Executive summary.

1. The UK has been Europe's main recipient of foreign investment for years.
2. However, foreign investment is distributed very unevenly across its territory.
3. This uneven distribution not only reflects the country's regional divide, but perpetuates it.
4. Focusing on foreign investment with a STEM (science, technology, engineering and mathematics) component is key to address the regional divide, as well as shoring up the competitiveness of the British economy in today's fast-changing global markets.
5. There is evidence local authorities and investment promotion agencies (IPAs) are best suited for high value-added investment into their territories.
6. Their empowerment, and a better coordination with the Office for Investment, will be key in the perspective of attracting investment with a high STEM component in territories other than London and the south-east.

Introduction to fDi Intelligence.

7. fDI Intelligence is the investment monitor of the Financial Times. We have been producing data, editorial coverage and other investment promotion solutions since 2001, working with each single G20 country and dozens of others national and sub-national authorities across the globe.

8. Jacopo Dettoni is the editor of fDi Intelligence. He is in charge of developing the title's multimedia editorial coverage.

How does the Government's Investment Strategy relate to its Industrial Strategy, its regional policy and the "levelling up" agenda?

FACTUAL EVIDENCE

9. The UK has been Europe's largest recipient of foreign direct investment (FDI) for many years. However, London and the

south-east have captured the lion's share of this FDI — overall, they have received 47.5% of the projects announced by foreign investors since 2003, according to figures from our in-house foreign investment monitor **fDi** Markets.

10. The country's FDI largely matches GDP statistics, with London and the south-east making up 43.41% of it in 2018, according to figures from the Office of National Statistics.

11. The distribution of foreign investment across the country is not only consistent with the country's regional divide, but somewhat instrumental to this.

12. This becomes evident when it comes to analysing the nature and the quality of the FDI projects attracted across the territory.

13. With regards to the nature of FDI, most of the FDI flowing into the south-east is pure new investment, whereas about one-third of the FDI in the rest of the country is expansion of existing investment or replacing investment altogether, fDi Markets figures show.

14. With regards to the quality of FDI, investment into high value-added sectors and functions, which generates higher quality jobs and a bigger long-term impact on local communities, remains highly concentrated.

15. London and the south-east attract about 40% of the foreign investment projects with a high STEM component, which again mirrors the country's GDP distribution.

16. "If different parts of the country get different types of investment, then different processes of knowledge transfer linking those places to the global economy take place. London and its hinterland have been getting newer and higher quality investment across the sectors in the past years, whereas investment in the rest of the country has mostly been replacing investment."Philip McCann, chair of urban and regional economics at the University of Sheffield told fDi Intelligence in November.

17. However, London and the south-east is not the only region performing well when it comes to investment with a high STEM component. fDi Markets developed a specific performance score tracking investment into STEM-related sectors and function relative to each region's overall economic performance in 2018. A score above 1 indicates a region that is punching above its weight when it comes to attracting high value-added investment; a score below 1 indicates a region that is underperforming. Below are the results:

Northern Ireland	2.08
North-east	1.39
London	1.2
Scotland	1.2
West Midlands	1.09
London	1.05
North West	0.98
East Midlands	0.82
South-east	0.81
South-west	0.74
Yorkshire and the Humber	0.72
Wales	0.65
East of England	0.62

18. The same applies if we dig even deeper and we focus only on the higher end of STEM investment – foreign investment into research and development projects. fDi Markets figures show that between 2003 and 2020, Scotland attracted 232 R&D projects, accounting for 19.1% of the total, followed by London (13.8% of the total), Northern Ireland with 150 (12.4%) and the south-east (11.6%).

19. These results seem to suggest that devolved governments and more autonomous regions tend to fare better when it comes to attracting quality, high value-added foreign investment, with Northern Ireland and Scotland attracting a bigger share of high value-added FDI than their GDP would suggest.

20. A possible reason for it is the fact that devolved authorities have a better chance to spend efforts and resources identifying their excellences and design investment promotion strategies accordingly, and set up and fund effective agencies with an investment promotion mandate like Invest Northern Ireland and Scottish Development International.

21. These results are consistent with a recent research paper by the LSE published in 2020 finds out that "in attracting FDI towards less developed areas, sub-national investment promotion agencies (IPAs) act as compensation for malfunctioning institutions and inadequate information diffusion mechanisms. IPAs in less developed regions increase the probability of attracting foreign capital by up to 14% on average, increase the inflow of investment by 71% and the number of jobs created by 102% on an annual basis. The estimated effect corresponds to an additional 17 million dollars in greenfield FDI and 98 new jobs per year per each investment sector, on top of what would have been received/created in the same region in absence of the agency".

RECOMMENDATIONS to align the Government's Investment Strategy to its Industrial Strategy, its regional policy and the "levelling up" agenda:

22. Focus on attracting investment with a high STEM component in underinvested regions. This is not only the type of investment that produces the highest economic development dividend, but it's also the type of investment that will contribute to make the British economy more competitive. Unctad, the UN division that deals with trade and investment, indicated 'technology and the new industrial revolution' as one of the main forces that will drive the transformation of global value chains in the next ten years. Things like, among others, supply chain digitisation, robotics-enabled automation and AI-enhanced systems and distributed

and additive manufacturing (3D printing) will define the global value chains of the future, and the countries with the better technology will be better equipped to lead the new industrial revolution.

23. It's not only about attracting STEM-related investment, but developing whole value chains able to serve these investments. The case of renewable energy is meaningful. The UK has led the energy transition globally – no other developed country has decarbonised its energy matrix as fast as the UK since 1990. However, most of the inputs used to develop green energy projects are produced outside the country. Just to mention a recent example, contracts for Scotland's biggest offshore wind farm, the Seagreen project, have mostly gone to Chinese and other contractors from overseas countries, meaning that there is little economic dividend left for the country beyond the final product.

24. In the perspective of developing supply chains and getting the most out of foreign investment, it's important that foreign investors receive the right incentives to engage with local suppliers on a competitive basis as much as possible, and possibly transfer technology know-how to local companies.

25. These overall objectives can be achieved by empowering and funding local authorities and IPAs with a clear mandate to attract investment with a high STEM component and develop a local base of suppliers. Local IPAs and the Office for Investment have to find a way to work together and strike a balance between localisation and centralisation. The Office for Investment can remain the entry point for high profile investors, but its strategy has to incorporate the inputs coming from local IPAs. This has to happen in a structured way. For example, by setting up a regular, official dialogue table between the Office for Investment and local IPAs. Local IPAs / authorities should also be involved in the negotiations with the investors, so that they can better highlight the opportunities of their territories, but also fine tune the investor's needs with the needs of their territory.

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