

Convention Policy Paper: Trade and Investment

This paper sets out a series of policy propositions in the field of Trade and Investment Policy, for discussion at the 2023 Convention of the North.

It has been drafted by a group of policy officers from across the North of England, drawing on the expertise of local authorities, combined authorities and partner organisations.

Trade and Investment: Why the North should act

The North is made up of many communities, towns and cities, home to 15 million people. When these places act together, the combined economic power, strategic assets and prime capabilities enable the North to compete on a global scale.

The Northern Powerhouse Independent Economic Review in 2016 sets out a transformational growth scenario, projecting the North's economy could grow from £302bn GVA in 2015 to £694bn in 2050, generating an additional 850,000 jobs over and above business as usual. The review recognised that the key to achieving the North's economic potential was increasing both enterprise and international trade activity.

Improved coordination for Trade and Investment across the North and increased investment has led to positive outcomes, despite a challenging and uncertain operating context over recent years.

Recent [research](#) by the Northern Powerhouse Partnership shows that the North of England is making progress in offering an alternative to the Greater South East for overseas investment. Foreign Direct Investment (FDI) rose by 72% in the North between 2012-2016 and 2017-2021. In 2015-2016 London and the South East accounted for 52.6% of FDI projects, falling to 38.9% in 2021-22. The North's share of FDI projects was 15.3% in 2015-2016, increasing to 21% in 2021-2022. Although regional disparity has improved in recent years, inward investment is still not delivering for the whole of the UK, and the North will require support to sustain progress.

The North continues punches below its weight with regard to exports. As of 2022, the North makes up around 23% of the UK's population, and 19.4% of the UK's business base. However, the North only represents 14.5% of the UK's total trade exports (this varies from 17.3% of goods exports to only 11.7% of services exports).

Whilst the North's FDI successes must be celebrated, the remaining disparity in investment and exports presents an opportunity and imperative for further action.

This disparity matters because evidence shows that businesses who export are more productive, innovative and generate more value for the local economies. Evidence also shows that internationalised firms are more productive than domestically owned ones investing more heavily in R&D, more likely to export and pay higher wages, improving productivity. FDI is also well recognised to have significant economic 'spillover' benefits such as stimulating new fixed capital formation and embedding places in global value chains and global investment flows.

Although Trade and Investment flows have increased in recent years, the North is yet to unlock its full potential. The successful internationalisation of the Northern Powerhouse brand and



increased Trade and Investment flows is crucial to the success of a more competitive Global Britain.

Northern Assets

The North can draw on the below assets:

1. Prime Capabilities with Unlocked Potential – The North has recognised strengths in Energy, Advanced Manufacturing, Health Innovation and Digital, as outlined in the NPIER. Despite recognised sector strengths, the North only represents 13.6% of UK businesses who export, highlighting untapped potential for Northern firms to think global as a core part of their business models.

2. Significant Strategic Assets to build on: Including the N8 group of research-intensive universities, a strong natural and cultural offer, and major Government investment projects like the forthcoming delivery of HS2 and the Freeport Program.

3. A Track Record of Integrated and Collaborative Working – In 2018 Investment and Trade Leads from across Northern CAs, LAs and LEPs established a Forum to regularly share insights and best practice as well as to jointly work on initiatives to seek closer collaboration and greater co-operation with DIT. This Trade and Investment Forum is unique to UK regions and has resulted in the development of both strategic and operational initiative propositions, some of which have been successfully implemented and led to additional resource allocation to the North and closer working with DIT, success which can be leveraged and built on.

The North has already carried out substantial work in this area. In 2020 NP11 prepared a Trade and Investment proposal setting out a proposed partnership with government alongside strategic and operational initiatives to improve Trade and Investment outcomes in the North and ultimately drive higher productivity, supporting the levelling up agenda. The proposed interventions were anticipated to generate an additional £357m GVA off the back of a £67.4m investment over three years. This met with a positive response from the UK Government, which allocated £3m in additional funding over and above the step change in investment as part of the original Northern Powerhouse strategy.

Barriers

- 1. A lack of regionally-embedded resources for local delivery, missing the opportunity offered by place-based Investment Promotion Organisations (IPOs)**

According to the Annual EY Investor Attraction Survey, skills, incentives and quality of investor support available remain the top factors influencing an investors decision to selecting a particular country.

Since 2000, the number of bodies registered with the World Association of Investment Promotion Agencies has increased by over 50%. The UK is [no longer](#) the top destination in Europe for attracting Inward Investment and has been second to France for two years. In 2021 the UK's market share of 16.9% of European projects was its second lowest of the past decade and well below the high of 21% in 2015.



A recent [report](#) by Crescenzi and Harman shows that locations with place-based IPOs are more effective at attracting knowledge-intensive investment, enabling FDI expansion, preventing dis-investment, as well as helping places better understand and connect to global value chains. A lack of dedicated and locally embedded regional resources to support Trade and Investment delivery locally and across the North is holding the UK back.

2. Limited influence over national Trade and Investment strategy development and delivery

Previous Conventions have called for the North to have ownership and freedom to lead investment and trade activities to drive export growth, with a greater scale of investment to level up the North's export and inward investment activities.

The North continues to have limited involvement or voice in the development of national Trade and Investment priorities. Recent decisions taken as part of DIT's Transformation Programme, including the recent in-housing of DIT's International Trade Advisors and the continued short-termism in decision making surrounding DIT's regional Key Account Management funding, runs the risk of increasing the lack of influence the North has on Trade and Investment priorities at both a local and Northern level.

3. Lack of Trade and Investment resource and expertise across the North

Evidence indicates that global value chains differ across regions and localities, requiring different Trade and Investment interventions to ensure places are able to move up global value chains and improve their global competitiveness.

A recent review of place-based Trade and Investment resources highlighted the significant lack of and disparity in resources across the North. Whilst most Northern cities and LEP areas have clear Trade and Investment ambitions outlined in internationalisation strategies, they lack the ability and resources to deliver against them, with some locations only able to respond reactively to investors and relying fully on DIT KAM and Trade Manager funding to deliver their local service provision.

LEP and Local Authority partners are not resourced sufficiently to interact effectively with colleagues in DIT, in the UK and in overseas posts. This resource gap leads to a 'coordinated failure' as information and knowledge are not processed effectively. It also limits the effective promotion of the North's inward investment offer to potential investors.

4. Lack of overall coordination in relation to Northern product development

There is a lack of overall coordination in relation to 'product development' building on the sector specialisms and uniqueness of places across the North. This includes brand development and promotion as well as the development of propositions for each of the Northern Powerhouse Primes, preventing the North from promoting its strengths and meeting investor requirements, impacting the North's ability to compete on a global stage.

5. Lack of investment attraction levers

Due to a lack of transparent national investment attraction levers, the UK is now an outlier amongst the G20 grouping of economies incentivising FDI attraction through discretionary funding. For example, Germany has a €3bn regional support fund for inward investment and France has a €30bn multi-sector attraction fund to support new supply chain development in FDI.



Limited influence over and unclear access to investment attraction levers limits the North's ability to incentivise investment into transformational projects and sectors.

6. No existing shared outcomes and performance framework

Nationally, activity to support inward investment is currently monitored by the outputs of 'number of jobs' safeguarded or created' and 'number of projects'. Export value and volume is monitored via HMRC and regional successes recorded through export wins, business support engagements and events. Across the North, measures of success for Trade and Investment are monitored inconsistently, and in some cases, due to capacity challenges, not measured at all.

Policy Propositions

Proposition 1 – Developing and promoting a competitive 'Northern product' and improving the overseas investment pipeline

We propose;

- Recognising the variety of sector specialisms across the North, and in-line with a national industrial strategy, work together as a region to develop compelling and complimentary propositions to promote the North's world-leading assets and prime capabilities.
- Adding value through support to existing activities and campaigns, such as the work undertaken by Fin-Tech North on pan-northern marketing.
- DIT and the North to work together to develop a significant marketing & promotional campaign for the North, taking the approach of creating an umbrella campaign in which the established Northern brands (city, country, and coastal) can flourish. This would also include marketing activity in key markets, but also include additional funding to attract industry conferences to the North.
- Ensure innovation zones and the existing and future innovation accelerator maximise the opportunity to secure FDI.
- Taking a pro-active approach to ensuring the correct and competitive infrastructure exists - example sites, power, connectivity and transport infrastructure -, and work with investors across the North and across Government to build a globally competitive skills system pipeline in the North's Prime Capabilities. Ensuring the correct approach to skills and infrastructure across the North will support FDI and large scale exporters.

Developing a compelling place proposition to support national investment priorities and promotion will deliver a stronger NPH and a more competitive Global Britain

Proposition 2 – Embed Trade and Investment funding and resources in the North

We propose;

- Recognising the importance of FDI Account Management for supporting FDI expansion and preventing dis-investments and the value of locally embedded trade staff, provide an increased and long-term settlement for DIT Key Account Management and LEP Trade Manager funding.



- That the UK Government works with the North to identify and deliver the scale of investment required to level up the North's exports and inward investment.
- To increase Trade and Investment funding for the North to ensure that places are appropriately equipped with locally embedded and dedicated Trade and Investment resource. Resources must be integrated and aligned to existing strategy and business support structures as well as with DIT and OFI's regional, national and international resource provision.
- Leveraging the relationships of businesses here in the North to attract potential investors, convened by the Northern partners and business organisations in all of our places.
- Building on NPH In-Market Representatives, increasing capacity in mature markets such as the US and expanding presence in growth markets aligned with FTAs such as Japan.
- Establishing a pan-Northern capacity fund to which local authorities and partners may bid to develop investment propositions of scale.
- Developing a transparent framework and approach for accessing direct financial support for inward investment focused on the Prime Capabilities. This would support the attraction of transformational industries into local areas, while avoiding the risk of displacement from Freeports and similar economic zones.

In a context of increased global competition, more investment is required in our integrated Trade and Investment structures. This proposal will address the identified barrier that local partners are not resourced sufficiently to interact effectively with colleagues in DIT, and contribute to the national oversight on the power of place and the positive impact of place-based Investment Promotion Organisation (IPO's)

Proposition 3 – Outcomes and governance: Formalise the relationship between the North, DIT and Office for Investment and develop a shared outcomes framework,

We propose;

- To formalise the relationship between the North, DIT and Office for Investment through joint leadership arrangements, convening local elected and business leaders with the Levelling Up Secretary and Secretary of State for International Trade.
- To agree and implement a shared outcomes framework for Trade and Investment for the North, aligned to regional and national priorities including increasing innovation, working towards net zero and supporting inclusivity. Developing and using a range of impact measures would promote locally sensitive but strategic approaches to FDI and Trade aligned to the Levelling Up White Paper.
- Supporting a shared outcomes framework, within which should sit an agreed performance management framework which sets targets for Trade and Investment that align with transformational capabilities.
- From an operational perspective, there is an opportunity to strengthen this partnership further to co-design, co-produce and co-deliver programmes which deliver on the shared outcomes and performance management framework.



In recent years, the NP11, Northern LEPs, local authorities, and Combined Authorities have developed a strong working partnership with the Department for International Trade over delivery of several place focused activities, including Key Account Management, place-based International Trade Advisors and Overseas Representatives programmes.

Whilst operational working has improved, there also remains a strong need for the North to be more involved in national Trade and Investment strategy development, as well as determining prioritisation of available funding. Ensuring Northern activity is integrated into a national performance framework for Trade and Investment will enable a better understanding of performance and greater clarity on the impact of Trade and Investment interventions.

Outcomes

Delivering on these policy propositions can achieve the following outcomes for the North:

- Increased Trade and Investment flows from and to the North, will lead to improved economic resilience, increased innovation, pay, employment and productivity.
- A more ambitious national offering through deeper understanding of the North's specialities and assets.
- Better integrated working will result in quicker and earlier collaboration on transformational projects across the North, enabling pro-active outreach to high growth companies and faster identification and resolution of regulatory, planning and other investment barriers.
- Greater resources at a local level will result in a more pro-active and intelligence-led approach to identifying companies that fit key criteria for specific regions and industries, and that fill high-value or critical national supply chain requirements or gaps, through fully combining national and local intelligence.

