquiry; and the planned new National Security and Investment regime. In addition, we considered inward investment in relation to the Government's aspiration to "level up" disparities between different parts of the UK; and we looked at the increasingly important role played in inward investment by Sovereign Wealth Funds (SWFs). We are grateful to all those who took the time to provide us with evidence.

14 International Trade Committee, Seventh Report of Session 2017–19, *UK investment policy*, HC 998

15 International Trade Committee, First Report of Session 2019–21, *The COVID-19 pandemic and international trade*, HC 286

2 UK-level official data on inward investment

Data on inward investment projects

9. DIT publishes numbers of FDI "projects" (new or expanded businesses which meet criteria for classification as instances of FDI) that have successfully "landed" in the UK during each financial year, along with the estimated number of associated UK jobs that were thereby created or safeguarded.[16] These figures have the status of "Official Statistics" and thus must comply with the Code of Practice for Statistics[17] in respect of value, quality and trustworthiness.[18]

10. Headline figures for projects and jobs are given at the UK level, along with the same data in respect of the subset of FDI projects where DIT (and / or one of its sub-national partners) assisted in landing it ("involved" projects).[19] In both cases, these UK headline data are broken down: into type of investment (new investments, expansions and M&A); and according to whether they involved a new or existing inward investor. Figures are also given for all projects and for DIT-involved projects according to: the part of the UK (devolved nation or English region) in which the project landed; the market of origin (the country where the investor is based); and the economic sector concerned. These figures derive from DIT's own data (in respect of projects where it has assisted investors); and (for projects with which DIT has not been involved) from databases maintained by external providers, as well as "local sources".[20]

11. In its 2019 Report, our predecessor Committee identified DIT's failure to "monitor closures of companies associated with inward investment, or downsizing by such companies" as a data deficiency.[21] In June 2020, the Minister for Exports said DIT had "commissioned a project researching foreign disinvestment to understand the trends of foreign disinvestment in the UK, its causes, effects, and policy and operational relevance" in February 2020—but the Covid-19 pandemic had created uncertainty over when it would conclude.[22] In June 2021, Lord Grimstone said that this project "is now nearing its conclusion" and DIT had "been presented with an early draft version of the report". This was undergoing a review by DIT officials which the Minister said will "conclude over the summer, following which I will be happy to share the project's findings, data sources and methods".[23] We have yet to receive this.

16 Department for International Trade inward investment results 2020 to 2021, June 2021
17 UK Statistics Authority, Code of Practice for Statistics
18 Ed Humpherson (Director General for Regulation, Office for Statistics Regulation) to Angus Brendan MacNeil MP, 16 September 2019
19 Lord Grimstone explained to us that "The number of investment projects DIT is involved in does not reflect the total UK investment landscape as there is no requirement for investors or investable opportunities to come through the department nor is there a need given our business environment" – Lord Grimstone to Angus Brendan MacNeil MP, 14 June 2021.
20 Department for International Trade inward investment results 2020 to 2021, June 2021; Department for International Trade inward investment results technical annex 2020 to 2021, June 2021; Department for International Trade, *Annual Report and Accounts 2020–21*, HC (2021–2) 431, pp 50–51
21 International Trade Committee, Seventh Report of Session 2017–19, *UK investment policy*, HC 998, para 43
22 Graham Stuart MP to Angus Brendan MacNeil MP, 15 June 2020
23 Lord Grimstone to Angus Brendan MacNeil MP, 14 June 2021

12. Our predecessor Committee also recommended that "so far as possible, [DIT] should seek and publish information about the sources and methodology employed" by external providers of inward FDI data.[24] The Department did undertake to add information on methodology used by third-party providers to the annexes accompanying its own data releases,[25] but this does not appear to have been done.[26]

13. The Office for Statistics Regulation (OSR)[27] welcomed this commitment by DIT, as well as a further undertaking "to reduce its reliance on external sources for its inward investment statistics". It identified the latter as an area of slow progress and said it had asked DIT to confirm "the extent to which it has reduced its reliance on external sources and its plans to further reduce such reliance". OSR also urged transparency about progress on data development, swift implementation of changes and proactive engagement with users outside government.[28]

14. DIT's headline UK-level data on total inward investment projects and associated jobs since 2016 are shown in Table 1.[29]

Table 1: Headline UK-level DIT data on inward investment results

Year	FDI projects	New jobs created	Safeguarded jobs	Total jobs
2015–16	2,213	82,650	33,324	115,974
2016–17	2,265	75,226	32,672	107,898
2017–18	2,072	75,968	15,063	91,031
2018–19	1,782	57,625	6,998	64,623
2019–20	1,852	56,117	9,021	65,138
2020–21	1,538	55,319	18,187	73,506

Sources: Department for International Trade, DIT inward investment results: Summary of FDI projects and jobs 2017 to 2018, June 2018; DIT inward investment results: Summary of FDI projects and jobs [2018 to 2019], June 2019; DIT inward investment results: Summary of FDI projects and jobs [2019 to 2020], July 2020; Department for International Trade inward investment results 2020 to 2021, June 2021

Data on the value of inward investment

15. The Office for National Statistics (ONS) publishes, for each calendar year, statistics regarding the financial value of both inward and outward UK FDI, derived from surveys of relevant businesses. The resulting dataset relates to: "flows" (FDI passing in and out of the country during the year); "position" or "stock" (the total value of accumulated FDI); and "earnings" or "profits" (income from FDI during the year). Data under these headings

24 International Trade Committee, Seventh Report of Session 2017–19, *UK investment policy*, HC 998, para 44

25 International Trade Committee, First Special Report of Session 2019, *UK investment policy: Government Response to the Committee's Seventh Report of Session 2017–19*, HC 126, p 2

26 Department for International Trade inward investment results technical annex 2020 to 2021, June 2021

27 The OSR is the regulatory arm of the UK Statistics Authority, an arm's length body with a statutory remit to promote and safeguard the production and publication of official statistics that "serve the public good" – UK Statistics Authority, What we do.

28 UK Statistics Authority (IFD0017)

29 Further DIT data is given below in Chapter 3 (regarding DIT-involved projects) and Chapter 4 (regarding sub-national distribution of FDI).

are broken down by component (the source of the funds invested); the home country (and global geographic / economic area) of the investor; and the industrial activity undertaken by the UK affiliate receiving the investment.[30]

16. Our predecessor Committee observed that ONS's FDI dataset did not distinguish greenfield FDI from M&A and other types of inward investment. Nor did it quantify "pass-through" investment, by means of Special Purpose Entities (created to avoid a financial risk, such as tax liabilities). The Committee noted that ONS was exploring ways of reconciling its "top-down" figures (derived from the balance of payments) and DIT's "bottom-up" figures, relating to project numbers. It recommended evaluating the methodology used by the US Bureau of Economic Analysis as a possible model for developing a dataset on the value of different types of inward FDI.[31]

17. In April 2019, ONS initiated a "comprehensive transformation programme to develop FDI statistics" in collaboration with DIT. ONS procured a commercial dataset giving "further information on companies engaged in FDI relationships, alongside financial variable information" which is being used "to inform our [survey] population and sample design". It has also been used to generate statistics on sub-national distribution of FDI (see Chapter 4). ONS has "considered options for compilation of greenfield estimates, including consideration of [the] US Bureau for Economic Analysis (BEA) approach, and developed [survey] questions for FDI by type". New survey questions have also been introduced on "sub-national FDI, disinvestment and business characteristics of foreign affiliates". ONS is also continuing to collaborate with DIT "to determine the feasibility of sharing microdata" to combine insights from "top-down" and "bottom-up" approaches to FDI measurement.[32]

18. ONS said that, while "developing FDI statistics is inherently complex", it has "made good progress in providing more detail to current statistics and developing new statistics in emerging areas". This includes "the FDI trends and analysis series, and continuing research on greenfield FDI and resident Special Purpose Entities (SPEs)". The Office is also continuing to "share our experiences and learn from discussions with international partners".[33]

19. OSR, while welcoming ONS's "significant progress" in developing FDI statistics, was concerned by its slow pace. ONS published an update on its development plan in April 2021 (after we had received evidence from OSR and ONS). It envisages as a medium-term (within 12-months-to-two-years) or long-term (in more than two years) priority, new, "more granular" breakdowns of FDI data. This could include:

- quarterly FDI statistics by industry and country of origin;
- FDI flows by type;
- FDI statistics by business or investment characteristic (for example, employment and job creation);
- incorporating foreign affiliate statistics into FDI statistics; and

30 Office for National Statistics, Foreign direct investment involving UK companies: Statistical bulletins
31 International Trade Committee, Seventh Report of Session 2017–19, *UK investment policy*, HC 998, para 45
32 Office for National Statistics (IFD0007). See also: Graham Stuart MP to Angus Brendan MacNeil MP, 15 June 2020; UK Statistics Authority (IFD0017).
33 Office for National Statistics (IFD0007)

- FDI statistics at different geographical levels (such as by country of ultimate parent or destination, or by sub-national area).[34]

As with DIT, OSR urged transparency about progress, quick implementation of changes and broader user engagement.[35]

20. Table 2 shows headline UK-level data on inward FDI published by ONS since 2016.[36]

Table 2: Headline UK-level ONS data on inward FDI (£ billion)

Year	Flows	Position [stock]	Earnings [profits]
2015	25.3	1,032.5	48.2
2016	192.0	1,187.3	50.3
2017	74.9	1,392.5	57.7
2018	65.9	1,572.8	75.2
2019	35.6	1,558.6	43.8

Source: Office for National Statistics, Foreign Direct Investment involving UK companies: 2019, December 2020

Comparison of data sources

21. Our predecessor Committee recommended the Government consider commissioning ONS, or another appropriate body, "to publish on a regular basis a comparison and synthesis of the various statistical data-sources on UK Foreign Direct Investment, to give the fullest possible picture of trends and developments."[37] DIT undertook to discuss with ONS and OSR "the best way of helping users understand the complex landscape of investment statistics."[38] In April 2020, "a methods comparison of ONS and externally produced estimates of FDI was published, which summarised key differences between sources of information for inward FDI."[39]

Estimating the economy-wide impact of inward investment

22. Our predecessor Committee welcomed DIT's work to gauge the impact of FDI in terms of "Gross Value Added" (GVA), as an aid to targeting its investment-promotion efforts (see Chapter 3)—while arguing the Department should also develop data on the impact of different types of FDI.[40] OSR commended DIT for having "recently developed

34 Office for National Statistics, Developing foreign direct investment statistics: 2021, April 2021

35 UK Statistics Authority (IFD0017). OSR also commented on addressing "asymmetries" between ONS's data on outward investment to particular countries and the destination countries' corresponding data on inward investment from the UK, which our predecessor committee noted – International Trade Committee, Seventh Report of Session 2017–19, *UK investment policy*, HC 998, para 22. OSR states that: "In 2020, the ONS published a detailed report on asymmetries in UK FDI statistics. By categorising the different reasons that asymmetries exist, this extensive research will help inform the ONS's efforts to address asymmetries in its statistics, while recognising some issues are outside of its control – such as companies giving different responses to different countries" – UK Statistics Authority (IFD0017). The report referred to is Office for National Statistics, Bilateral asymmetries in UK foreign direct investment statistics: September 2020.

36 Further ONS data is given in Chapter 4 (regarding sub-national distribution of FDI).

37 International Trade Committee, Seventh Report of Session 2017–19, *UK investment policy*, HC 998, para 46

38 International Trade Committee, First Special Report of Session 2019, *UK investment policy: Government Response to the Committee's Seventh Report of Session 2017–19*, HC 126, p 3

39 Office for National Statistics (IFD0007). The publication referred to is Office for National Statistics, Foreign Direct Investment: a methods comparison of ONS and externally produced estimates, April 2020.

40 International Trade Committee, Seventh Report of Session 2017–19, *UK investment policy*, HC 998, para 192

an econometric model using ONS data to estimate the economy-wide impact of FDI".[41] The initial (experimental) fruits of this work were set out in a DIT report in March 2021. Application of the model found that:

> overall a 1% increase in FDI stock [accumulated inward investment] in Great Britain has on average resulted [in] an increase in GVA of 0.094% via the capital measure and 0.24% via the employment measure; an increase in employment of 0.084%; an increase in average annual wages of 0.045% via capital and 0.11% via employment and an increase in labour productivity of 0.031%.
>
> […]
>
> [O]n average a £1 million FDI project into Great Britain leads to a net increase in national levels of GVA of around £98,000 and a net increase in employment of around 2.9 jobs […] [A] unit increase in employment at a foreign firm produces an increase in GVA of £212,000.[42]

The report notes the model cannot yet show the impact of different types of inward FDI, but work is underway on this.[43]

Conclusions and recommendations

23. **Our predecessor Committee noted several deficiencies in the data on inward investment produced by the Department for International Trade and the Office for National Statistics. We are pleased that both have made progress in addressing these issues, but we note concerns about the slow rate of progress. *We join the Office for Statistics Regulation in calling for greater transparency about progress, quick implementation of changes and broader engagement of users.***

41 UK Statistics Authority (IFD0017)

42 Department for International Trade, *Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services: Phase 2 Analytical report*, March 2021, p 6

43 Department for International Trade, *Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services: Phase 2 Analytical report*, March 2021, pp 7, 8. The use of GVA in evaluating DIT's investment-promotion performance and targeting its efforts is discussed in Chapter 3.

3 DIT as an Investment Promotion Agency

The purpose of investment promotion and facilitation

24. Before examining how DIT fulfils its role as an IPA (see Chapter 1), and how effectively it does so, it is worth considering the purpose of promoting and facilitating inward investment.

Addressing the "liability of foreignness"

25. Prof Xinming He, Director of the Marketing and International Business Research Centre at Durham University Business School, told us foreign investors face a "liability of foreignness", whereby they are disadvantaged in relation to local firms in the host country. This can be exacerbated by "institutional distance", meaning differences between the regulatory regimes and cultural norms of the home and host countries.[44]

26. As Prof He told us, IPAs can address such barriers to inward investment by:

- providing good infrastructure, such as high-speed internet, to mitigate costs relating to physical distance;
- familiarising foreign investors with the host country's local environment;
- fostering a welcoming environment, to tackle the "lack of legitimacy" that foreign firms can experience; and
- developing good relationships with home countries, to help avoid constraints that they might impose on investors.[45]

27. According to Prof He, communication with foreign investors should be targeted at specific firms or those from a particular part of the world or industry. He thought IPAs should have a plan to market specific investment opportunities at target investors. Prof He also stressed that IPAs need staff that are "specialised, business-savvy and internationalised".[46]

Correcting "market failures"

28. DIT said it intervenes "to support the realisation of the benefits of inward investment" by seeking to correct "market failures" in relation to: "information asymmetry"; and promoting "positive externalities". "Information asymmetry" occurs where under-provision of "the range of information required to support investment decisions" acts as "a barrier to investment". In "an advanced English-speaking country like the UK", such factors are limited, so the impact of investment promotion is likely to be lower than elsewhere—but DIT analysis has found that the benefits of investment promotion still far outweigh the cost. "Positive externalities" are broader economic benefits that inward

44 Professor Xinming He (IFD0006)
45 Professor Xinming He (IFD0006)
46 Professor Xinming He (IFD0006)

investment brings to the host country's domestic businesses through "knowledge spill overs", leading to improved productivity. DIT seeks to maximise such benefits, which for inward investors are merely unintended by-products of their investment.[47]

29. The Department seeks to address these market failures through four strands of work:

- "Policy Advocacy"—ensuring a competitive policy environment to attract inward investors;
- "Promotion"—"Increasing international awareness of the benefits and opportunities of investing in the UK";
- "Investment support"—providing practical support to investors, including on suitable locations, sector-specific issues and business-environment matters, such as tax and visas; and
- "Ongoing relationship management"—liaising with individual investors to promote expansion and retain existing investments, as well as providing "a 12-month aftercare service to new investors".[48]

The Government's approach to investment promotion

DIT's Investment Strategy

Publication of the Investment Strategy

30. Our 2020 report on the Covid-19 pandemic's impact on international trade welcomed the Government's reform of its Investment Strategy and its indication that we would be consulted. We recommended that the Investment Strategy be published in a similar format to that of the Export Strategy.[49] DIT responded that "elements of this work will most likely be made public"; however, "the fierce competition between different countries for global investment, means that not all information on policy and operational changes will be released into the public domain".[50]

Elements of the Investment Strategy

31. According to DIT, the Investment Strategy is "a long-term process of change […] to ensure all investment activity delivers the Government's long-term objectives, such as levelling-up, clean growth, innovation, and job creation". It said the Government seeks "to attract high-value, high-impact investment across the UK". DIT said it was aligning the Investment Strategy with global trade policy, the Government's Industrial Strategy

47 Department for International Trade (IFD0014); see also Department for International Trade, *Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services: Phase 2 Analytical report*, March 2021, p 15.

48 Department for International Trade (IFD0014)

49 International Trade Committee, First Report of Session 2019–21, *The COVID-19 pandemic and international trade*, HC 286, para 100

50 International Trade Committee, First Special Report of Session 2019–21, *The COVID-19 pandemic and international trade: Government Response to the Committee's First Report of Session 2019–21*, HC 815, para 70. This echoed the Government's response to a similar recommendation from our predecessor committee in 2019 – International Trade Committee, First Special Report of Session 2019, *UK investment policy: Government Response to the Committee's Seventh Report of Session 2017–19*, HC 126, p 6.

(discussed further below), the Integrated Review of Security, Defence, Development and Foreign Policy,[51] and other policies, including Freeports (new special economic zones), "to drive the economic and productivity growth across the UK".[52]

32. DIT said its approach focuses on four key areas:

- understanding the impact of the Covid-19 pandemic from investors' points of view, to ensure effective support for businesses;
- linking senior ministers with investors, to help the latter shape government policy;
- identifying priority sectoral opportunities, to meet the needs of all parts of the economy; and
- ensuring Government structures enable the development of an investment-friendly business environment.[53]

33. Having "surveyed the global landscape and undertaken extensive quantitative and qualitative analysis", the Government has identified "those areas where investment, both new and existing, can best support domestic economic priorities". Priorities include:

- building on areas where the UK is already a global market leader, such as financial, professional and business services, and creative industries;
- targeting investment at areas that are important for national resilience, such as manufacturing and infrastructure;
- driving research and development-intensive investment; and
- targeting investment that furthers government priorities.[54]

34. Services provided to investors (by domestic and overseas DIT teams, working with sub-national partners) include "business intelligence gathering, providing expert advice for investors on sector-specific issues, providing clarity on the UK's business environment and attracting international institutional investment in support of UK businesses".[55] Lord Grimstone said DIT wants "to be involved where we can make a difference", operating a "sliding scale" of support for investors. There is "a varying level of involvement" for each one, from "the minimum level" up to "personalised engagement".[56]

35. The Minister told us the Government wants to go beyond mere "investment aspirations" and develop "investable projects" that can be put in front of investors for them to "compete to invest in". It is often required to act across departments to do so and is "taking a very entrepreneurial, muscular view of this nowadays".[57]

51 HM Government, *Global Britain in a competitive age: The Integrated Review of Security, Defence, Development and Foreign Policy* (CP 403), March 2021
52 Department for International Trade (IFD0014). On Freeports, see also International Trade Committee, Second Special Report of Session 2021–22, *UK Freeports: Government Response to the Committee's Fourth Report of Session 2019–21*, HC 453, p 5.
53 Department for International Trade (IFD0014)
54 Department for International Trade (IFD0014)
55 Department for International Trade (IFD0014)
56 Lord Grimstone to Angus Brendan MacNeil MP, 28 June 2021
57 Q143

36. The Government claimed an "evolving approach" which will "enhance the positive role all modes of investment play in the UK economy, by radically improving our long-term offer to investors". This will "ensure the UK remains a global leader and one of the most competitive destinations for inward investment". DIT said it is responding to changes in "the global investment landscape" by continuing "to expand our service offer to support all modes of investment". At the same time, it is seeking to "more accurately align our support to investors with their size, complexity, and potential economic value". It "engages frequently with stakeholders", including investors, businesses, Local Enterprise Partnerships (LEPs)[58] and the devolved administrations, seeking "Constructive feedback" to support the "iterative development" of its "evolving approach to inward investment promotion and attraction".[59]

"Multi-channel" communication with investors

37. Our predecessor Committee recommended the Government develop a "single electronic window" for inward investors.[60] DIT responded that it aimed to develop a universal "digital first" and "self-serve" offer that would be "multi-channel, data-driven, and highly personalised", allowing staff "to deliver tailored and targeted bespoke support only to the most valuable businesses".[61]

38. DIT told us that its "multi-channel strategy" for communicating with investors includes:

- effective "account management" for investors, using its overseas network, UK sectoral experience and understanding of UK strengths at sub-national level;
- engagement with national and international media, alongside use of social media to target investors;
- digital marketing campaigns such as "Invest in GREAT",[62] providing information and promoting investment opportunities aligned with Government priorities; and
- "Investment Champions" in the Northern Powerhouse and Midlands Engine—current investors who work to promote opportunities in these regions.[63]

58 The 38 LEPs involve local authorities and businesses in English local areas. They are expected to produce Growth Plans and multi-year Strategic Economic Plans, and to lead on Local Industrial Strategies (except in areas with Mayoral Combined Authorities) – Ministry of Housing, Communities and Local Government, *Strengthened Local Enterprise Partnerships*, July 2018; LEP Network, Location Map.

59 Department for International Trade (IFD0014)

60 International Trade Committee, First Report of Session 2019–21, *The COVID-19 pandemic and international trade*, HC 286, para 11

61 International Trade Committee, First Special Report of Session 2019, *UK investment policy: Government Response to the Committee's Seventh Report of Session 2017–19*, HC 126, p 7

62 This is part of the wider "GREAT campaign", promoting the UK's commercial "brand" overseas – Cabinet Office, "Refreshed GREAT campaign launched in 145 countries", 9 June 2021.

63 Department for International Trade (IFD0014). The Investment Champions programme was pioneered as part of the Midlands Engine. In October 2020, 10 Investment Champions for the Northern Powerhouse were announced – Department for International Trade, "Regional investment projects announced to boost local economies", 9 October 2020.

The High Potential Opportunities programme

39. DIT told us about the High Potential Opportunities (HPO) programme, whereby major investment opportunities, in various parts of the UK, are promoted to potential overseas investors.[64] Seventeen HPO projects were identified following initial nominations in 2018. In October 2020, DIT announced that 19 projects had been selected in the second HPO round, following bids from LEPs, the Welsh Government and Scottish Enterprise.[65] Lord Grimstone told us the HPO programme is "absolutely designed to bring home to investors overseas" opportunities in different parts of the UK;[66] and the Exports Minister has referred to the programme in the context of levelling-up.[67]

Specialised programmes for inward investors

40. DIT's services to inward investors include specialised packages targeted at specific investor types, such as the Capital Investment and Global Entrepreneur programmes. With these programmes, there is "a higher level of [DIT] involvement as we manage these pipelines separately to our mainstream FDI projects", Lord Grimstone said.[68]

41. DIT's Capital Investment Team promotes and facilitates inward investment (equity or debt loan-funding) into opportunities (such as projects, enterprises or companies) as follows:

- "Growth capital" investment (by overseas corporate venture capitalists, venture capital funds and individual investors—the latter through the GREAT Investors Programme) into high-value start-ups, growth companies and funds; and

- "Large capital" investment (by overseas institutional investors) into large capital projects in real estate, infrastructure and energy.[69]

42. The Global Entrepreneur Programme "enables high potential, internationally mobile entrepreneurs and their fast growth innovation-rich companies to scale and internationalise from a UK global headquarters."[70]

Influencing regulation policy

43. Another strand of the Investment Strategy, DIT said, is to work closely with other Government departments "to ensure the investor perspective feeds into regulation policy". In December 2020, Lord Grimstone and a Minister in the Department for Business, Energy and Industrial Strategy (BEIS), Lord Callanan, "co-chaired a productive

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64 Department for International Trade (IFD0014); Q138 [Lord Grimstone]; Department for International Trade, Inward Investment Report 2020/21, August 2021

65 Department for International Trade, "Regional investment projects announced to boost local economies", 9 October 2020

66 Q138

67 HC Deb, 20 April 2021, col 207WH

68 Lord Grimstone to Angus Brendan MacNeil MP, 28 June 2021

69 Department for International Trade inward investment results 2020 to 2021, June 2021; Department for International Trade inward investment results technical annex 2020 to 2021, June 2021; Department for International Trade, *Annual Report and Accounts 2020–21*, HC (2021–2) 431, p 50; Department for International Trade, Capital investment; Department for International Trade, Inward Investment Report 2020/21, August 2021

70 Department for International Trade inward investment results 2020 to 2021, June 2021; Department for International Trade inward investment results technical annex 2020 to 2021, June 2021; Department for International Trade, Inward Investment Report 2020/21, August 2021

roundtable with CEOs of regulators and key international investors". This was intended "to commence a dialogue on how regulation can achieve important objectives such as protecting consumers while helping to attract more investment into the UK".[71]

Liaison with existing investors

44. Lord Grimstone, as Minister for Investment, has a particular role in liaising with existing inward investors, to ensure they continue investing in the UK. He described this as providing a "concierge service" for them, saying it is "surprisingly important to make sure that they feel welcome, to know that someone is taking an interest in them, and to know that there is someone that they can turn to if they have any issues".[72]

Collaboration with sub-national partners

45. Lord Grimstone said it is "extremely important" to understand the specific localities where investment can occur and to bring these "to the knowledge of investors".[73] Ceri Smith, DIT's Director General for Strategy and Investment, told us the Department works "collaboratively with all levels of devolved government" and has "no sense of competition about who is in the lead". He said DIT works with the devolved administrations' investment organisations "to try to identify the opportunities" without fragmentation of efforts. In England, there is a need to work with local authorities and "metro Mayors" (in Mayoral Combined Authorities).[74]

46. Mr Smith said it is necessary to "identify the opportunities that exist", taking account of areas' "different natural advantages" in shaping offers to investors. There are DIT regional teams, with "lead directors for specific parts of the country", which work to "understand what the opportunities are, what particular blockages there may be", so that "we can link up with the bigger system within government to identify how we might break down some of those blockages."[75] (Investment promotion at sub-national level is further discussed in Chapter 4.)

The Office for Investment

47. The Government announced the creation of the OfI in November 2020. Its stated purpose is to "support the landing of high value investment opportunities into the UK which align with key government priorities, such as reaching net zero, investment in infrastructure and advancing research and development." The OfI has the objective of "Driving inward investment into all corners of the UK through a 'single front door' and boosting economic recovery across the country". It was created following "extensive engagement with investors", who had indicated that "a more structured approach will better support existing investors and land high-value, high-impact investment". The Office is based in DIT and led by Lord Grimstone "in close partnership" with No. 10 and "under sponsorship of the Prime Minister and Chancellor of the Exchequer".[76]

71 Department for International Trade (IFD0014)
72 Q138
73 Q138
74 Q138
75 Q138
76 Department for International Trade, "New Office for Investment to drive foreign investment into the UK", 9 November 2020

48. DIT says the OfI uses "the convening authority of Downing Street", while being "firmly rooted" in the Department and working "in partnership with existing teams across the UK and overseas". Its role is to "corral an approach" across Government to resolve the "practical, security and policy complexities" that often accompany the most significant investments and act as barriers to inward investors. It is also a means of "targeting dedicated investment missions".[77]

49. Lord Grimstone told us that the OfI's existence shows "investment is partly driven from the very top of Government". Investors need a "front door" to go through and there is "no better front door than one that has 'No. 10' painted on it", which gives "tremendous convening power" and helps to "break down cross-Whitehall barriers". At the same time, the OfI is, he said, "completely integrated" into DIT's wider "investment offer". It is not "a separate weapon" but "the tip of our spear", or "the little bit at the top of our pyramid for investment promotion".[78]

50. The Export Minister has said the Office is not intended to be a "behemoth", but rather a very small, strategic, elite "crack team of specialists".[79] The OfI's Chief Operating Officer, Daniel Gieve, said it is currently "a group of fewer than 10 fixers, essentially, within the Whitehall system". He said it is "early days" and the team is still being built. The aim is "to be credible across as many sectors and types of investments as possible".[80] The Office is focused on retaining existing inward investment and securing further investment by existing investors, as well as on winning new investment, Mr Gieve emphasised.[81]

51. As an example of the OfI's work, Mr Gieve cited the recent GE Renewable Energy investment in Teesside. This involved working closely with BEIS and with the metro mayor for the Tees Valley Mayoral Combined Authority. It is "the type of project that meets all the criteria this Government wants from investment" and involves green energy, levelling-up and close collaboration between central and local government. It is also a good example of the OfI working with BEIS, DIT and 10 Downing Street to ensure an investment is not lost "for co-ordination reasons".[82]

The "auto Renaissance"

52. In an interview in June 2021, Lord Grimstone referred to an "auto Renaissance" taking place, as vehicle manufacturers scramble to remodel their businesses in response to the unexpectedly rapid increase in demand for electric vehicles. This means there is "over £8bn of investment at stake over the next few months which could potentially come into the automotive sector". There is "a huge opportunity for the UK" that has to be seized: "you are either going to catch the wave, or if you don't it is not going to be there for another 20 or 30 years". Lord Grimstone said a lot of time is being spent talking to automotive manufacturers, "gigafactories" (vehicle-battery manufacturers) and suppliers about what measures will allow the UK to do well in this area. He said the UK is competing with other

77 Department for International Trade (IFD0014); see also Department for International Trade, Inward Investment Report 2020/21, August 2021.
78 Q132
79 HC Deb, 20 April 2021, cols 206, 207WH
80 Q134
81 Q138
82 Q138

potential host countries which are making inward investors "cash offers".[83] He has also spoken about his efforts to seek investment from SWFs and overseas public-sector pension funds in automotive battery manufacture.[84] (See Chapter 5 for more on the Government's targeting of such "Sovereign Investors".)

53. In July 2021, the Government announced that Nissan had "confirmed a significant investment into their Sunderland plant and a partnership with their battery supplier, Envision AESC, and Sunderland City Council to create a North East electric vehicle manufacturing hub." The site will be Nissan's second global electric vehicle manufacturing hub and the UK's first large-scale gigafactory.[85] Government funding of £100 million has reportedly been contributed to the project.[86]

54. The Government stated that Lord Grimstone, along with the Prime Minister and the Secretary of State for BEIS, had "engaged strongly with Nissan and their partners" to secure the Sunderland project.[87] The then Secretary of State for International Trade described the investment as "a major win" for Lord Grimstone and the OfI.[88]

55. Shortly afterwards, the Government also announced that the Dutch manufacturer Stellantis had confirmed "a transformational investment at its Vauxhall plant in Ellesmere Port, which will see the site become the first mass volume, fully battery electric vehicle plant in the UK and Europe".[89]

Financial incentives for inward investment

56. Lord Grimstone told us that "financial incentives can be vital to securing investment in a competitive environment". He said attracting inward investment has become "a globally competitive sport […] where you have to be match fit". The Government is "determined to win" and is "considering various ways we can offer incentives to investors and how we can make them more understandable and accessible".[90]

Other recent Government initiatives

The Plan for Growth

57. The stated aim of the Government's Industrial Strategy, published in 2017 under the auspices of BEIS, was to "boost productivity by backing businesses to create good jobs and increase the earning power of people throughout the UK with investment in skills, industries and infrastructure."[91] Our predecessor Committee told the Government it

83 "'We need to knock France back off the top spot' - Interview with City grandee Gerry Grimstone", *Sunday Telegraph*, 27 June 2021
84 "UK woos sovereign wealth funds over green investments", *Financial Times*, 28 April 2021
85 HC Deb, 1 July 2021, col 15WS
86 "Nissan unveils first UK battery factory in £1bn Sunderland plan", *Financial Times*, 1 July 2021. As part of the Prime Minister's Ten Point Plan for a Green Industrial Revolution, the Government has committed £500 million "to support the electrification of vehicles and their supply chains, and other strategically important technologies through the Automotive Transformation Fund, over the next four years" – HC Deb, 1 July 2021, col 16WS.
87 HC Deb, 1 July 2021, col 16WS
88 Twitter, 1 July 2021
89 HC Deb, 6 July 2021, col 29WS
90 Q131
91 HM Government, The UK's Industrial Strategy

should state clearly how its Investment Strategy was linked to the Industrial Strategy and how in this regard DIT related to BEIS and other relevant departments.[92] DIT responded that Government investment policy had been "documented" in the Industrial Strategy Green and White Papers. It had "continued to collaborate across government on initiatives linked to the [Industrial Strategy]", such as Local Industrial Strategies (led by LEPs, the Greater London Authority and the Mayoral Combined Authorities) and Sector Deals (partnerships between government and industry focusing on sector-specific issues).[93]

58. In March 2021, the Government said it is "transitioning the Industrial Strategy into our plan for growth and its related strategies"; it will still be "taking forward the best elements of the Industrial Strategy, including continuation of existing Sector Deals".[94] The Plan for Growth is set out in *Build Back Better*, which outlines the Government's strategy for economic recovery following the Covid-19 pandemic and in the context of the vision of a "Global Britain" following exit from the EU. The Plan rests on "three core pillars of growth": infrastructure; skills; and innovation. The resulting growth is intended to "Level up the whole of the UK", "Support the transition to Net Zero [greenhouse gas emissions by 2050]" and "Support our vision for Global Britain".[95]

59. The Plan states that "The Government is committed to ensuring that the UK continues to be one of the top destinations in the world for investment." This will be done by maintaining the "competitive environment" that already makes the UK a leading destination for foreign investment.[96] Particular reference is made to the role of the OfI.[97] The work of DIT's HM Trade Commissioners "promoting the UK as a place to invest" is mentioned.[98] And the Plan states that the Government will "expand [DIT's] Global Entrepreneur Programme, actively market our visa offering and explore building an overseas talent network in global talent hotspots".[99] In relation to "Making sure our international strategy works for the whole UK", the Plan says the Government will be "targeting our support for inward investment to unlock growth across the whole UK".[100] It also notes that "The GREAT Britain and Northern Ireland campaign showcases all four nations" of the UK in encouraging investment.[101]

60. Lord Callanan has said that, as part of "transitioning" the Industrial Strategy, Local Industrial Strategies are being superseded. However, it is unclear what will replace them.[102]

92 International Trade Committee, Seventh Report of Session 2017–19, *UK investment policy*, HC 998, para 186
93 International Trade Committee, First Special Report of Session 2019, *UK investment policy: Government Response to the Committee's Seventh Report of Session 2017–19*, HC 126, p 6. On Sector Deals, see LEP Network, Sector Deals.
94 Department for Business, Energy and Industrial Strategy / HM Treasury, Letter from Chancellor Rishi Sunak and Business Secretary Kwasi Kwarteng to businesses on the government's Plan for Growth, 30 March 2021. See also HM Treasury, *Build Back Better: our plan for growth* (CP 401), March 2021, p 20.
95 HM Treasury, Build Back Better: our plan for growth (CP 401), March 2021, pp 12–14
96 HM Treasury, *Build Back Better: our plan for growth* (CP 401), March 2021, p 98
97 HM Treasury, *Build Back Better: our plan for growth* (CP 401), March 2021, pp 63, 79, 98, 101
98 HM Treasury, *Build Back Better: our plan for growth* (CP 401), March 2021, p 63. The nine HM Trade Commissioners "cooperate closely with HM Ambassadors and High Commissioners, the wider diplomatic network, and other HM Government colleagues based in countries in [each Trade Commissioner's] region, in a joined-up and coordinated government effort overseas to promote UK trade and prosperity" – Department for International Trade, "New Trade Commissioners to lead UK trade and investment overseas", 2 June 2020; see also Department for International Trade, *Annual Report and Accounts 2020–21*, HC (2021–2) 431, pp 24, 25, 69, 102, 164.
99 HM Treasury, *Build Back Better: our plan for growth* (CP 401), March 2021, p 63
100 HM Treasury, *Build Back Better: our plan for growth* (CP 401), March 2021, p 79
101 HM Treasury, Build Back Better: our plan for growth (CP 401), March 2021, p 98
102 PQ HL270, 1 June 2021

It has also been reported that the Industrial Strategy Council, a group of business-people and others tasked with monitoring and evaluating progress in the Strategy's implementation, has been abolished.[103]

Global Investment Summit

61. In March 2021, DIT announced that the UK will be hosting a Global Investment Summit in October 2021 in London and at Windsor Castle. This one-day event will "galvanise foreign investment in the UK's green industries of the future ahead of COP26 [the 26th UN Climate Change Conference, taking place in Glasgow] in November." It will promote "the very best of the UK's clean technologies and innovative companies". This will advance the Prime Minister's Ten Point Plan for a Green Industrial Revolution, under which the Government is investing £12 billion, in the hope of generating "three times as much private sector investment by 2030". The Summit will make the case for inward investment in areas such as "the mass-scale production of electric vehicle batteries in the Midlands and the North of England".[104]

62. In June 2021, Lord Grimstone said the Summit will take place at the Science Museum in London and will involve "between 150-200 people". In addition to financial investors, attendees will include "the world's biggest companies who invest in Britain, as well as the world's biggest investors".[105] In July 2021, DIT said the Summit will see the launch of a "promotional tool", including "a set of investable opportunities and propositions which will appeal to global investors and link to the government's strategic priorities".[106]

Investment Council

63. In April 2021, DIT created an Investment Council to advise the Government "on foreign investment, to improve and enhance the UK's business environment for foreign investors." It consists of senior international private sector figures in a range of industries, "from technology and energy to infrastructure and financial services", to "cement the investor lens in the Government's inward investment strategy".[107]

64. The Council is led by Lord Grimstone and meets twice a year, as well as "on an ad hoc basis", to give "high-level strategic advice" to DIT and government more widely, operating alongside the OfI. Members "share their experiences in the UK market and views on UK competitiveness, and advise on policy and regulatory changes that could improve the attractiveness of the UK for foreign investors". The Council aims "to drive investment into priority areas and sectors, levelling up the whole of the UK through an investment-led recovery".[108] Lord Grimstone told us it "provides a platform for 40 global investors to

103 "Kwarteng axes star-studded Industrial Strategy Council with hint at BEIS rebranding", Sky News, 4 March 2021

104 Department for International Trade, "UK rolling out green carpet for Global Investment Summit", 27 March 2021; see also Q131 and Department for International Trade, Inward Investment Report 2020/21, August 2021.

105 "'We need to knock France back off the top spot' - Interview with City grandee Gerry Grimstone", *Sunday Telegraph*, 27 June 2021

106 Department for International Trade, DIT Outcome Delivery Plan: 2021 to 2022, July 2021; see also Department for International Trade, "First sponsor announced for Global Investment Summit", 25 August 2021.

107 Department for International Trade, "New expert council formed to maximise UK investment offer", 27 April 2021; see also Q131 and Department for International Trade, Inward Investment Report 2020/21, August 2021.

108 Department for International Trade, "New expert council formed to maximise UK investment offer", 27 April 2021

highlight their perspectives, priorities and concerns relating to inward investment, and it is an opportunity to inform the Government's future approach to investment policy."[109]

Trade and Investment Hubs

65. In March 2021, DIT announced the creation of four "Trade and Investment Hubs" in Edinburgh, Cardiff, Belfast and the North of England (at "a new second major DIT site" in Darlington). The Hubs are intended to be "home to teams of export and investment specialists", with 550 staff to be in them by 2025 and an ambition to increase this to 750 by 2030. The already-existing Edinburgh Hub (which was announced in September 2020) was expected to see "a significant increase in headcount" following its relaunch.[110]

66. DIT said the Hubs will "create a critical link between the regions and the resources of the Office For Investment […] to channel investment money into every UK nation and region."[111] Lord Grimstone said the OfI will have "specific representation" in each Hub, giving it "a physical presence throughout the devolved regions of the UK".[112]

67. We asked Lord Grimstone whether the choice of the relatively small town of Darlington, in preference to Manchester, as the location for the North of England Hub might have been politically motivated. He said he was sure there is never political involvement in such decisions, and that just because the Hub is in Darlington this does not mean its activities will be limited to that town. He also noted that Manchester is already very successful at attracting overseas investment.[113] DIT has subsequently made clear that "DIT North"[114] in Darlington will be part of the new "economic decision-making campus" there, to which some staff from HM Treasury are to be relocated,[115] along with parts of "other economic-facing departments".[116] The Department has not given any indication of the timetable for the opening of DIT North or the other new Hubs in Northern Ireland and Wales.

National flagship

68. In May 2021 the Prime Minister announced that the UK will build a new national flagship to "host trade events and promote UK interests around the world". The ship will "boost British trade and drive investment into our economy"; it will be "used to host high level trade negotiations and trade shows and will sail all over the world promoting British interests".[117]

109 Q131
110 Department for International Trade, "Liz Truss announces creation of four major new Trade and Investment Hubs across the UK", 23 March 2021
111 Department for International Trade, "Liz Truss announces creation of four major new Trade and Investment Hubs across the UK", 23 March 2021
112 Q135
113 Q139
114 DIT has referred to the Hubs as "DIT Scotland, Wales, Northern Ireland, and North" – Department for International Trade, *Annual Report and Accounts 2020–21*, HC (2021–2) 431, p 46.
115 Department for International Trade, *Annual Report and Accounts 2020–21*, HC (2021–2) 431, pp 17, 73, 93; Department for International Trade, DIT Outcome Delivery Plan: 2021 to 2022, July 2021
116 "Budget 2021: Chancellor confirms home of Treasury's northern base", *Civil Service World*, 3 March 2021
117 Prime Minister's Office, "New national flagship to promote British businesses around the world", 30 May 2021

Measuring performance and targeting efforts

69. DIT publishes data on numbers of successful inward FDI projects (and associated jobs) with which it is involved. Lord Grimstone told us that, to count as a DIT "success" for the purposes of this dataset, there must have been "at a minimum, personalised interaction with the parties regarding the project", or the Department must have "provided some level of delivery support on an issue relating to the project".[118] DIT says that, for a project to be recorded as DIT-involved, there must be "sufficient evidence that the DIT network has provided significant assistance to the foreign investor". Also, there must be "evidence that the assistance and advice was essential for the delivery of the investment project in the UK".[119]

70. Our predecessor Committee questioned the adequacy of DIT's performance metric "regarding involvement in inward investment successes, measured in project numbers". It recommended the Government "do more to demonstrate that its efforts are directly responsible for those investment successes for which it seeks to claim credit". As noted in Chapter 2, the Committee welcomed DIT's work on gauging the impact of FDI in terms of GVA. DIT's response stated that it was "developing a new monitoring and evaluation framework […] to understand better the influence its investment promotion activities have on investment into the UK", helping it to "prioritise service delivery which delivers the greatest benefit to the UK economy". It was continuing "to develop additional measures (including Gross Value Added, GVA) to understand better the impact of foreign investment on the UK economy".[120]

71. Lord Grimstone said DIT's previous emphasis on project numbers as a performance indicator had been "crude". This figure "clearly tells you something, but I am not sure it tells you something that is very important […] the key factors are the economic value added and, absolutely critically, the number of jobs created".[121] He emphasised "the importance of focusing on investments which provide the greatest value to the wider UK economy rather than the total number of projects"; he said DIT and the OfI are "working to improve our analysis further to ensure we best target our support".[122]

72. Table 3 gives DIT's headline UK-level figures on FDI projects it has supported.

118 Lord Grimstone to Angus Brendan MacNeil MP, 28 June 2021
119 Department for International Trade inward investment results technical annex 2020 to 2021, June 2021
120 International Trade Committee, First Special Report of Session 2019, *UK investment policy: Government Response to the Committee's Seventh Report of Session 2017–19*, HC 126, p 10
121 Q141
122 Lord Grimstone to Angus Brendan MacNeil MP, 28 June 2021

Table 3: DIT-supported FDI projects

Year	FDI projects	New jobs created	Safeguarded jobs	Total jobs	Estimated economic impact (£ million)
2015–16	1,731	n/a	n/a	n/a	n/a
2016–17	1,859	63,892	27,736	91,628	n/a
2017–18	1,682	67,060	14,146	81,206	n/a
2018–19	1,436	51,863	6,217	58,080	n/a
2019–20	1,449	44,830	7,815	52,645	3,091
2020–21	1,131	47,784	16,174	63,958	3,875

Sources: Department for International Trade, DIT inward investment results: Summary of FDI projects and jobs 2017 to 2018, June 2018; DIT inward investment results: Summary of FDI projects and jobs [2018 to 2019], June 2019; Department for International Trade inward investment results 2019 to 2020, July 2020; Department for International Trade inward investment results 2020 to 2021, June 2021

Note: DIT states that the figures for 2016–17 and 2017–18 are not comparable, due to the strengthening of validation processes for key performance indicators in 2017–18.

Lord Grimstone told us that DIT currently has some 4,600 inward investment projects in its support "pipeline". On average, in recent years DIT has supported 80% of projects successfully landing in the UK each year. In 2020–21 that figure was 74%. This is "in line with our strategy of taking a more targeted approach to engagement, focussing our resources where we will add the most value". While fewer projects were supported, "those DIT did support resulted in more new jobs created and higher levels of economic impact than the previous year, which is particularly notable in the context of the pandemic".[123]

73. DIT's work on developing a way of measuring the economic impact of inward investment, using GVA, has enabled the Department for the first time to provide estimates of the impact of DIT-involved inward FDI projects in 2019–20 and 2020–21 (as shown in Table 3). Deficiencies in the available data mean that it was only possible to estimate the impact of 88% of projects in 2019–20 and 89% in 2020–21. DIT has stated that "the estimated impacts published are the minimum level of GVA expected over 3 years".[124]

74. Table 4 gives DIT's figures on the value of investments supported by the Capital Investment Team.

123 Lord Grimstone to Angus Brendan MacNeil MP, 28 June 2021
124 Department for International Trade inward investment results technical annex 2020 to 2021, June 2021

Table 4: DIT-supported Captial Investment (£ million)

Year	Growth capital (investment projects)		Large capital [institutional investors]	
	Venture Capital	GREAT Investors [individuals]	Investment projects	Commitments to invest
2017–18	285	82	3,219	22,374
2018–19	583	40	3,732	7,373
2019–20	672	359	4,023	11,151
2020–21	773	1,310	3,821	7,503

Sources: DIT inward investment results: Summary of FDI projects and jobs [2018 to 2019], June 2019; Department for International Trade inward investment results 2019 to 2020, July 2020; Department for International Trade inward investment results 2020 to 2021, June 2021

Note: DIT states that the value of the GREAT Investors Programme from 2014–15 to 2016–17 was £601 million.

In each case, DIT counts "the capital or foreign equity value of the investment only". Inward investment under this heading is recorded as either "investment projects" (actual investments) or "commitments to invest" (undertakings made early on in long-term project development). Some investment projects are classed as "non-FDI", since they do not meet the definition of FDI—although the investor has the stated intention to invest and deploy capital immediately or very soon.[125]

Conclusions and recommendations

75. **With keen international competition for inward investment, it is vitally important for the UK to have effective arrangements for investment promotion. The creation of the Office for Investment is a significant and innovative addition to the UK investment-promotion landscape. Alongside this development, the role of the Minister for Investment appears to be evolving and growing.** ***These developments are welcome, but the Government should be mindful that the roles of the Office for Investment and the Minister for Investment function as integral parts of a coherent overall investment strategy. There also needs to be further clarity on how the Office for Investment relates to 10 Downing Street, the Department for International Trade and other departments. In addition, we ask the Government to keep us updated on the staffing, developing role and performance of the Office for Investment—and to develop criteria for measuring its success.***

76. **Other recent developments related to investment promotion include publication of the Plan for Growth (superseding the Industrial Strategy), the calling of the Global Investment Summit, the formation of the Investment Council, the establishment of Trade and Investment Hubs, and the announcement of the new national flagship.** ***The Government needs to show how all these initiatives fit effectively into its overall investment strategy, rather than just being ad hoc. Regarding the Trade and Investment Hubs, we ask the Government to explain why it is creating a Hub for each of the devolved nations yet only one in the English regions (in the North of England, at Darlington). It***

125 Department for International Trade inward investment results technical annex 2020 to 2021, June 2021; see also Department for International Trade, *Annual Report and Accounts 2020–21*, HC (2021–2) 431, p 51.

should also say more about the scale on which specialist investment staff—including those from the Office for Investment—will be present in the Hubs and the specific roles that they will play there.

77. **Involvement in inward investment successes, measured in project numbers, is a crude performance metric for investment promotion. We, therefore, welcome the progress that the Department for International Trade has made in developing a "Gross Value Added" measure of the economic impact of inward investment, which opens the possibility of a more sophisticated performance metric and better targeting. We ask the Department to keep us updated on progress in this regard.**

4 Levelling up and inward investment

78. In May 2021, the Queen's Speech said the Government will "level up opportunities across all parts of the United Kingdom, supporting jobs, businesses and economic growth and addressing the impact of the pandemic on public services."[126] A White Paper setting out "bold new policy interventions" in this regard will be published during 2021.[127] A speech by the Prime Minister in July on levelling-up indicated that policy is still being developed, but confirmed that the Government sees inward investment as an important means of delivering its goals.[128]

79. This is reflected in DIT's approach. One of its four "Priority Outcomes" is to "Deliver economic growth to all the nations and regions of the UK through attracting and retaining inward investment."[129] As noted in Chapter 3, DIT works closely with devolved, regional and local partners in promoting inward investment. The Department envisages the OfI, the Trade and Investment Hubs and the Investment Council (see Chapter 3 for information on the roles of these bodies) all helping to bring FDI to all parts of the UK.

80. DIT stated that "FDI can play an important role in levelling-up and contributing to sustainable economic growth across the UK economy". It noted that "FDI projects lead to positive spillovers including increased employment and productivity" and cited its research suggesting that "additional FDI also increases wages, productivity and gross value added (GVA), contributing to levelling-up of UK regions."[130] Lord Grimstone has indicated that gigafactories represent "a wonderful juxtaposition of opportunity and policy", whereby inward investment is likely to take place in areas that are being targeted for levelling-up, such as Teesside and North-West England.[131]

81. DIT cited its own data showing the benefits that inward investment already brings to areas outside London and South-East England.[132] However, data also show that FDI is unevenly distributed around the UK in a way that strongly reflects the very geographical disparities which levelling-up is intended to address.

Sub-national distribution of UK inward investment

82. *fDi Intelligence* (a *Financial Times* publication) told us that London and South-East England "have captured the lion's share" of UK inward FDI, having received 47.5% of the projects announced by inward investors since 2003. It observed that this share of FDI corresponds to the proportion of UK GDP generated by these two regions.[133] Statistics compiled by DIT and ONS give a more detailed picture of sub-national variations in FDI. Table 5 shows DIT's sub-national breakdown of inward FDI project numbers for the past three years.

126 Prime Minister's Office, Queen's Speech 2021, 11 May 2021
127 HC Deb, 27 May 2021, col 522
128 Prime Minister's Office, The Prime Minister's Levelling Up speech: 15 July 2021
129 Department for International Trade, DIT Outcome Delivery Plan: 2021 to 2022, July 2021
130 Department for International Trade (IFD0014); see also Department for International Trade, Inward Investment Report 2020/21, August 2021.
131 "'We need to knock France back off the top spot' - Interview with City grandee Gerry Grimstone", *Sunday Telegraph*, 27 June 2021
132 Department for International Trade (IFD0014)
133 *fDi Intelligence* (IFD0012)

Table 5: DIT sub-national breakdown of inward FDI projects and associated jobs

Devolved nation / English region	Projects			Total jobs		
	2018–19	2019–20	2020–21	2018–19	2019–20	2020–21
Multiple UK sites	52	58	49	n/a	n/a	16,357
North East	59	73	51	n/a	3,015	1,732
North West	142	154	139	5,184	5,441	4,787
Yorkshire and The Humber	98	104	86	2,595	3,023	1,694
East Midlands	69	85	72	1,874	2,842	n/a
West Midlands	155	157	145	6,049	6,614	6,304
East of England	87	79	72	2,882	n/a	3,103
London	627	638	492	15,287	13,077	14,550
South East	202	211	163	4,303	6,510	6,148
South West	79	70	76	2,211	1,974	2,501
Scotland	126	121	92	4,469	3,347	3,687
Wales	51	62	72	3,704	n/a	8,436
Northern Ireland	35	40	29	n/a	n/a	n/a
Total	**1,782**	**1,852**	**1,538**	**64,623**	**65,138**	**73,506**

Source: Department for International Trade inward investment results 2020 to 2021, June 2021

Note: Some statistics relating to numbers of jobs have been withheld by DIT as they would allow information about individual projects to be deduced.

83. DIT's March 2021 report on measuring the economic impact of inward investment includes some analysis of sub-national distribution of FDI within the UK (using both DIT project data and analysis of ONS's Business Structural Database). The report looks at sub-national distribution of inward investment in relation to business counts, turnover and employment. This confirms the preponderance of FDI in London and South-East England, but also reveals more complex sub-national variations than are apparent from annual counts of inward FDI projects. In addition, "Analysis at a more granular level highlights that variations also exist within subnational regions and devolved administrations." The report states that work is underway to develop understanding of sub-national impact of inward FDI and variations within it; and that "Forthcoming DIT research publications aim to further develop the evidence base around the drivers and barriers of subnational FDI."[134]

84. An acknowledged weakness of ONS's data on inward investment has been that it does not go down to sub-national level.[135] ONS has begun to address this. In July 2020, it published its first experimental analysis of sub-national distribution of foreign-owned UK businesses. This found that "Most foreign-owned local units are based in London, but the North East [of England] has the greatest proportion of its local units under foreign ownership (approximately 15%)." (At the same time the North East has "the second-fewest foreign-owned local branches by count".)[136]

134 Department for International Trade, *Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services: Phase 2 Analytical report*, March 2021, pp 7–8, 11–15
135 Q6
136 Office for National Statistics, Foreign-owned UK businesses, experimental insights: July 2020, 29 July 2020

85. In July 2021, ONS published experimental estimates of sub-national FDI for 2015–19 in relation to the value of accumulated inward investment over time (known as "positions" or "stock") and annual earnings from it.[137] The sub-national breakdown regarding inward FDI positions is shown in Table 6. ONS noted that FDI in London accounted for 42.4% of the UK's inward FDI position in 2019—while London and South-East England together accounted for 55.1%.[138]

Table 6: ONS sub-national breakdown of inward FDI positions / stock (£ billion)

Devolved nation / English region	2015	2016	2017	2018	2019
London	415.8	445.9	557.7	667.2	660.8
South East	119.3	122.5	190.3	188.7	197.6
Scotland	78.3	85.6	86.3	80.5	85.9
East of England	52.6	85.1	62.7	80.5	79.7
North West	69.8	82.7	91.9	78.6	73.9
West Midlands	62.8	64.1	58.0	59.1	66.8
South West	56.3	64.9	60.5	63.2	66.2
East Midlands	37.9	37.6	42.6	52.1	55.6
Yorkshire and The Humber	50.5	38.0	37.0	53.3	50.8
North East	16.2	18.0	23.7	24.7	24.5
Wales	22.6	45.8	18.7	23.2	18.9
Northern Ireland	19.2	18.2	19.7	15.8	14.8
Unallocated	31.2	79.2	143.3	185.8	163.1

Source: Office for National Statistics, Foreign direct investment, experimental UK sub-national statistics: July 2021

Note: "Unallocated" values relate to investments that could not be linked to a sub-national area through the data sources used.

Drivers of uneven distribution in inward investment

86. Studies suggest, as DIT notes, that uneven sub-national distribution of FDI is partly due to investors preferring certain regions "based on factors such as the economic characteristics of a region (market size, education, infrastructure), costs, and historical connections".[139] Variations in the geographical spread of inward investment not only reflect sub-national differences in levels of economic development; they can also serve to perpetuate those differences. Underlying this is the presence of qualitative as well as quantitative differences in how FDI is distributed across the UK. This partly relates to the fact that, as *fDi Intelligence* noted, most of the FDI flowing into South-East England is "pure new investment", whereas in the rest of the UK a third of inward investment supplements or replaces existing investment.[140] The Exports Minister has stated that, when he was Investment Minister, "the majority of investments into the regions came as a secondary

137 ONS intends also to develop sub-national data on inward FDI flows.

138 Office for National Statistics, Foreign direct investment, experimental UK sub-national statistics: July 2021, 19 July 2021

139 Department for International Trade, *Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services: Phase 2 Analytical report*, March 2021, p 15

140 *fDi Intelligence* (IFD0012)

investment from companies that had previously invested, often, into London and the south-east". However, he cited this as a beneficial side-effect of "the power, attraction and magnetism" of the capital and the region adjacent to it, rather than a disadvantage for the rest of the country.[141]

87. Additionally, there is uneven distribution of high-quality inward investment, which entails higher levels of productivity, competitiveness, skills, salaries and knowledge-transfer than other kinds of investment. *fDi Intelligence* noted that "investment into high value-added sectors and functions, which generates higher quality jobs and a bigger long-term impact on local communities" is "highly concentrated" geographically, with "about 40% of the foreign investment projects with a high STEM [science, technology, engineering and mathematics] component" going into London and South-East England.[142] Prof Nigel Driffield, of Warwick University, stated that "Areas with higher average productivity attract high productivity FDI", whereas those "with lower average productivity attract more mundane activities, which may well generate higher levels of employment, but contribute less to productivity growth". He saw a consequent risk "that inward investment can act to increase productivity differences between regions."[143] Dr Buzdugan and Prof Tüselmann, of Manchester Metropolitan University, said that high-value investment tends to be "deeply embedded within specific regions and within efficient local networks (consisting of suppliers, customers, competitors, clusters of domestic firms, research institutes and universities, supportive government agencies and local authorities)".[144] The RSA said that, since local agencies such as LEPs have employment targets, those in "lagging regions" may seek investment in "low value-added activities", which bring larger numbers of less-skilled jobs, in line with the type of employment already prevalent in such areas. As a consequence, "lagging localities will be pushed into a 'low skill equilibrium' linked to flexible labour markets and insecure employment, while better performing regions will attract more high tech investment."[145]

Addressing the uneven distribution of inward investment

88. DIT told us that to increase the benefits of FDI for regional economies, "it is vital that regions have factors of production, including infrastructure and a skilled workforce, to support inward investment". The Department said it is "working closely across [HM Government] and with local and regional partners to continuously improve regions' offer[s] as investment destinations, and share these opportunities with investors."[146] Below, we consider how this might best be undertaken so as to facilitate levelling-up.

Infrastructure

89. As noted, the quality of UK infrastructure is an important factor in attracting inward investment (see Chapter 1); lack of infrastructure can be a barrier to investment (see Chapter 3); and the Plan for Growth refers to infrastructure as one of the "core pillars of growth" (see Chapter 3).

141 HC Deb, 20 April 2021, col 205WH
142 *fDi Intelligence* (IFD0012)
143 Prof Nigel Driffield (IFD0005)
144 Manchester Metropolitan University (IFD0013)
145 Regional Studies Association (IFD0010); see also Prof Nigel Driffield (IFD0005).
146 Department for International Trade (IFD0014)

90. Dr Buzdugan and Prof Tüselmann told us research indicates "that a number of regions in the UK may lack desirable asset bases, the type of network infrastructure and capabilities that are attractive for a large number of [multi-national enterprises] to develop and upgrade their FDI".[147] Riccardo Crescenzi, Professor of Economic Geography at the London School of Economics (LSE), mentioned the potential coordinating role of the National Infrastructure Commission.[148] This body advises the Government about major long-term infrastructure challenges, producing a National Infrastructure Assessment once in every Parliament.[149]

91. As also noted, infrastructure is an important area of inward investment in its own right (Chapter 3). The Global Infrastructure Investor Association (GIIA), the membership body for the world's leading investors in infrastructure, discerned a growing gap in UK infrastructure investment. The Association saw this as being exacerbated by the effects of the Covid-19 pandemic and the need for investment of £400 billion over the next ten years (almost a doubling of capital requirements) to deliver the statutory commitment to net zero emissions by 2050. With Government finances stretched, the GIIA saw private capital as vital to achieving the investment needed in "power systems, buildings and industry, transport, and digital sectors".[150]

92. The Government's National Infrastructure Strategy, published in 2020, acknowledges the role of the "agglomeration" effects of good infrastructure in attracting inward investment and pledges "to use infrastructure to unite and level up the UK".[151] Two initiatives launched this year are relevant to delivering this commitment. The Levelling Up Fund makes available £4.8 billion for infrastructure investment.[152] The UK Infrastructure Bank is a Government-owned company intended to provide market leadership in infrastructure, "crowding-in private capital and reducing risk". The Bank will "bolster the government's lending to local government for large and complex projects ", as well as helping "to bring private and public sector stakeholders together to regenerate regions and create new opportunities".[153]

Skills

93. As noted, the Government has cited the UK's "high skilled workforce" as an attraction for inward investors (see Chapter 1); and skills are one of the "three core pillars of growth" (see Chapter 3).

94. The RSA emphasised that "Local skills policy plays a critical role in the attraction of FDI", but "the UK's educational system is still highly centralised—including, importantly, technical education". The Association thought there "is considerable scope for local businesses to further develop curricula and training, tailored to local demands, especially as most [Further Education] students remain very local". It cited Germany as "a good example of how this can be done: local firms collaborate with educational institutions, chambers of commerce and länder [regional] governments". The RSA thought the UK

147 Manchester Metropolitan University (IFD0013)
148 Q19
149 National Infrastructure Commission, What we do
150 Global Infrastructure Investor Association (IFD0015)
151 HM Treasury, *National Infrastructure Strategy: Fairer, faster, greener* (CP 329), November 2020
152 HM Treasury / Ministry of Housing, Communities and Local Government / Department for Transport, *Levelling Up Fund: Prospectus*, March 2021
153 HM Treasury, *UK Infrastructure Bank Framework Document*, June 2021

needs "a strong devolved skills policy which 'has teeth' to enable transformations". The Association envisaged a role for local Skills Advisory Panels (SAPs)[154] in providing "opportunities for more local input on curricula design to overcome regional skills bottlenecks" and "Tailoring skills programmes to local industrial bases". The RSA thought it "critical to ensure the SAPs have more powers and appropriate funding to shape training programmes in line with spatiality-specific needs and aspirations". It also noted the importance of "Enhancing life-long skills" and fostering "generic digital skills that can be utilised across a range of sectors".[155]

95. A recent innovation in Government skills policy, the "Skills Accelerator", is designed to enable assessment of "priority skills needs aligned to local strategies" and delivery of "the right skills when and where they are needed". The two constituent elements of this, the Local Skills Improvement Plan and the Strategic Development Fund, are currently being piloted in selected areas.[156]

Higher Education

96. Yorkshire Universities, a regional group of Higher Education institutions, said its members "play a direct role in place promotion and in attracting inward investment by collaborating with LEPs, Combined Authorities, Metro Mayors, local government, business and others", including DIT. This often involves "providing evidence of specific research and innovation strengths, and supporting trade and investment events". The group said universities "also have a vital role in place-making, in the provision of education, skills and training, and working with local business, the public sector and communities to generate, co-produce and exchange new and emergent knowledge". In its work, "we have encouraged a more strategic approach to involving universities in place promotion and FDI activity", with "ongoing dialogues and strategic discussions between partners, which reflect the particular geographies in which investment and trade activity takes place, and which reflect locational and sector assets and opportunities".[157]

97. Prof Driffield stressed the importance in sub-national investment promotion of "working with universities and other [research and development] facilities locally to encourage collaboration between higher education, inward investors and local companies on innovation."[158] The RSA thought that, regarding skills policy, Higher Education institutions need to be integrated in investment promotion, but they "need stronger incentives to engage with local actors. At present, the higher education research and teaching evaluation frameworks offer no such incentives, based as they are on national criteria."[159]

154 The 36 SAPs are "local partnerships that work to identify and address local skills priorities" in England, established within LEPs, the Greater London Authority and the Mayoral Combined Authorities – Department for Education, Skills Advisory Panels.

155 Regional Studies Association (IFD0010)

156 Department for Education, Skills Accelerator: apply now, 29 April 2021

157 Yorkshire Universities (IFD0008)

158 Prof Nigel Driffield (IFD0005)

159 Regional Studies Association (IFD0010)

Integrating with Global Value Chains

98. Prof Crescenzi and Oliver Harman, of Oxford University, argued that, "rather than setting the ground and letting manna drop from heaven", policy promoting inward investment at sub-national level has to be "proactive". It must promote a focus on particular "value-added tasks and activities within sectors" as part of Global Value Chains and Global Investment Flows. This means "regions need to develop a value capture strategy" so they can "benefit from their advantages in a sustained, competitive way". Such "smart specialisation strategies" can involve "boosting current skills and capabilities within the regions' industries" and "the fostering of new regional diversification strategies within technological domains". The researchers argued that, in addition, "supportive institutions, and technological, administrative and managerial capabilities that becomes apparent when adopting an evidence-based approach to policy evaluation" are required. Once a region has developed a "smart specialisation" approach, IPAs (see Chapter 1) can then work to attract "the 'right' kind of FDI".[160]

99. Dr Buzdugan and Prof Tüselmann argued that policies to upgrade the quality of inward investment at sub-national level require "not only the cultivation of requisite regional asset bases and network infrastructures". Such policies "also need be informed by the complex internationalisation processes within [multinational enterprises], strategic objectives of investors and the need of subsidiaries to deliver outcomes that help to boost competitive advantage for the [enterprise] as a whole".[161] *fDi Intelligence* thought that the UK needs not just to attract STEM-related investment into underinvested regions, but also to develop "whole value chains able to serve these investments", giving foreign investors "the right incentives to engage with local suppliers" and "transfer technology know-how to local companies".[162]

The relationship between national and sub-national agencies

100. As noted in Chapter 3, DIT and the OfI seek to work seamlessly in partnership with sub-national agencies in promoting inward investment, while some national programmes aim to promote investment in different parts of the UK. Scotland's IPA told us it works with DIT, both at home and overseas, in a collaborative and complementary way; and it cooperates with other sub-national agencies, participating together in DIT's single UK "pipeline" of prospective investment opportunities (see Annex 1). Cornwall Council, though, referred to DIT having a "one-size-fits-all" approach that benefits large urban centres more than other parts of the country (see Annex 2). On the effectiveness of national programmes to encourage inward investment in particular parts of the UK, we heard mixed views. Yorkshire Universities told us the HPO and Investment Champions programmes are "promising steps in the right direction" as regards "addressing regional disparities".[163] However, Prof Crescenzi identified uncertainty over the HPO programme, "like how and to what extent it is co-ordinated with LEPs", arguing "this needs to be addressed as soon as possible".[164] We also heard scepticism from Scotland's IPA about HPOs (see Annex 1).

160 Prof Riccardo Crescenzi and Oliver Harman (IFD0002); see also Regional Studies Association (IFD0010).
161 Manchester Metropolitan University (IFD0013)
162 *fDi Intelligence* (IFD0012)
163 Yorkshire Universities (IFD0008)
164 Q21

101. The Scottish IPA told us how that country's ability to promote inward investment is enhanced by devolved powers, including the ability to coordinate policy, act quickly and maintain an overseas presence (see Annex 1). *fDi Intelligence* cited evidence indicating that the "devolved governments and more autonomous [English] regions tend to fare better when it comes to attracting quality, high value-added foreign investment". The publication noted that these "devolved authorities have a better chance to spend efforts and resources identifying their excellences and design investment promotion strategies accordingly" and can set up their own IPAs. *fDi Intelligence* concluded that sub-national IPAs and the OfI "have to find a way to work together and strike a balance between localisation and centralisation". The OfI's "strategy has to incorporate the inputs coming from local IPAs. This has to happen in a structured way."[165] The RSA cited research suggesting that "IPAs are more effective at the regional than the national level" and that "these effects are larger in regions with weaker economies, providing powerful evidence for a local-led approach". The Association also noted that "Investors are often choosing between similar regions in different countries, rather than choosing 'country first'" and then picking a location within the country selected.[166] The LSE's Economic Diplomacy Commission told us of its research into investment promotion in a diverse range of countries, which showed the effectiveness of decentralised investment promotion:

> The pronounced regional dimensions and idiosyncrasies necessary to attract inward investment, and the unique insight that devolved nations, regions and communities have into their own strengths, histories, and characters, can have a significant impact on bringing in investment.

The Commission concluded that "By working with local authorities and devolved administrations […] DIT could do far more to assist localities, which know their markets best, to showcase strengths and improve weaknesses."[167]

102. We also heard about the importance of mapping investment promotion onto sub-national geographical units that correspond to the identities and distinctive characteristics of particular places. Cornwall Council, which has a Devolution Deal and is keen for more devolution, told us that the geography of its LEP works well because it corresponds to the local "functional economic area"; and the Council favours direct Government funding of LEPs for investment-promotion purposes (see Annex 2). Yorkshire Universities emphasised the need for a "place-based approach" to investment promotion, noting that "Connectivity and linkages between related and complementary assets within and between regions are likely to carry more weight with business than concerns about specific administrative boundaries." It noted that "the complexities of place" and "asymmetric governance" (variation in powers and responsibilities between different types of local authority) "can challenge efforts to build collaborative activity amongst local partners."[168] Prof Crescenzi said that "We need to make sure that powers and responsibilities are devolved at the right scale, warning that, "given the size and the nature of the investments we are trying to target", some LEPs might be too small for this purpose.[169]

103. The Prime Minister's speech on levelling-up in July apparently held out the prospect of new devolution arrangements for England outside the metropolitan areas. He referred

165 *fDi Intelligence* (IFD0012)
166 Regional Studies Association (IFD0010); see also Q5.
167 Prof Linda Yueh (Chair, Economic Diplomacy Commission) to Angus Brendan MacNeil MP, 20 April 2021
168 Yorkshire Universities (IFD0008)
169 Q19

to the possibility of directly-elected county mayors, as well as some sort of bespoke ad hoc localised devolution for particular areas; however, policy in this area is clearly still far from developed.[170] A previously planned Government policy document on English devolution has now apparently been superseded by the forthcoming levelling-up White Paper.[171]

The UK's investment promotion "architecture"

104. As noted, in addition to UK-level bodies (DIT and the OfI), the UK's current investment promotion "architecture" also includes devolved-nation IPAs. Additionally, in England there are LEPs and devolved city-regions (the Greater London Authority and the Mayoral Combined Authorities). Prof Crescenzi told us this architecture is "significantly more complicated" than those of other countries, and coordination of the different "layers" could be problematic.[172] He saw the Government's new approach as "overlapping" with previous arrangements, which risks "confusing investors"; he emphasised the importance of "being plumbers of local institutions, making sure that everything works for investors". This entails an overarching strategy, which the (recently abolished) Industrial Strategy Council had been "ideally positioned" to coordinate.[173] Prof Crescenzi also said there is a "risk of shiny, new policies" causing "discontinuity"; he thought it necessary to show investors "that we will follow a consistent plan and that this plan will be in place now and in a number of years to come".[174]

Conclusions and recommendations

105. **Effective promotion of Foreign Direct Investment across all parts of the UK requires reliable data showing sub-national patterns and trends. We, therefore, welcome the efforts of the Department for International Trade and the Office for National Statistics in developing such statistics.** ***We ask them to keep us informed of progress.***

106. **The Government has made much of "levelling up" across the UK—and indicated that inward investment has an important role in achieving it. However, it is uncertain how this translates into concrete interventions.** ***We recommend that the Government set out in its forthcoming White Paper how it expects investment promotion to support and align with wider levelling-up goals. This should include reference to policy on infrastructure, skills, higher education, integrating with Global Value Chains and further devolution of powers in the English regions.***

107. ***The Skills Accelerator is a welcome innovation in enhancing local skills bases. To maximise the benefits of this, skills policy needs to be coherently joined up with investment promotion at sub-national level. Similarly, higher education can play a crucial role in attracting inward investment and the Government should seek the sector's full engagement in sub-national investment promotion.***

170 Prime Minister's Office, The Prime Minister's Levelling Up speech: 15 July 2021
171 "Devolution White Paper to be replaced by levelling up proposals", *The MJ*, 4 May 2021
172 Q5
173 Q19
174 Q21

108. **The Prime Minister has indicated the possibility of more devolution in the English regions, but the form this will take is unclear.** ***We recommend the Government consider as part of this how to create a coherent sub-national geography that works for investment promotion, effectively tying together areas with common identities and features. This should include reviewing the role of Local Enterprise Partnerships and considering how they can most effectively be funded in relation to investment promotion. Consideration should be given to the lessons that the experience of the devolved nations might hold for the English regions as regards investment promotion. The Government should also bear in mind that the UK's investment promotion "architecture" needs to be straightforward, transparent and easy for investors to navigate.***

5 The role of Sovereign Wealth Funds in inward investment

109. Awareness of the increasingly important role of SWFs in FDI, both globally and in the UK, led us to focus on this particular type of investor in our inquiry.

Key characteristics of Sovereign Wealth Funds

110. Duncan Bonfield, Chief Executive of the International Forum of Sovereign Wealth Funds (IFSWF), explained to us that SWFs are defined as "state-owned pools of financial assets that are invested for specific economic activity". There are four main types of SWF:

- Savings funds—using capital from sources such as oil and other commodity revenues to invest on an "intergenerational" basis (with a very long-term investment horizon) for purposes such as defraying future pension obligations;
- Stabilisation funds—with high liquidity, to allow commodity-rich nations to "smooth out" fluctuations in revenue caused by the cyclical nature of commodity prices;
- Development or strategic funds—pursuing development goals in their own domestic economy by investing abroad or at home; and
- Funds with multiple objectives—combining aspects of the above types of fund.[175]

111. Diego López, Managing Director of Global SWF (a Data Platform that tracks SWFs), told us that the capital invested by SWFs is of two types. First, there is revenue from commodities such as oil, gas, copper, diamonds and even water. The rationale in investing these funds is to diversify the economy so as "to avoid the Dutch disease" (a situation where one economic sector, typically natural resources, develops so rapidly that it causes other sectors to decline).[176] The second source of capital is trade surpluses, foreign currency reserves and "the transfer of stakes in public companies". Since the early 1990s, the proportion of SWFs based on commodities has fallen from 70% to 55%.[177] Mr Bonfield noted that commodity-based funds are still being created—but new models are emerging, such as Funds that have some government funding but are playing "the role of a state private equity fund that will look to get additional capital in".[178] There are Funds that can attract inward investment to their home country as well as investing abroad; and there are SWFs that promote trade.[179]

112. Dr Tim Vlandas, of Oxford University, said there is "lots of diversity" in the motivations behind SWFs' investment decisions. While "a strong element of it" is "economically driven", there are "more political motivations" in some cases, including "promoting the national interest in various kinds of ways".[180] There is also diversity in the types of investment made. Some Funds are "very fervent investors in symbolic buildings,

175 Q104
176 This term refers to the economic consequences of natural-gas deposits being discovered off the Dutch coast in 1959.
177 Q108
178 Q109
179 Q107
180 Q112

symbolic companies"; others focus on particular sectors, such as high-tech or finance—and there is variation according to the target country involved.[181] In some cases, SWFs, as well as managing their own investment portfolios, have stakes in private investment funds;[182] there are also SWF partnerships with private investment funds and public investment banks.[183]

Transparency, independence and governance

113. Mr Bonfield explained that SWFs belonging to the IFSWF have all signed up to the Santiago Principles—"24 principles of good governance, accountability and transparency", defined in 2008 by 26 leading SWFs under the auspices of the International Monetary Fund. This followed concern about inward investment in the strategic assets of certain countries. Adherence to the 24 principles make it likely that a Fund is investing "for an economic purpose" and "looking for a financial return". This gives reassurance to host countries and "a wider group of stakeholders".[184] The principles are voluntary and "subservient to domestic legislation", but most SWFs adhere to them—including non-members of the IFSWF (some SWFs were prevented from joining by "certain limits").[185] Mr Bonfield thought it "unlikely" an investor would go to the trouble of complying with the principles only then to "deviate from the intended outcome" by behaving less than benignly.[186]

Advantages of investment by Sovereign Wealth Funds

114. Dr Vlandas told us about research he had conducted with Prof Mark Thatcher, of the LSE, on the interaction between SWFs and host countries. In Germany and France, companies receiving inward investment and their governments value the long-term, patient nature of SWF investment. The Funds do not need to worry about short-term factors; and they are not just patient but "also in many cases passive", being "content not to sit on boards or have any kind of influence". There are also benefits in terms of "economic diplomacy", building on "a traditional geopolitical alliance" to "channel certain funds in certain ways, perhaps against foreign takeover risks".[187] This would not be a "purely political outcome"; rather, "political processes and dynamics" help to "pursue certain economic strategies".[188] There is also the possibility of a "quid pro quo" in terms of trade. There is "a whole panoply of different benefits" for host countries.[189] In addition, Dr Vlandas did caution that, while patient capital is "beneficial", "it also raises risks" since "typically the state would intervene or support certain sectors" to address market failure. Consequently, significant investments would be "no longer subject to the kinds of healthy economic pressures that you would want to have in some cases." This raises issues such as possible unfair competition.[190]

181 Q113
182 Q115
183 Qq114, 115
184 Q116
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188 Q122
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115. As noted in Chapter 4, the GIIA, representing leading infrastructure investors, sees a major gap in UK infrastructure investment, which inward investors can play a significant role in filling. The Association sees SWFs as an important part of this, as they are generally concerned with very long-term investments—and infrastructure projects take "years to complete and decades to produce a break-even return". SWFs typically do not have "express liabilities that would limit their ability to invest in long-term, illiquid assets like infrastructure projects".[191]

116. Mr Bonfield added that SWFs had proved their worth in the 2008 global financial crisis, where they provided patient, long-term capital that came in and "helped to rescue a number of western banks". They had also maintained liquidity in the global investment community. And increasingly they are helping to develop bilateral trade.[192]

National Security and Sovereign Wealth Funds

117. As noted, Dr Vlandas discerned a "political motivation" in decisions by some SWFs;[193] and a factor in the establishment of the Santiago Principles was concern about inward investment in certain countries' strategic assets.[194] Dr Ashley Lenihan, a Fellow of the Centre for International Studies at the LSE, told us that most Sovereign Investors are "market actors with proven track records of independence", but this is "not true in every case". Many SWFs act "in strategic ways". Dr Lenihan thought that China's SWFs are not only strategic in their investments but also "financially supportive to other investors and strategic investors that are subject to the national security law in that country". She thought it would be a mistake not to look at investments by SWFs in general more carefully than those made by non-state actors.[195]

118. However, we also heard arguments against subjecting SWF investments in particular to scrutiny in this way. Mr López said that, in his experience, SWFs' "motivations are normally economic rather than political". Funds might "be pushed by some macroeconomic agenda", but that would be related to "the financial profitability of the opportunity". Where there is "a red flag because of a political motivation", host countries have arrangements for screening inward investment in general.[196] Mr Bonfield said the Chinese Fund CIC should be seen as quite distinct from the Chinese Government.[197] He saw CIC as "an exemplary investment company", a passive investor that is "the best representative of China and China investments".[198] Dr Vlandas agreed that SWFs are "by and large […] not mobilised" aggressively: "Different policy tools or investment vehicles fulfil different kinds of strategic purposes" and SWFs are "not the most obvious tool to use for threatening purposes".[199] Lawrence Slade, the Chief Executive of GIIA, said that SWFs tend "to have a fairly significant amount of autonomy in terms of how they

191 Global Infrastructure Investor Association (IFD0015)
192 Q129
193 Q112
194 Q116
195 Q52
196 Q124
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198 Q111
199 Q124

operate and how they invest".[200] According to the Association: "There should not be any additional restrictions placed on investment from SWFs, or else the UK risks losing out to competitors in the race for the significant pools of capital under management by SWFs."[201]

119. DIT said that, in building relationships with SWFs and other key inward investors, it is seeking to support investment that meets the UK's "security requirements". And SWFs have engaged with the Department and BEIS regarding the creation of a new UK investment-screening regime.[202] As discussed in Chapter 6, the Government states explicitly that this regime will not target any particular type of investor—including SWFs.

Existing investment by Sovereign Wealth Funds in the UK

120. Mr López told us that since the 1970s SWFs have deployed over US$131 billion (£90 billion) in more than 215 investments across the UK. If public-sector pension funds are included, the total stake of "Sovereign Investors" in the UK stands at over US$215 billion. The UK is "a very significant investment destination", just behind the US. The intensity of FDI inflow increased in 2008 and peaked in 2015. Investments are still happening, but the average deal size has decreased significantly since 2016, falling from over US$1 billion to US$200 million.[203]

121. Some 90% of SWF investments in the UK come from nine funds, four of which are from the Middle East, Mr López said. The Qatar Investment Authority has been "the most acquisitive in the UK", having invested a total of over US$35 billion "over the years". The other prominent Middle-Eastern Funds in the UK are the Kuwait Investment Authority, the Abu Dhabi Investment Authority, and the Mubadala Investment Company from Abu Dhabi in the United Arab Emirates (which is "becoming an increasingly important actor in the UK"). There are also four Funds from the Far East that are prominent in the UK—two from Singapore (GIC and Temasek) and two from China (CIC and SAFE / Gingko Tree). The last of the nine leading Funds in the UK is the Norwegian SWF (for more information on this Fund, see Annex 3). Among public-sector pension funds, those from Canada are increasingly important in the UK, accounting for 50% of all UK inward investment from state-owned investors. London now has 23 different Sovereign Investor offices, "more than any other city in the world", with "funds looking for opportunities on the ground".[204]

122. Regarding fields of investment, SWFs have "traditionally liked British properties and infrastructure", Mr López told us. Investment in real estate, hotels and office towers has been prominent, with some secondary interest in "senior housing and student housing". The major investors in this field, Qatar, GIC and Norway, are responsible for two-thirds of all such investment by SWFs. Investment in infrastructure is "a completely different animal from real estate", as SWFs tend to form "co-investment clubs" in the case of infrastructure. The Norwegian Fund has hitherto avoided infrastructure investment as

200 Q52
201 Global Infrastructure Investor Association (IFD0015)
202 Department for International Trade (IFD0014)
203 Q125. Mr López provided us with a very helpful set of slides on SWF investment in the UK – Diego López (IFD0018).
204 Q125

it is “not interested in forming clubs”. This field of investment also involves a “significant footprint outside of London”, with Sovereign Investor stakes in, for instance, Scotia Gas Networks (in Scotland), and Birmingham, Cardiff and Manchester airports.[205]

123. Mr López identified “a new interest in financial services and other industries away from bricks and mortar”, with the focus of investment shifting “markedly since Brexit and Covid-19”. He told us capital is increasingly deployed in data centres and logistics, which entail more of a focus outside London. Growing areas of Sovereign Investment in the UK include life sciences, technology and renewable energy (including hydrogen). A prominent example is the recent commitment by Mubadala to invest in several of these sectors. So far, British venture capital has attracted only £1 billion from Sovereign Funds, which is less than 3% of global SWF investments. The potential is “large, but it is still very much untapped at the moment”.[206]

Encouraging further Sovereign Wealth Fund investment in the UK

124. DIT told us it sees SWFs as a potential source of patient capital, with different Funds having varying approaches to investing; it noted that SWFs are already investing in the UK in areas such as “infrastructure, energy, real estate and technology”. The Department seeks to build “relationships with key overseas investors, including key SWFs, to support investment into the UK that aligns with key government priorities”. DIT is confident that the National Infrastructure Strategy and the Prime Minister’s Ten Point Plan for a Green Industrial Revolution will mean “institutional investors, such as SWFs, will continue to see [the] UK as an attractive place to invest”.[207]

125. In March 2021, the OfI (see Chapter 3) secured a “sovereign investment partnership” with Mubadala, involving an initial investment in UK life sciences worth £800 million, to which £200 million is being added by the UK Government’s Life Sciences Programme. Under the partnership, there will be further substantial investments from Mubadala (reportedly worth as much as £5 billion) in other sectors, which are said to include health, technology, clean energy and infrastructure.[208]

126. In April 2021, the *Financial Times* reported that Lord Grimstone was “in talks with some of the world’s biggest sovereign wealth and pension funds about investing in British green energy projects, including gigafactories and offshore wind farms.” Sovereign Investors reported to be among those involved were the Singaporean Funds Temasek and GIC; and Australian and Canadian public-sector pension funds. It was reported that future investments are likely to have a similar structure to the Mubadala partnership, involving areas such as technology and infrastructure. The Minister said he was talking to all SWFs and that investments could be alongside contributions from the new UK Infrastructure Bank (see Chapter 4).[209] When we asked Lord Grimstone about this interview, he said he is targeting Sovereign Investors for such investment because “The sources of long-term capital tend to be in pension funds and sovereign wealth funds, though there are other pockets of activity”. He thought the UK needs to “make it easy for pension funds to invest

205 Q125

206 Q125

207 Department for International Trade (IFD0014)

208 Qq125 [Diego López], 131, 142; HC Deb, 20 April 2021, cols 202, 206, 207WH; “Abu Dhabi agrees multibillion-pound investment in British business”, *Financial Times*, 23 March 2021; Department for International Trade, Inward Investment Report 2020/21, August 2021

209 “UK woos sovereign wealth funds over green investments”, *Financial Times*, 28 April 2021

in infrastructure and other big projects". This includes using the "collective vehicles", or "co-investment", model, so an investor that is new to the sector can partner with one that is experienced.[210]

127. We also asked Lord Grimstone about the challenge of directing investment promotion at SWFs when Funds such as the Norwegian one are accustomed to finding investment opportunities for themselves and have little interest in working with governments (see Annex 3). The minister emphasised how diverse SWFs are: the Norwegian Fund has "a very large portfolio with shares in quoted companies", whereas other SWFs might be focusing on infrastructure. The important thing is to develop "investable projects" and then "put them in front of investors, whether they are sovereign wealth funds, pension funds or other sources of capital".[211]

Conclusions and recommendations

128. **Sovereign Wealth Funds, and other Sovereign Investors, are likely to play an increasingly important role in UK inward investment as sources of "patient capital" in areas such as infrastructure, technology and life sciences.** ***We welcome the Government exploring ways to encourage this potential source of major investment. We note that not all Sovereign Wealth Funds use the Government's investment promotion services and we recommend the development of an appropriate strategy for better engaging with this type of investor.***

210 Q145
211 Q143

6 The new National Security and Investment regime

Background

129. While the UK's inward-investment market has long been highly open and liberalised, there has also been provision for the Government to review and potentially intervene in transactions raising national-security concerns. During our inquiry, legislation to revise and update the UK's investment-screening regime passed through Parliament, with the National Security and Investment Act becoming law in April 2021.[212]

130. DIT told us that the new regime is "not a signal that we are reducing our appetite for foreign investment, it is an upgrade that reflects the demands of a modern economy". It also said there is no contradiction between protecting the UK's "strengths and assets" and maintaining "an open approach to inward investment".[213] Likewise, following the passage of the National Security and Investment Act, the then Secretary of State for International Trade emphasised that the UK remains "one of the world's most open, attractive and welcoming destinations for foreign investment". And she said the Act is "designed to make the investment screening process slicker, simpler and quicker for investors and businesses–giving them the certainty they need to invest and do business here".[214]

131. DIT said it is engaging with investors and businesses affected by the new screening regime, in the UK and overseas—including through the network of HM Trade Commissioners. SWFs had engaged with the Department, "through providing feedback to regional trade teams" on the legislation; and with BEIS (the department responsible for investment screening), through a sector consultation process. BEIS has also "offered businesses and investors informal advice on what to expect from the regime prior to it coming into force".[215]

Key provisions of the National Security and Investment Act 2021

132. Dr Lenihan, of the LSE, explained to us that the National Security and Investment Act puts in place a screening regime for certain kinds of entities and assets in relation to "trigger events". These are chiefly the acquisition of shares or voting rights that cross ownership thresholds of 25%, 50% and 75%. Under the Act, three types of action can be initiated because of a trigger event:

- a mandatory application for approval by the BEIS Secretary of State regarding a notifiable acquisition in a "sensitive sector";
- a voluntary referral to the Secretary of State in respect of a trigger event in any sector; and
- a call-in by the Secretary of State of a proposed or concluded trigger event in any sector for up to five years after the event.

212 National Security and Investment Act 2021
213 Department for International Trade (IFD0014)
214 Department for Business, Energy and Industrial Strategy / Department for International Trade, "National security bolstered as Bill to protect against malicious investment granted Royal Assent", 29 April 2021
215 Department for International Trade (IFD0014)

Underpinning this is "a very wide spectrum of remedies" available to the Secretary of State, including the ability to veto a transaction or impose conditions on it, as well as civil and criminal sanctions for non-compliance. There are also provisions for judicial review of decisions.

133. Dr Lenihan said the Act is "welcome and important" as regards protecting UK national security and bringing the UK into line with its allies. Some 48 countries, as well as the EU, have investment-screening provisions. Many are adapting or renewing their regimes to cover sectors that are "emerging areas of concern"; and many ("including close allies and peers" as well as "competitors") are using a "hybrid" blend of cross-sectoral and sector-specific provisions. The new UK regime differs dramatically from most others in that it covers domestic investors as well as foreign ones.[216]

Issues raised by stakeholders and analysts

134. While the underlying principles of the new legislation have been widely welcomed, significant concerns have been raised among business stakeholders and legal analysts about aspects of the new regime.

Definition of sensitive sectors

135. The Government intends to apply the mandatory notification requirement under the Act to 17 specified sectors, to be set out in secondary legislation. Between November 2020 and January 2021, BEIS consulted on a set of proposed sector definitions.[217] The law firm Taylor Wessing LLP told us that these initial proposed definitions were "in many places, vague and unclear". Further, technical experts in the sectors concerned found it "difficult to propose revised definitions" that would draw a clear line between products and technologies from which national security implications could arise and those where this could not conceivably be the case.[218]

136. In March 2021, the Government responded to the consultation, saying that it had used the responses to revise the sector definitions. This included "significantly" narrowing the definition of the Artificial Intelligence (AI) sector, "to focus on three higher risk applications".[219] However, there remain concerns among stakeholders, as we heard from Camilla de Coverly Veale, Head of Regulation at the Coalition for a Digital Economy (Coadec)—which represents startups and scaleups in the UK tech sector. She welcomed the fact that "the new definitions pull a lot of irrelevant companies out of scope" but was concerned that the AI sector definition includes technology that "recognises objects, people and events" as well as that relating to "cybersecurity and advanced robotics". AI is "increasingly foundational" to any business, and the sector definition would catch applications, such as technology "to distinguish between a chicken and a cabbage to help

216 Qq30, 43
217 Department for Business, Energy and Industrial Strategy, *National Security and Investment: Sectors in Scope of the Mandatory Regime – Consultation on secondary legislation to define the sectors subject to mandatory notification in the National Security and Investment Bill 2020*, November 2020
218 Taylor Wessing LLP (IFD0016)
219 Department for Business, Energy and Industrial Strategy, *National Security and Investment: Sectors in Scope of the Mandatory Regime – Government Response to the consultation on mandatory notification in specific sectors under the National Security and Investment Bill*, March 2021, paras 28, 116

farmers assess their livestock”,[220] which had “nothing to do with national security”.[221] Mr Slade, of the infrastructure investors’ body GIIA, said his organisation agrees the sector definitions are still too broad. He cited the example of the energy sector “where generators with as little capacity as 100 megawatts, which is 0.1% of UK capacity, would be caught by this”.[222]

137. Dr Lenihan told us that when “broad sector codes” had been piloted in a new investment-screening regime in the US they were found not to work. They captured things they were not intended to, and omitted some “cases that did involve critical technology but did not sit in those sectors”. The US has moved on from sector-based codes and is now piloting controls based on “specific export-controlled technology”.[223] Regarding the issue of AI technology with no apparent national security applications, Dr Lenihan cautioned that “Things that do not on the surface seem like they have another application often do”.[224]

Use of the Government’s call-in power

138. BEIS has stated that, in using its call-in powers under the new legislation, it will have regard to:

- target risk—”the nature of the target and whether it is in an area of the economy where the government considers risks more likely to arise”;
- trigger event risk—”the type and level of control being acquired and how this could be used in practice”; and
- acquirer risk—”the extent to which the acquirer raises national security concerns”.[225]

139. Dr Lenihan emphasised the importance of call-in powers. Such “catch-all” provisions will allow the Government to protect national security in cases where “an investment of significant concern” is not captured by the arrangements for mandatory and voluntary notification. Call-in is a “really crucial” power that exists in other countries, such as the US and France. It is likely to be used “as the number, scope and complexity of covered transactions increase”, but it will need to be used “sparingly”, as an “emergency brake”.[226]

140. Stakeholders expressed concern about how the call-in power might be used. The GIIA told us that exercising it “could impose significant risks for investors and could negatively impact incentives to invest in the UK”. Accordingly, the power “should be exercised sparingly and only in extreme cases”.[227] The Association’s Mr Slade said this comes down to “the extent that there are genuine concerns about security, as opposed to less-tangible concerns about the ownership of a strategic asset by a particular country or in a particular

220 Q32
221 Q33; see also Q39 [Camilla de Coverly Veale].
222 Q34
223 Q35
224 Q39
225 Department for Business, Energy and Industrial Strategy, Statement of policy intent, 2 March 2021
226 Q45
227 Global Infrastructure Investor Association (IFD0015)

sector". Investors need a quick answer regarding whether an investment is to be called in, and a quick and efficient process where call-in does occur. It is also "absolutely critical" for an investor to understand "the reasoning behind a decision".[228]

The risk of politicised decisions

141. Coadec expressed concern about the risk of "investment decisions unintentionally becoming politicised", given the combination of "extensive powers" to call in investments and the lack of a concise definition of "national security" in the legislation.[229] The Coalition's Ms de Coverly Veale told us it is "highly likely that the process will become politicised". While the current Government is focused on national security, a future one might be "swayed by an intense lobbying campaign or a media campaign or something". She thought there is a legitimate political debate to be had about how to preserve or protect the national interest in relation to inward investment, but "that debate should be out in the open and not through the back door of a piece of national security legislation".[230]

142. Ms de Coverly Veale thought that "more oversight" would be helpful in avoiding politicisation.[231] Mr Slade, of GIIA, urged "transparency", "clear criteria" and "parliamentary scrutiny if things are not seen to be going correctly".[232] Dr Lenihan said that well-functioning screening regimes are transparent, respond proportionately to threats and give clear guidance about what "national security" means ("but not a definition, because you cannot define it").[233] Dr Lenihan noted that the US system, which she thought worked very well, "provides investors with very detailed regulations and examples". She also thought that the US system is very good at avoiding politicisation because it has "a multiagency feed-in process". This is "a way of ensuring that different voices are heard about what the meaning of national security is" and it helps avoid decisions that are liable to be overturned by judicial review later on.[234]

143. Lord Callanan told us the Government is following the practice of its predecessors "of all political persuasions" in not defining "national security", since "if we say what it is then we are indicating what it is not". The Government is determined that screening will be "precisely focused on threats to the UK economy by a small minority of hostile actors"; it will be "flexible" in interpreting the regime; and there will be "no attempt to politicise it". The process will be supported by "gathering intelligence from the rest of Whitehall, other Government Departments, the intelligence agencies and so on".[235]

Extra-territoriality

144. Dr Lenihan explained that the new regime applies not just to UK-based entities and assets, but also any foreign entity or asset conducting activities in the UK or supplying goods and services to the UK. She said this seems much wider in scope than many other countries' screening regimes, but she thought there is a very clear reason for it, it is not unprecedented and other regimes will be taking the same approach in future. Dr Lenihan

228 Q44
229 Coalition for a Digital Economy (IFD0009)
230 Q46
231 Q47
232 Q47
233 Q47
234 Q48; see also Qq49, 55.
235 Q148

said these provisions are relevant to transactions with implications for domestic national security, for instance regarding defence supply-chains or infrastructure. And she said they are increasingly relevant to transactions involving "the transfer of sensitive data, intellectual property, technology or technological applications, not just through sales but through divestments and the creation of joint ventures". Such matters are "becoming increasingly delinked from physical geographical territories". Dr Lenihan thought that extra-territorial provisions will be used sparingly, though.[236]

145. Coadec saw extra-territoriality as one of several areas where the new legislation is "more restrictive than comparable regimes" and "could disproportionately impact sectors in which the UK needs to extend its existing global lead."[237] Ms de Coverly Veale said the UK's "status as a first-tier country for new services is potentially threatened by the expansive territorial approach."[238] For GIIA, Mr Slade thought that the extra-territorial provisions risk "capturing too many potential deals". The more complex investment deals become, "the more pause for thought investors are given in terms of the UK as an FDI location".[239]

Volume of casework

146. Casework under the new regime will be undertaken by the Investment Security Unit (ISU), a 100-person body that will sit within BEIS.[240] DIT told us that the "overwhelming majority of [FDI] transactions" will be unaffected by the new regime; it estimated that "less than 1% of all M&A and asset transactions will result in a notification to Government".[241]

147. However, stakeholders and analysts raised concerns regarding the likely volume of casework that the ISU will have. Taylor Wessing LLP noted that, under the previous screening regime, just 12 transactions had been called in for review in 18 years. The Government's Impact Assessment for the new legislation anticipated between 1,000 and 1,800 mandatory notifications each year, and, in view of the number of transactions occurring, this is expected to be "a significant underestimate". Taylor Wessing also anticipated "over-notification", "especially as the consequences for non-notification would be severe".[242] Coadec saw "high penalties", along with the risk of retrospective call-in, as "likely to create an exponential increase in both voluntary and mandatory notifications".[243] GIIA saw broad sector definitions in relation to mandatory notifications as likely to cause a high caseload, along with the lack of any threshold regarding company turnover or other factors relating to company size.[244] Coadec likewise said that, without a threshold concerning turnover or "share of supply", "the smallest startup or SME" will be caught by the screening regime.[245] Dr Lenihan noted that, because the regime covers domestic

236 Q40
237 Coalition for a Digital Economy (IFD0009)
238 Q41
239 Q41
240 Department for Business, Energy and Industrial Strategy, Overview of the Investment Security Unit: factsheet, 3 March 2021; Q50
241 Department for International Trade (IFD0014)
242 Taylor Wessing LLP (IFD0016)
243 Coalition for a Digital Economy (IFD0009)
244 Global Infrastructure Investor Association (IFD0015)
245 Coalition for a Digital Economy (IFD0009)

investors, unlike most other screening regimes, the Government is "likely to see a much higher volume of notified investments in the first few years than is usual for this kind of regime".[246]

148. GIIA noted the Government's intention to complete its initial screening of each notification within 30 working days, saying it is "of vital importance" to have "a sufficient number of highly-trained personnel" to achieve that target. Moreover, in the interests of not deterring investment, the Government should aim "to take significantly less than the full 30 working day period to clear the vast majority of cases".[247]

149. Taylor Wessing anticipated that an unmanageable ISU caseload will increase costs for business, cause uncertainty around deals and lengthen routine transactions, some of which have "critical financing timeframes". This will "at a minimum, cause friction and frustration in the short term" and potentially harm the UK's attractiveness for investors in the medium-to-long term.[248] Coadec noted that timing is "critical to most startup funding rounds" and thought the ISU will "struggle to conclude investigations before deals are negatively impacted".[249]

150. Ms de Coverly Veale thought the risk of an excessive caseload had been mitigated somewhat during the passage of the legislation by the lowest trigger threshold for mandatory referral being increased from 15% ownership to 25%. However, she still expected "if not an impossible caseload", one "that risks killing and collapsing deals". Coadec thought "the Government have been incredibly naive in their estimates" of caseload: the sector definitions for the mandatory referral regime remain too broad; the definition of "national security" remains open-ended; and the risk of criminal sanctions and fines remains, meaning investors will simply default to referring transactions. Coadec also worried that BEIS would "not hire enough people or people with sufficient qualification to assess these deals", given that the Government already struggles to find tech experts.[250] For GIIA, Mr Slade said that, even if the call-in power were used sparingly, he still had "significant concerns" about caseload and "whether the Government can get enough skilled senior people […] to get the deals through quickly."[251] Dr Lenihan took the view that addressing a high caseload entails having the right culture, the right staff, enough capacity—and cross-government feed-in to the ISU, to help share the burden.[252]

151. Lord Callanan told us the Government is sticking to its estimate of 2,000 expected cases per year and can see no evidence to support alternative views. It expects an initial "spike in cases as people notify just in case", but guidance documents will be issued and liaison undertaken with investors. The regime will be "easy, open and accessible to everybody".[253]

246 Q30; see also Q43.
247 Global Infrastructure Investor Association (IFD0015)
248 Taylor Wessing LLP (IFD0016)
249 Coalition for a Digital Economy (IFD0009)
250 Q36
251 Q44
252 Qq30, 39, 49, 52 [Ashley Lenihan]
253 Q146

Potential streamlining of the regime

152. GIIA told us there is scope to streamline the new screening regime through "exemptions for institutional investors with a strong track record of responsible investment into UK infrastructure assets". This can be done through "a certification regime, perhaps supported by an annual attestation to be completed by those investors to confirm each year that they continue to qualify for the exemption".[254] The Association's Mr Slade emphasised that infrastructure investments are in highly regulated sectors, where bodies such as Ofwat, Ofgem and Ofcom have "strong regulatory control over those markets, the investments and the actions of asset owners and investors in those sectors".[255] And the investors involved are not private equity businesses but "long-term, patient capital" investors.[256] Coadec also favoured such exemptions, especially for venture capital funds, which typically have "the same investors, the same money, for the lifecycle of the fund" and so can be subject to "a pre-approval process".[257]

153. Dr Lenihan said the UK should "keep under review" the idea of exempting trusted domestic investors, and possibly also those from "a white list of closely allied and highly trusted countries". There should not be a blanket approach to institutional investors, even the most responsible of which could "make mistakes or pose a concern in certain instances". And exemptions should never apply to the call-in power. It is "a favourite strategy of some countries to evade regulatory requirements by setting up a subsidiary in a friendly country or by making an acquisition through something that looks like an institutional investor." White lists are operated by certain EU countries and the US, but these are limited in scope and subject to review. Such an approach could help if the UK has a "high volume of mandatory filings from friendly country investors that turn out to be really low risk", but it can only happen "once the regime and the review process are institutionalised and established".[258]

"Actor agnostic" approach

154. DIT told us that the new regime is "actor agnostic in design". All inward investment "must adhere to our values and strict national security requirements"; and screening powers can "be used in relation to any transaction that raises national security concerns, regardless of the country of origin".[259] Regarding the intended use of the call-in power, BEIS states that the new regime "does not regard state-owned entities, sovereign wealth funds–or other entities affiliated with foreign states–as being inherently more likely to pose a national security risk". Such organisations "may have full operational independence" in pursuing purely economic goals. When considering "acquirer risk", the Secretary of State will "consider the entity's affiliations to hostile parties", not the acquirer's nationality or any relationship in principle with a foreign state.[260]

155. Dr Lenihan said the reason for taking an actor-agnostic approach is that it can be difficult to determine who the "ultimate owners" of an investment vehicle are. However,

254 Global Infrastructure Investor Association (IFD0015)
255 Q42; see also Q52.
256 Q42
257 Q42
258 Q43
259 Department for International Trade (IFD0014)
260 Department for Business, Energy and Industrial Strategy, Statement of policy intent, 2 March 2021; see also Q149.

most screening regimes recognise that "state-owned, influenced and operated entities potentially pose more of a risk to national security than others by the logic that they are strategic in nature and they are beholden to that state's Government and that Government's laws". Therefore, most regimes, "in practice or in regulation", tend to screen such entities more than those that are not state-owned. As noted in Chapter 5, Dr Lenihan thought that Sovereign Investors should be treated in this way.[261]

The roles of DIT and the OfI in the new regime

156. Our predecessor Committee said the Government should set out "in some detail" DIT's role in the new investment screening regime".[262] The Government undertook to provide more detail in its response to the 2018 consultation on the new regime,[263] but in the event this said only that the BEIS Secretary of State might take into account "evidence provided by other Ministers, Departments and Agencies".[264]

157. At the launch of the OfI (see Chapter 3), DIT stated the new body will, in fulfilling its role, ensure "high and rigorous standards of scrutiny and security."[265] As noted in Chapter 3, DIT told us the OfI's cross-government role includes addressing "complexities" around security in respect of "significant investments"; the Department further explained that all OfI projects will:

> be firmly linked into the existing security apparatus to ensure that potential national security considerations and foreign policy considerations are accounted for from inception and throughout the lifecycle of each project.[266]

158. Dr Lenihan told us that (as well as lessening the risk of politicised decisions and helping to manage a high caseload) involving official bodies other than BEIS, including DIT, means "a different set of voices" can be heard, giving "a balanced view and opinion" before a decision is made.[267] Bodies that might be involved include the Export Control Joint Unit (ECJU)—the cross-departmental unit, hosted by DIT, which administers export controls and licensing for military and dual-use items. She said little is yet known about the ISU, but it will be expected to involve "seconded staff with training and with security clearances from a host of Government Departments".[268]

159. Dr Lenihan said other western countries tend to run their screening regimes from "either a Treasury, Trade or Finance Ministry and have other Ministries feed in". This is "probably to allow for some consideration of broader strategic concerns", as well as narrower technological concerns attached to particular transactions.[269] DIT could play a "crucial role" in identifying "spurious investments" for call-in that might not be noticed by relying on "traditional databases and repositories". DIT's "extensive foreign networks

261 Q52
262 International Trade Committee, Seventh Report of Session 2017–19, *UK investment policy*, HC 998, para 208
263 International Trade Committee, First Special Report of Session 2019, *UK investment policy: Government Response to the Committee's Seventh Report of Session 2017–19*, HC 126, p 11
264 Department for Business, Energy and Industrial Strategy, *National Security and Investment White Paper: Government response to its consultation on proposed legislative reforms* (CP 323), November 2020, para 133
265 Department for International Trade, "New Office for Investment to drive foreign investment into the UK", 9 November 2020
266 Department for International Trade (IFD0014)
267 Q49
268 Q50
269 Q51

and knowledge of foreign actors" could be utilised both to raise red flags and confirm an investor is not a threat. The OfI's role is less clear than DIT's at present, but she thought it could "offer knowledge of certain investors". If it were involved in the assessment process, there might be a perceived conflict of interest regarding its role in helping investors; but it could help investors navigate the screening regime.[270]

160. Mr Slade, of GIIA, said the OfI and DIT have a "crucial part to play" in a joined-up approach across government, making sure investors understand which departments they need to talk to, and what questions and issues might arise in relation to the screening regime. In this connection he noted Lord Grimstone's role as a minister in both DIT and BEIS.[271] Ms de Coverly Veale said Coadec feared a lack of coordination, whereby the OfI might help a startup find foreign investment, only for BEIS to veto it. Messaging needs to be "clear and consistent across Government".[272]

161. Lord Callanan told us the screening process will include "gathering intelligence from the rest of Whitehall, other Government Departments, the intelligence agencies and so on".[273] Lord Grimstone confirmed that DIT and the OfI will "work hand in hand" with BEIS. He said it is important not to "lead investors up a blind alley"; if there are any national security concerns, DIT and the OfI will involve them "very early on" and "work closely with them". Lord Callanan said that, while the ISU will be based in BEIS, other departments, including DIT, will be "the spokes of the wheel", with their expertise being drawn on; and he will continue to speak often to Lord Grimstone, as a fellow BEIS minister.[274]

Conclusions and recommendations

162. **The National Security and Investment Act 2021 is a welcome measure, updating legislation that was no longer fit-for-purpose, given the challenges that investment screening now poses. We support the Government's intention to screen on an actor-agnostic basis.**

163. ***We recommend the Government use its discretionary call-in powers sparingly and in a carefully targeted way, to deal with issues such as non-controlling investments of concern. We recommend it set out the criteria it will use to minimise the risk of its powers under the screening regime being deployed in a politicised way.***

164. ***We recommend the Government set out overtly how it intends, in operating the new screening regime, to communicate clearly and transparently to investors the principles underlying the regime, along with its processes and timeframes.***

165. ***We recommend the Government set out precisely the respective roles of the Department for International Trade, the Office for Investment and other Government bodies in implementing the new regime. It should also consider whether the Export Control Joint Unit could be a possible model for developing the Investment Security Unit on an integrated, cross-departmental basis.***

270 Q55
271 Q53
272 Q54
273 Q148
274 Q150

166. ***We recommend the Government monitor closely the functioning of the new regime, including the work of the Investment Security Unit. A review of the regime's first 12 months of operation should be undertaken and the findings published. If necessary, processes under the regime, or the regime itself, should be modified—including by changing legislation, if this is required.***

Conclusions and recommendations

UK level official data on inward investment

1. Our predecessor Committee noted several deficiencies in the data on inward investment produced by the Department for International Trade and the Office for National Statistics. We are pleased that both have made progress in addressing these issues, but we note concerns about the slow rate of progress. We join the Office for Statistics Regulation in calling for greater transparency about progress, quick implementation of changes and broader engagement of users. (Paragraph 23)

DIT as an Investment Promotion Agency

2. We join the Office for Statistics Regulation in calling for greater transparency about progress, quick implementation of changes and broader engagement of users. (Paragraph 23)

3. With keen international competition for inward investment, it is vitally important for the UK to have effective arrangements for investment promotion. The creation of the Office for Investment is a significant and innovative addition to the UK investment-promotion landscape. Alongside this development, the role of the Minister for Investment appears to be evolving and growing. (Paragraph 75)

4. These developments are welcome, but the Government should be mindful that the roles of the Office for Investment and the Minister for Investment function as integral parts of a coherent overall investment strategy. There also needs to be further clarity on how the Office for Investment relates to 10 Downing Street, the Department for International Trade and other departments. In addition, we ask the Government to keep us updated on the staffing, developing role and performance of the Office for Investment—and to develop criteria for measuring its success. (Paragraph 75)

5. Other recent developments related to investment promotion include publication of the Plan for Growth (superseding the Industrial Strategy), the calling of the Global Investment Summit, the formation of the Investment Council, the establishment of Trade and Investment Hubs, and the announcement of the new national flagship. (Paragraph 76)

6. The Government needs to show how all these initiatives fit effectively into its overall investment strategy, rather than just being ad hoc. Regarding the Trade and Investment Hubs, we ask the Government to explain why it is creating a Hub for each of the devolved nations yet only one in the English regions (in the North of England, at Darlington). It should also say more about the scale on which specialist investment staff—including those from the Office for Investment—will be present in the Hubs and the specific roles that they will play there. (Paragraph 76)

7. Involvement in inward investment successes, measured in project numbers, is a crude performance metric for investment promotion. We, therefore, welcome the progress that the Department for International Trade has made in developing a "Gross Value

Added" measure of the economic impact of inward investment, which opens the possibility of a more sophisticated performance metric and better targeting. We ask the Department to keep us updated on progress in this regard. (Paragraph 77)

Levelling up and inward investment

8. Effective promotion of Foreign Direct Investment across all parts of the UK requires reliable data showing sub-national patterns and trends. We, therefore, welcome the efforts of the Department for International Trade and the Office for National Statistics in developing such statistics. (Paragraph 105)

9. We ask them to keep us informed of progress. (Paragraph 105)

10. The Government has made much of "levelling up" across the UK—and indicated that inward investment has an important role in achieving it. However, it is uncertain how this translates into concrete interventions. (Paragraph 106)

11. We recommend that the Government set out in its forthcoming White Paper how it expects investment promotion to support and align with wider levelling-up goals. This should include reference to policy on infrastructure, skills, higher education, integrating with Global Value Chains and further devolution of powers in the English regions. (Paragraph 106)

12. The Skills Accelerator is a welcome innovation in enhancing local skills bases. To maximise the benefits of this, skills policy needs to be coherently joined up with investment promotion at sub-national level. Similarly, higher education can play a crucial role in attracting inward investment and the Government should seek the sector's full engagement in sub-national investment promotion. (Paragraph 107)

13. The Prime Minister has indicated the possibility of more devolution in the English regions, but the form this will take is unclear. (Paragraph 108)

14. We recommend the Government consider as part of this how to create a coherent sub-national geography that works for investment promotion, effectively tying together areas with common identities and features. This should include reviewing the role of Local Enterprise Partnerships and considering how they can most effectively be funded in relation to investment promotion. Consideration should be given to the lessons that the experience of the devolved nations might hold for the English regions as regards investment promotion. The Government should also bear in mind that the UK's investment promotion "architecture" needs to be straightforward, transparent and easy for investors to navigate. (Paragraph 108)

The role of Sovereign Wealth Funds in inward investment

15. Sovereign Wealth Funds, and other Sovereign Investors, are likely to play an increasingly important role in UK inward investment as sources of "patient capital" in areas such as infrastructure, technology and life sciences. (Paragraph 128)

16. We welcome the Government exploring ways to encourage this potential source of major investment. We note that not all Sovereign Wealth Funds use the Government's investment promotion services and we recommend the development of an appropriate strategy for better engaging with this type of investor. (Paragraph 128)

The new National Security and Investment regime

17. The National Security and Investment Act 2021 is a welcome measure, updating legislation that was no longer fit-for-purpose, given the challenges that investment screening now poses. We support the Government's intention to screen on an actor-agnostic basis. (Paragraph 162)

18. We recommend the Government use its discretionary call-in powers sparingly and in a carefully targeted way, to deal with issues such as non-controlling investments of concern. We recommend it set out the criteria it will use to minimise the risk of its powers under the screening regime being deployed in a politicised way. (Paragraph 163)

19. We recommend the Government set out overtly how it intends, in operating the new screening regime, to communicate clearly and transparently to investors the principles underlying the regime, along with its processes and timeframes. (Paragraph 164)

20. We recommend the Government set out precisely the respective roles of the Department for International Trade, the Office for Investment and other Government bodies in implementing the new regime. It should also consider whether the Export Control Joint Unit could be a possible model for developing the Investment Security Unit on an integrated, cross-departmental basis. (Paragraph 165)

21. We recommend the Government monitor closely the functioning of the new regime, including the work of the Investment Security Unit. A review of the regime's first 12 months of operation should be undertaken and the findings published. If necessary, processes under the regime, or the regime itself, should be modified—including by changing legislation, if this is required. (Paragraph 166)

Annex 1: Scottish Development International

1) Scottish Development International (SDI) is "responsible for delivering the Scottish Government's inward investment targets".[1] Neil Francis, SDI's interim Managing Director, told us the Edinburgh government, like all the devolved administrations, has "a parallel power" to that of the UK Government in respect of trade and investment. He said there is "no competition"; rather, the Scottish and UK investment promotion efforts add to and complement one another.[2]

2) Mr Francis said there is a "protocol" whereby "all the prospective [investment] opportunities are shared on a single UK pipeline", so all investment promotion agencies are able to "pitch our respective propositions" against those opportunities.[3] The approach is "mature" and "highly collaborative": "whatever leads we are generating we make sure our colleagues in DIT and in the other parts [of the UK] can see those opportunities and vice versa". If an investor expresses a preference for a particular part of the UK, "then everyone else leaves that one alone"; if not, "we all come together to create a proposition that highlights the strengths across the four nations".[4]

3) The propositions marketed to prospective investors reflect "the strengths, resources, skills and talents that are located right across the four nations", although sometimes it is not "done as well as it might be". DIT must understand "the advantages and resources" in all parts of the UK; and sub-national agencies have to be "proactive in putting forward our contributions to those national propositions".[5]

4) Mr Francis said the digital services that DIT provides to inward investors cover "all the bases". But what matters is "the execution and the follow-up", going "from being online to being a physical relationship".[6] Concerning HPOs, Mr Francis identified "a lot of pressure on colleagues in DIT to have an HPO for […] every subregion across the UK". Whether those projects chosen for HPO status "actually represent the best place for that investment is a moot point", he thought.[7]

5) Regarding the creation of the OfI (see Chapter 3), Mr Francis thought its cross-departmental role is to be welcomed in principle, but it remains to be seen how the sub-national parts of the UK will be able to "play into that". He noted that so far engagement had been good, with "a number of conversations" taking place. As with the Trade and Investment Hubs, "it is about ensuring it is additive, it is complementary and, most importantly, that it does not confuse the customer".[8]

6) Mr Francis told us that, by one measure,[9] for the past seven years in a row Scotland has attracted more inward investment than any sub-national part of the UK other than

1 Scottish Enterprise, "Who we work with"
2 Q24
3 Q2
4 Q16
5 Q2
6 Q2
7 Q21
8 Q23
9 SDI has confirmed that the measure referred to was data compiled by the professional services network EY – EY, *Continued resilience EY's Attractiveness Survey Scotland*, June 2021.

London.[10] This has been achieved by various means, he explained. SDI focuses on securing "resource-seeking inward investments", where investors are "looking for assets, talent, skills, resources that are in short supply elsewhere". Its approach is to be "very clear on what we have in that regard" and then build "very focused propositions that we can take to market, knowing the type of investors we wish to attract and, importantly, the type of investment". SDI is not interested in supporting M&A investments, but in "attracting organisations that will establish operations within Scotland". It is felt to be very important to "embed the potential investor into your ecosystems".

7) The Scottish Government and its economic development agencies have "a coherence and co-ordination that runs across our public and private sector infrastructure", including universities and colleges, as well as senior leadership among existing investors. The importance of the "ability to convene and project a unified, coherent ecosystem to prospective investors" cannot be stressed enough, Mr Francis said. There is particular success in attracting "research and development-type opportunities", which plays well to Scotland's "resources, talents and assets".[11]

8) Mr Francis said devolution means the Scottish Government and Parliament have the power to influence "skills, infrastructure, business environment and quality of life", which are all important to decisions on where to locate businesses. And it is possible "to convene and co-ordinate all the decision makers" in relation to an investment opportunity with greater "fleetness of foot" and "agility" in Scotland than is possible at the UK level.[12]

9) Mr Francis said an important factor has been the Scottish Government's "consistent investment" in SDI's international activities, maintaining 38 offices overseas to "complement the extensive network provided through [the Foreign, Commonwealth and Development Office]". This allows SDI "to be in market and get alongside those prospective investors early on".[13] He emphasised that in the vast majority of cases SDI's overseas presence is part of a UK mission, and he saw "a lot of advantages" in being co-located with staff from DIT, as well as other devolved and regional organisations. Their efforts are "additive" and their approach "collaborative".[14] He noted that the UK Government's overseas presence, covering 105 markets, is substantially more extensive than the Scottish Government's.[15]

10 Q12
11 Q12
12 Q14
13 Q12
14 Q16
15 Q24

Annex 2: Cornwall Council

1) Cornwall Council's Head of Economy, Skills and Culture, Emily Kent, told us DIT is currently providing "a simple one-size-fits-all offer", which does not benefit all parts of the country equally.[1] She thought there has been "a tendency to focus on quick 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."[2] The Council said the "trickle down" benefits of the current uneven pattern of FDI do not "reach many of the areas that are in need of levelling up", and the Government should look to encourage FDI into every part of the UK, "not just large urban centres".[3]

2) Ms Kent said Cornwall wants to have a role in creating UK-level initiatives on inward investment and levelling-up, "on a level playing field" with other parts of the UK. Investment opportunities and plans have to "respond to the needs that we have in Cornwall and recognise the differentiated approach that needs to be taken".[4] The Council advocated a partnership between national government, local authorities and stakeholders. It thought local expertise can be used to "help identify niche sectors within regional areas, which may not be important on the national stage, leading to more focused investment". Since Local Industrial Strategies set out the "strengths and weaknesses of local economies", these "should form the basis for the broader investment strategy to attract FDI", thereby helping to "deliver a bottom up development approach through utilising local expertise and resources".[5]

3) The Council said that areas such as Cornwall have resources with great potential to bring in "internationally important industries". However, achieving this will require a high level of government investment "in developing skill levels, connectivity, infrastructure and other areas which would increase the probability of FDI in these regions". Otherwise, increased UK inward investment will just serve to exacerbate "the gap between more productive areas and those that are in need of levelling up".[6] The Council also thought the Government "should consider revenue support for sub-regional inward investment (and associated export trade) programmes through direct funding to Local Enterprise Partnerships".[7] The authority argued for a particular "push from the government to increase the attractiveness of rural regions by supporting policies which foster skills development and increasing connectivity and infrastructure". The Council also warned that "restricting focus to supply-side large scale totemic, infrastructure-led and/or sector-specific inward investment" will miss promoting the "long tail" of SME investors seeking access to UK markets—which could be particularly important to the economy of rural areas.[8]

4) Regarding the role of the OfI (see Chapter 3), the authority thought it must "simplify the complexity of UK Government interaction with potential investors i.e. 'hide the wiring'". A "focussed aim/objective/performance metric" should be built into the OfI's

1 Q2; see also Q15.
2 Q2
3 Cornwall Council (IFD0001)
4 Q27
5 Cornwall Council (IFD0001)
6 Cornwall Council (IFD0001)
7 Cornwall Council (IFD0001); see also Q11.
8 Cornwall Council (IFD0001)

terms of reference; and it should be tasked with delivering "FDI in the areas of the UK that are in need of levelling up rather than targeting FDI at England and Devolved Administration level".[9]

5) Ms Kent told us that investment promotion in Cornwall is facilitated by having an LEP that covers both the Council and the adjacent local authority in the Isles of Scilly. That "footprint" is "absolutely right for us", corresponding to "our functional economic area", which is best for understanding "how our economic strategy works" and how the "ecosystem" of local businesses works "in terms of supply chains and our sectors".[10] However, obtaining data on inward investment at a local level is "incredibly problematic". Data is available at regional level, but this does not give a clear picture of the situation in rural areas, as the South-West region also includes some large urban areas.[11]

6) Ms Kent told us that in 2015 Cornwall had become the first rural area in England to negotiate a Devolution Deal. The Council has "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".[12]

7) The LEP has "directly attracted over £100 million-worth of investments through various funding programmes", Ms Kent said.[13] She told us there is a long-term focus on the "sector strengths" of Cornwall and the Isles of Scilly, with the honing of "those key competitive advantages that respond to our natural environment".[14] The Council stressed to us the importance of the LEP's Local Industrial Strategy, which "sets out the distinctive opportunities our region holds in the sectors of clean energy resources, geo-resources, data and space, agri-food, and the visitor economy".[15]

9 Cornwall Council (IFD0001)
10 Q8; see also Qq9, 11.
11 Q7; see also Q8.
12 Q15
13 Q11
14 Q9
15 Cornwall Council (IFD0001)

Annex 3: Government Pension Fund Global (Norway)

1) The Government Pension Fund Global is an SWF owned by the Norwegian government and run by Norges Bank Investment Management (NBIM). Nicolai Tangen, the Chief Executive Officer of NBIM, told us the Fund serves to transfer wealth from Norway's oil revenues into financial assets.[1] The intention in setting it up was to avoid a situation where spending oil revenues at home drove inflation and crowded out other industries (the so-called "Dutch disease"). Although no more than 3% of the Fund is allowed to be spent, it is now so large that it accounts for 25% of the Norwegian state budget.[2] The Fund is intended to benefit future generations, but it also acts as a "reserve fund", for instance funding measures to mitigate the economic effects of the Covid-19 pandemic. The Fund seeks to "generate the highest possible return within a certain amount of risk", subject to a stringent environmental, social and corporate governance framework.[3]

2) Mr Tangen said the Fund is worth 11,000 billion Norwegian kroner—of which 3,000 billion kroner have come from revenues deposited by the government and the remainder from returns on investments and changes in currency values.[4] The Fund owns "1.4% of all listed companies in the world", with stakes in 9,000 businesses; in Europe it owns 2.6% of all companies.[5]

3) The Fund is "very solidly, democratically anchored", Mr Tangen told us. All important decisions are taken by Norway's Parliament; and the Fund is given a mandate by the Ministry of Finance, which delegates its running to the Norwegian central bank, within which NBIM sits.[6] If NBIM wants a change in the mandate, it can raise this with the Minister of Finance.[7] NBIM's Deputy Chief Executive Officer, Trond Grande, told us that a "reference index" set out in the mandate dictates to a large extent "what types of sectors and companies we invest in".[8] The reference index is "currently based on the FTSE Global All Cap. We would typically be invested in any country that is included in that index."[9] Mr Grande said the Fund's mandate obliges it to hold 70% of its assets in equity investments and 30% in fixed income investments, reflecting its long-term risk appetite. Attached to this is an expected long-term return of 3%, which is related directly to the limitation that no more than 3% of the Fund can be spent.[10] Mr Tangen said it is "a strict principle" of the mandate for the Fund "not be engaged with politicians"—including in Norway itself. Consequently, the Fund has little contact with governments in countries where it invests: "we are a non-political entity, so we try to avoid the politicians rather than seek them".[11]

4) Mr Tangen said the Fund has a Council on Ethics, which is independent of the central bank and NBIM. It evaluates companies "within a pure ethical framework", based on the Fund's "expectation documents" in relation to issues such as climate risk, human rights,

1 Q57
2 Q58
3 Q61
4 Q57
5 Q85
6 Q62
7 Q98
8 Q63
9 Q100
10 Q75
11 Q86; see also Qq87, 88.

children's rights and water management. Where companies violate the Fund's ethical principles, the Council will seek to eliminate them from the reference index, meaning the Fund cannot invest in them.[12] Mr Grande said the Council makes recommendations to the board of the central bank and it is up to the board to decide whether to follow the recommendation to exclude a company or to "stay invested and try to engage with the company", seeking to change its behaviour.[13] Mr Tangen said action to remove companies from the Fund's "investment universe" will come about either because the Fund's ethical principles have developed (or been fine-tuned) "or because the companies themselves have changed".[14]

5) Mr Tangen said that one area of investment that has now been eliminated from the reference index on ethical grounds is in relation to coal.[15] He noted that climate change is now much more a topic of discussion in NBIM's meetings with companies it invests in.[16] However, he stressed that the Fund is not seeking to atone for "a big sin" as regards being itself based on oil revenues. "We think it is completely ethical to explore oil", Mr Tangen said.[17] Mr Grande said the Norwegian Parliament had decided the Fund should not invest in oil exploration, but this was purely in order to reduce risk exposure, given that the Fund is built on oil revenues.[18]

6) Mr Tangen said the Fund engages on ethical issues with most NGOs, and it does so "in a very constructive way. They are an important part of what we do. They help set the agenda and inform us on various contentious issues."[19] When we asked whether the Fund would divest from a particular country because of the behaviour of its government, Mr Grande said "We do not single out countries that we will not invest in. We prefer to say that we invest in companies and not in countries."[20] Mr Tangen said the economic consequences of eliminating investments on ethical grounds is closely measured and data is published in the Fund's annual report. Divestment from certain UK companies has incurred only "a relatively small cost".[21]

7) Mr Tangen told us "We think the UK is a very attractive place" to invest, with "great companies, very well-run companies [and] good corporate governance."[22] He said the Fund has £66 billion-worth of assets in the UK, representing 7% of its global tally. The composition of these UK investments reflects the make-up of the Fund's assets overall; they include £4.2 billion-worth of investments in UK real estate. Mr Tangen thought that host countries ought to see the Fund as "the perfect investor. It makes very little noise. It doesn't demand board level positions."[23] He explained that the Fund has no greenfield investments in the UK, as it typically invests in listed companies. A possible exception in the UK, though, may be regarding renewable-energy infrastructure, in which the Fund is now allowed to invest, due to a change in its mandate.[24]

12 Q66; see also Q64.
13 Q67
14 Q68
15 Q64
16 Q69
17 Q70
18 Q63
19 Q96
20 Q100; see also Qq101, 102.
21 Q102
22 Q79
23 Q72
24 Q73; see also Qq80, 91, 94, 98.

8) Mr Tangen said governments' investment promotion agencies, such as DIT, have thus far been "relatively irrelevant" to the Fund, since "The majority of what we [invest in] is sourced by ourselves".[25] Mr Tangen indicated that engagement with UK Government investment promotion may be more likely in respect of renewable infrastructure;[26] NBIM has already been in contact with DIT and the OfI (see Chapter 3) regarding potential such investments.[27]

9) Mr Tangen said investment screening on grounds of national security, as under the UK's planned new National Security and Investment regime, is of no concern to the Fund. This is "because we typically buy very small stakes"—and the Fund is not "involved in sensitive businesses".[28]

25 Q78
26 Q80
27 Q77
28 Q84

Formal minutes

Tuesday 21 September 2021

Members present

Mark Garnier

Anthony Mangnall

Martin Vickers

Mick Whitley

Craig Williams

In the absence of the Chair, Mark Garnier was called to the chair.

Draft Report (*Inward Foreign Direct Investment*) proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 166 agreed to.

Resolved, That the Annexes to the Report be agreed to.

Resolved, That the Summary of the Report be agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

[Adjourned till Wednesday 22 September at 2.00 p.m.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 26 May 2021

Neil Francis, Interim Managing Director, Scottish Development International; **Professor Riccardo Crescenzi**, Professor of Economic Geography, London School of Economics; **Emily Kent**, Head of Economy, Skills and Culture, Cornwall Council; **Professor Susan Scholefield CMG**, Visiting Professor of Politics, University of Surrey	Q1–28
Lawrence Slade, Chief Executive, Global Infrastructure Investor Association; **Dr Ashley Thomas Lenihan**, Fellow, Centre for International Studies, London School of Economics; **Camilla de Coverly Veale**, Head of Regulation, The Coalition for a Digital Economy	Q29–55

Wednesday 16 June 2021

Nicolai Tangen, Chief Executive Officer, Norges Bank Investment Management; **Trond Grande**, Deputy Chief Executive Officer, Norges Bank Investment Management	Q56–102
Diego López, Managing Director, Global SWF; **Dr Tim Vlandas**, Associate Professor of Comparative Social Policy, University of Oxford; **Duncan Bonfield**, Chief Executive Officer, International Forum of Sovereign Wealth Funds	Q103–129
Lord Grimstone of Boscobel Kt, Investment Minister, Department for International Trade / Department for Business, Energy and Industrial Strategy; **Lord Callanan**, Minister for Business, Energy and Corporate Responsibility, Department for Business, Energy and Industrial Strategy; **Ceri Smith**, Director General, Strategy and Investment, Department for International Trade; **Daniel Gieve**, Chief Operating Officer, Office for Investment; **Jacqui Ward**, Director of National Security and International Directorate, Department for Business, Energy and Industrial Strategy	Q130–150

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

IFD numbers are generated by the evidence processing system and so may not be complete.

1 Coadec (IFD0009)

2 Cornwall Council (IFD0001)

3 Department for International Trade (IFD0014)

4 Diego, (Managing Director, Global SWF) (IFD0018)

5 Driffield, professor Nigel (Professor of International Business / Deputy Pro-Vice Chancellor, University of Warwick) (IFD0005)

6 fDi Intelligence, Financial Times (IFD0012)

7 Global Infrastructure Investor Association (IFD0015)

8 He, Professor Xinming (Professor, Durham University) (IFD0006)

9 Manchester Metropolitan University (IFD0013)

10 Mr Oliver Harman (Cities Economist, Blavatnik School of Government, University of Oxford) (IFD0002)

11 Office for National Statistics (IFD0007)

12 Professor Riccardo Crescenzi (Professor of Economic Geography, London School of Economics) (IFD0002)

13 Regional Studies Association (IFD0010)

14 Taylor Wessing LLP (IFD0016)

15 Trade Justice Movement (IFD0011)

16 UK Statistics Authority (IFD0017)

17 Yorkshire Universities (IFD0008)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2021–22

Number	Title	Reference
1st Report	Digital trade and data	HC 123
2nd Report	UK Export Finance	HC 126
1st Special Report	UK trade remedies policy: Government Response to the Committee's Third Report of Session 2019–21	HC 269
2nd Special Report	UK Freeports: Government Response to the Committee's Fourth Report of Session 2019–21	HC 453
3rd Special Report	UK trade remedies policy: Trade Remedies Authority's Response to the Committee's Third Report of Session 2019–21	HC 707

Session 2019–21

Number	Title	Reference
1st Report	The COVID-19 pandemic and international trade	HC 286
2nd Report	UK-Japan Comprehensive Economic Partnership Agreement	HC 914
3rd Report	UK trade remedies policy	HC 701
4th Report	UK freeports	HC 258
1st Special Report	The COVID-19 pandemic and international trade: Government Response to the Committee's First Report of Session 2019–21	HC 815
2nd Special Report	UK-Japan Comprehensive Economic Partnership Agreement: Government Response to the Committee's Second Report of Session 2019–21	HC 1163