

Department for International Trade - Written Evidence Submission to the International Trade Committee's Inquiry into Inward Foreign Direct Investment

1. Inward investment is a key strategic priority for The Department for International Trade (DIT). We therefore welcome the International Trade Committee's (ITC) inquiry and look forward to working constructively with the Committee.
2. DIT has numerous teams in the UK and around the world tasked with attracting foreign investment. Foreign Direct Investment (FDI) is defined as inward investment that involves an overseas entity acquiring at least 10% of a company or establishing a subsidiary in the UK, including greenfield investment or any capital investment that meets this threshold.
3. The UK has a proud and hard-won reputation as one of the most open economies in the world. We remain one of the top destinations for Foreign Direct Investment in Europe and are one of the foremost destinations of inward investment in the world¹. This reflects HMG's work to build the UK's 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.
4. Foreign investment plays a crucial role in the UK, having a greater impact on the economy than in other advanced economies. The UK has a higher accumulated value of FDI companies equivalent to GDP (72% in 2019) than any other G20 or Fives Eyes partner². Inward investment provides a significant contribution to business turnover and job creation across the UK and will be essential in delivering on the Government's wider objectives including levelling-up clean growth, innovation, and job creation. Indeed, DIT's latest inward investment results show that the UK attracted 1,852 FDI projects in 2019/20, creating 56,117 new jobs as a result³.
5. FDI also has wider economic benefits - for instance it improves productivity by increasing competition and adoption of new technologies and management techniques. Besides direct jobs, foreign investment also creates indirect jobs through backward and forward linkages with small and medium-sized domestic companies and can enhance human capital through the dissemination of new skills, technologies, and better managerial practices which can benefit both Multinational Enterprise (MNE) workers and local firms that act as suppliers and competitors to MNEs.
6. The Government continues to ensure the UK retains its leading position in attracting and retaining investment and maximising its impact on the economy. DIT is well positioned to attract investment that will power current and future growth, promoting opportunities across the UK through the High Potential Opportunities programme, targeting dedicated investment missions through the Office for Investment and continuing our work globally to attract high value investment from well established and emerging markets.

¹ Financial Times fDI Markets Report 2020, UNCTAD World Investment Report 2020

² OECD International Direct Investment Statistics, 2021

³ DIT Inward Investment Results 2019/20

How can the Office for Investment most effectively fulfil its remit to “support the landing of high value investment opportunities into the UK”, while “ensuring high and rigorous standards of scrutiny and security”?

7. The Prime Minister announced the creation of the Office for Investment to provide central leadership to land high-impact and high-value investment projects in the UK. The Office uses the convening authority of Downing Street while being firmly rooted in the Department for International Trade. It works in partnership with existing teams across the UK and overseas to promote the UK as a destination for growing existing and attracting new investment.
8. The most significant investments are often accompanied by practical, security and policy complexities that present barriers to foreign investors. The Office for Investment can corral an approach from across HMG to resolve.
9. The vast majority of investments or transactions raise no national security concerns. The current, and future, screening process allows HMG to quickly rule out national security risks in most cases allowing parties to proceed with certainty. Close collaboration across Whitehall ensures that very specific foreign investment bids undergo stringent checks which protect the UK economy and the British people from potentially harmful actors. All Office for Investment 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.

How does the Government’s Investment Strategy relate to its Industrial Strategy, its regional policy and the “levelling up” agenda?

10. The Investment Strategy is a long-term process of change within DIT to ensure all investment activity delivers the Government’s long-term objectives, such as levelling-up, clean growth, innovation, and job creation. It is informed by wider government strategies such as the Industrial Strategy. Our evolving approach will enhance the positive role all modes of investment play in the UK economy, by radically improving our long-term offer to investors and ensure the UK remains a global leader and one of the most competitive destinations for inward investment.
11. Our approach focuses on 4 key areas:
 - a. **Understanding the continuing economic impact of the COVID-19 pandemic** and identifying the risks and opportunities of the new environment from an investor perspective to ensure we can support businesses effectively.
 - b. **Placing the voice of investors at the heart of government** policy by increasing the link-up between senior ministers and investors, enabling investors to play a key role in shaping government policy.
 - c. **Identifying priority sectoral opportunities** as the economy continues to recover and grow, underpinned by rigorous internal and external analysis ensuring it meets the needs of all parts of the economy.

- d. **Removing unnecessary investment constraints** by ensuring the structures of government enables us to develop a business environment package that retains existing FDI and stimulates additional investment.
12. As part of our approach, we are seeking to attract high-value, high-impact investment across the UK, working closely across government to align with the priority themes of our global trade policy, the Industrial Strategy, the Integrated Review, and other delivery vehicles including Freeports to drive the economic and productivity growth across the UK.
13. We have surveyed the global landscape and undertaken extensive quantitative and qualitative analysis to identify those areas where investment, both new and existing, can best support domestic economic priorities. These include:
 - a. **Opportunities that build on those areas where the UK already has globally leading market positions**, such as in financial, professional and business services and the creative industries.
 - b. **Targeting increased investment in those areas fundamental to strengthening our national resilience**, such as manufacturing and infrastructure.
 - c. **Leveraging the UK's world beating innovation** to drive R&D intensive investment.
 - d. **Proactively targeting investment to seize the opportunities** to further government priorities.
14. We continue to work closely with regional partners to deliver this approach and wider effective investment services, supporting investors through our DIT teams in the UK and overseas to do so. This includes 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.
15. Regulation is a key interest for international investors, and we are working closely with other government departments to ensure the investor perspective feeds into regulation policy. In December Lord Grimstone and Lord Callanan co-chaired a productive roundtable with CEOs of regulators and key international investors, to commence a dialogue on how regulation can achieve important objectives such as protecting consumers while helping to attract more investment into the UK. We will continue this conversation over the coming months.
16. DIT engages frequently with stakeholders on our evolving approach to inward investment promotion and attraction. Its development has been well received, with stakeholders of all types recognising the support DIT provides and desire for clarity and certainty in an uncertain economic context. Constructive feedback continues to support its iterative development and we will continue to engage with investors, businesses, LEPs, devolved administrations and others to enhance the service we provide.

What advice, support and assistance should the Government be providing to inward investors – and how can it most effectively communicate with investors?

17. The Government should intervene to support the realisation of the benefits of inward investment by correcting market failures relating to:
- a. **Information asymmetry:** The market tends to under-provide the range of information required to support investment decisions and a lack of information is often a barrier to investment. The Government should intervene to provide complete information to inform decisions.
 - b. **Positive externalities:** High-quality FDI tends to increase local productivity and improve local economic outputs via knowledge spill overs. FDI allows domestic businesses which lack exporting capability to gain from participating in international supply chains and can improve their productivity from learning best practice from multinationals at the frontier of the global economy.
18. Across these market failures, DIT intervenes to provide advice, support, and assistance through:
- a. **Policy Advocacy:** Ensuring that the domestic and international policy environment is attractive and competitive to inward investors.
 - b. **Promotion:** Increasing international awareness of the benefits and opportunities of investing in the UK by using our DIT network of client facing teams and digital channels.
 - c. **Investment support:** Supporting investors to make the decision to invest in the UK by providing practical logistical support, including impartial advice on suitable locations and sector specific (regulations, supply chains) and business environment issues (tax, visas, finance).
 - d. **Ongoing relationship management:** DIT account manages ~1750 foreign investors in the UK using a tiered account management structure with a view to promote further expansion and to retain existing investments. We also provide a 12-month aftercare service to new investors in the UK, helping businesses access local support.
19. As the global investment landscape changes, we are continuing to work to expand our service offer to support all modes of investment such as Capital Investment, R&D collaborations, and mergers and acquisitions. Alongside this it is crucial that we more accurately align our support to investors with their size, complexity, and potential economic value.
20. Effective communication with investors relies on having an attractive investment environment that provides clear and consistent messaging on 'why invest in the UK'. Our multi-channel strategy includes:
- a. Providing effective account management to investors through a combination of our extensive overseas network, UK-based sectoral experience, and deep understanding of the UK's regional strengths.

- b. Engagement with national and international media outlets to provide regular press updates, alongside utilising social media to target investors through LinkedIn/InMail digital advertising campaigns.
- c. Using digital marketing campaigns such as Invest in Great to provide information and showcase opportunities to investors that align with Government's most strategic priorities.
- d. 'Investment Champions', based in the Northern Powerhouse and Midlands Engine, are current investors in the UK who promote opportunities in their regions through their networks.

What effects would the provisions of the National Security and Investment Bill have on UK inward investment – and how well does it balance national security against promoting and facilitating inward investment?

- 21. An open approach to international investment must include appropriate safeguards to protect our national security and the safety of our citizens. The National Security and Investment (NSI) Bill will establish a new statutory regime for Government scrutiny of, and intervention in, investments for this purpose. The Bill will deliver: more security for British businesses and people, from hostile actors targeting our country; more certainty for businesses and quicker, slicker investment processes, and a regime in line with our allies.
- 22. The Enterprise Act (EA02), our current power in this area, dates from 2002 and limits the Government when it comes to the types of deals it can scrutinise and the threats it can counter. This leaves the risk of some of our most crucial smaller businesses and their assets in sensitive sectors being bought up by overseas actors with the Government left unable to intervene if national security risks were to arise.
- 23. Bringing in a new investment screening 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. Protecting and nurturing UK's strengths and assets is not at odds with an open approach to inward investment. The fundamentals of the UK as an international investment destination – our open, liberal economy, world-class talent and business-friendly environment – remain as strong as ever. The UK will remain one of the best places to do business and we have a number of incentives for investors to invest in the UK, including the new Office for Investment.
- 24. The overwhelming majority of transactions will be unaffected by these new powers. We estimate that less than 1% of all M&A and asset transactions will result in a notification to Government. This new approach represents a proportionate response to the fraction of transactions that do raise national security threats, and it is only right that the Government has the requisite powers to combat them.
- 25. While BEIS are the ultimate policy owners and will implement the NSI Bill once it comes into force, DIT plays a key role in international engagement on NSI. The Government is committed to working with investors to provide clarity and certainty around the requirements of this Bill, supporting value-creating investment to the UK, ensuring the UK remains a global investment destination

of choice. In December 2020, BEIS ran an open consultation on the mandatory notification sectors outlined in the NSI Bill. This sought to identify the sectors where certain types of investment could give rise to the greatest risks, while balancing against the need to minimise burdens on business.

26. A number of like-minded partners have also strengthened their own investment screening regimes in recent months, including the US, Australia, Japan, Germany and France. Many of the key changes introduced in the NSI Bill are consistent with the requirements of existing investment screening regimes in likeminded countries. As a result, many international investors will already be familiar with these kinds of requirements and understand the need for any Government to take the necessary steps to protect its national security.

What role do Sovereign Wealth Funds play in UK inward investment – and how might that role develop?

27. Sovereign Wealth Funds (SWFs) are a diverse mix of global institutional investors. As long-term investors, they are also a source of patient capital. How and what SWFs invest in varies by Fund, for instance by:

- a. scale of investment,
- b. sector and geography focus
- c. requirement to invest directly or through funds.

28. Reflecting the UK's position as a leading destination for global capital, SWFs have invested in the UK, for instance in infrastructure, energy, real estate and technology.

29. DIT builds relationships with key overseas investors, including key SWFs, to support investment into the UK that aligns with key government priorities and meets security requirements. The role SWFs will play going forward will depend on their view of the UK as an investment destination. With the recent launch of the Infrastructure strategy and the Prime Minister's Ten Point Plan for a Green Industrial Revolution, we are confident that institutional investors, such as SWFs, will continue to see UK as an attractive place to invest.

What particular issues do Sovereign Wealth Funds pose in respect of UK national security – and how can these most effectively be addressed?

30. HMG's investment screening system is actor agnostic in design, its triage and investigation processes are principally guided by the assets and companies that are being invested in and their relevance to national security. All inward investment from any country and company must adhere to our values and strict national security requirements. The powers can be used in relation to any transaction that raises national security concerns, regardless of the country of origin.

31. DIT continues to engage with affected investors and businesses, in the UK and overseas, including through the HMTC network. Sovereign Wealth Funds have engaged with DIT through providing feedback to regional trade teams on the Bill, and with BEIS through the sector consultation process. BEIS have offered businesses and investors informal advice on what to expect from the regime

prior to it coming into force, and have a dedicated e-mail address and phone line for this purpose.

Annex

Impact of Investment Promotion Activities

- I. The impact of investment promotion activities on investment levels has been estimated via different studies. Harding and Javorcik (2011)⁴ attempted to analyse the effect IPAs have in attracting FDI and what the impact of that FDI is in a host country for job creation. Using data on IPAs from the Census of Investment Promotion Agencies and data on US outward FDI, Harding and Javorcik found that for every dollar spent on investment promotion activities leads to \$189 in FDI flows.
- II. Although the impact of investment promotion is likely to be lower in a country with less information barriers such as an advanced English-speaking country like the UK, DIT analysis finds that the benefits of investment promotion far outweighs the cost even if the impact was only $\frac{1}{4}$ of that estimated by Harding et al.
- III. Volpe Martincus et. al (2020)⁵, analyses the impact of investment promotion activities on multinational firms' investment decisions into Costa Rica and Uruguay. The study found that investment promotion support has been associated with a 5% and 22% (in Uruguay and Costa Rica respectively) higher probability that a multinational firm is present in those countries and a 1% to 14% (in Uruguay and Costa Rica respectively) higher probability that it establishes an affiliate in the host country.
- IV. Similar successes are also observed in the case of the UK, where 78% of all FDI projects that landed in the UK in 2019/20 received some form of support from DIT through its investment promotion activities and services.

FDI, R&D and Innovation

- V. In 2019, £12.4 billion or 48% of business R&D performed in the UK was by foreign-owned businesses. While this was a slight decrease from 54% in 2018, the proportion has increased over the past decade (from 41% in 2010)⁶.
- VI. In 2019 the overseas countries accounting for the highest proportion of UK business R&D expenditure included the US (23%), Japan (4%) and France (4%)⁷.
- VII. In terms of the source of funds, a relatively high proportion of UK business R&D is also financed from abroad – equivalent to 15% of the total in 2019⁸.
- VIII. This share has been declining since its peak in the early 2000s. However, it is high when compared to 9% across the OECD and 11% across the EU (using the latest OECD data for 2017)⁹.
- IX. In terms of the impact of FDI on R&D, research from DIT shows that on average, based on historical data from 1998-2014, for every £1 million FDI

⁴ "Roll Out the Red Carpet and They Will Come: Investment Promotion and FDI Inflows" – Harding and Javorcik (2011).

⁵ "How Effective is Investment Promotion? Firm-level Evidence" – Volpe Martincus et. al (2020) – IADB Discussion Paper

⁶ [ONS](#) Business Enterprise Research & Development statistics 2019

⁷ [ONS](#) Business Enterprise Research & Development statistics 2019

⁸ [ONS](#) Business Enterprise Research & Development statistics 2019

⁹ [OECD](#) Main Science & Technology Indicators

project into Great Britain leads to a net increase in R&D expenditure of around £1,700¹⁰.

- X. This data tells a positive story about the UK's ability to attract FDI for R&D activity, however potential risks could include changes in overseas investor confidence, new investment opportunities in other world regions and more attractive offers from competitors.

Regional impacts of FDI and levelling-up

- XI. FDI can play an important role in levelling-up and contributing to sustainable economic growth across the UK economy. DIT's inward investment results highlight that over half (53%, 945 projects) of all inward FDI projects in 2019-20 landed outside London and the South East¹¹.
- XII. FDI projects lead to positive spillovers including increased employment and productivity. Over 27,000 jobs were created by new FDI projects in 2019-20 outside London and the South East¹², representing 59% of all jobs created by new FDI projects. DIT research¹³ suggests additional FDI also increases wages, productivity and gross value added (GVA), contributing to levelling-up of UK regions.
- XIII. To further increase the positive spillovers of FDI for regional economies, it is vital that regions have factors of production, including infrastructure and a skilled workforce, to support inward investment. DIT is working closely across HMG and with local and regional partners to continuously improve regions' offer as investment destinations, and share these opportunities with investors.

¹⁰ DIT (2018), [Estimating the economic impact of FDI to support DIT's promotion strategy: analytical report](#)

¹¹ DIT (2020), [Foreign direct investment \(FDI\) 2019 to 2020 highlights](#)

¹² DIT (2020), [Foreign direct investment \(FDI\) 2019 to 2020 highlights](#)

¹³ DIT (2018), [Estimating the economic impact of FDI to support DIT's promotion strategy: analytical report](#)