

Inward Investment – Reach to International Markets

1. Introduction

- 1.1. The Government's economic policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries. The Plan for Growth¹ contains four overarching ambitions, one of which is, "to encourage investment and exports as a route to a more balanced economy."
- 1.2. Attracting greater levels of investment and encouraging exports are priorities not only for central government but for the majority of Local Enterprise Partnerships (LEPs) and local authorities across the country. At the national level it is the role of UK Trade & Investment (UKTI) to work with UK based businesses to ensure their success in exporting to international markets, whilst also encouraging overseas companies to invest in the UK. However, some areas have taken the view that the service offered by UKTI does not fully meet their requirements and have therefore decided to supplement UKTI's service with their own local exports and foreign direct investment service. As one of the more long-standing and developed local offers, this short note highlights the approach that Essex County Council has taken to supplementing UKTI, providing insight into whether this is an approach that other areas should be considering.

2. UK Trade & Investment

- 2.1. UKTI's strategy, Britain Open for Business², is at the heart of the UK Government's drive to promote growth through trade and investment. It sets out plans to provide practical support to exporters and inward investors over the next five years. The strategy lays out four pathways to balanced growth:-
 1. Targeting services at innovative and high growth SMEs to encourage more companies to export, and help existing exporters reach more high growth and emerging markets.
 2. Winning high value opportunities in overseas markets for UK businesses of all sizes.
 3. Delivering high quality inward investment, with a drive to market large British infrastructure and regeneration projects to foreign investors.
 4. Building strategic relationships at the highest levels with the most significant inward investors, including overseas institutions such as Sovereign Wealth Funds, and with the UK's top exporters and major overseas buyers.
- 2.2. Whilst this service is currently largely delivered at the national level, there is an argument that LEPs and local authorities have a stronger knowledge of their local economy and are therefore better placed to deliver the services offered by UKTI, or at least have a greater ability to influence and question their work. This argument is

¹ HM Treasury / BIS, The Plan for Growth, March 2011, http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf

² UKTI, May, Britain Open for Business: Growth Through International Trade & Investment, May 2011 <http://www.ukti.gov.uk/uktihome/item/148300.html>

supported by the Government's whole localism agenda³ and the Heseltine Review⁴ which supports the devolvement of funding and powers from central government to local areas as a mechanism to boost economic growth.

- 2.3. UKTI currently has nine regional offices around the UK, with the current director for the West Midlands Region being appointed towards the end of 2012.⁵ Alongside this, Chancellor George Osborne announced in the Autumn Statement that UKTI would receive a 25% increase in its budget, a further £70 million a year.⁶ The CEO of UKTI has recently said that LEPs should help direct UKTI's nine regional offices on both export support for small and medium-sized businesses and inward investment. Therefore, the increased capacity of UKTI and the opportunity for LEPs to "become the strategic direction-setters" for UKTI may result in an improved exports and foreign direct investment offer for all areas, meaning that a local supplementary service will provide little positive additional benefit.
- 2.4. However, UKTI has had a regional presence for some time, with exports previously being one of the responsibilities of the abolished Regional Development Agencies (RDAs). The success of this regional approach has to be questioned, with little ability for many areas to influence and engage with the service offered. It may also be true that setting regional targets for exports and foreign investment means that regional bodies pay little consideration for the needs of more local areas. Indeed, UKTI's Surfacing the National Offer document highlights the problem with regional and national bodies focusing purely on data to determine the sectoral strengths of areas when deciding where to direct foreign investment enquires, and not the future ambitions of LEPs and local authorities to develop their local economy.

3. Invest Essex

3.1. Context

- 3.1.1. Essex County Council decided that it would not rely on the service offered by UKTI, and developed its own supplementary service specifically targeting the Jiangsu province in China. The link was initially established in 1998 and was built upon education links, primarily involving student and faculty exchanges between Essex and Jiangsu universities. The Invest Essex team has been instrumental in the winning of training programmes for Jiangsu civil servants to study at Essex universities totalling around £80,000 per year for the next three years. In addition, around sixty Essex schools are now actively engaged in curriculum links with Jiangsu schools and there has been a drive to promote the teaching of Mandarin in Essex.
- 3.1.2. Whilst this education and cultural link was important in establishing the relationship between Essex and Jiangsu, it wasn't until the mid-1990s that a more commercial aspect to the relationship began to be established. Peter Manning, the current Head of

³ HM Government, Decentralisation and the Localism Bill: An Essential Guide, December 2010, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/5951/1793908.pdf

⁴ The Rt Hon the Lord Heseltine of Thenford CH, No Stone Unturned in the Pursuit of Growth, October 2012, <http://www.bis.gov.uk/assets/biscore/corporate/docs/n/12-1213-no-stone-untuned-in-pursuit-of-growth>

⁵ The Business Desk, High Noon for new man at UKTI, 5th December 2012, <http://www.thebusinessdesk.com/westmidlands/news/404308-high-noon-for-new-man-at-ukti.html#>

⁶ HM Treasury, Autumn Statement 2012, December 2012, http://cdn.hm-treasury.gov.uk/autumn_statement_2012_complete.pdf

International Trade at Invest Essex joined the authority in 1995, and following the agreement that the authority wished to develop the relationship for more economic benefits, Peter learnt Mandarin and moved his family over to China for three years in order to work directly within the province. Therefore, the amount of time, effort and funding that individuals and the local authority itself invested in the project should not be underestimated. However, Essex decided that this was required in order to develop meaningful and fruitful relationships with businesses and relevant political organisations within Jiangsu.

3.2. Supplementing UKTI

3.2.1. Essex took the decision that the service offered by UKTI was patchy at best, leading them to develop their own link to China. However, this does not mean that they have completely disengaged with UKTI, but instead still work with them in order to make sure that they can take advantage of any potential opportunities that come through the national service whilst maintaining their own supplementary offer. Given that Essex only really has direct links to Jiangsu, this also means that the county does not miss out on opportunities that present themselves through UKTI from other parts of the world.

3.3. The Service

3.3.1. The Essex inward investment team believe that UKTI trade missions are often hit and miss in terms of their success, following a conference / trade-show type approach that does little to build relationships with companies within the respective country. Building relationships with companies within the area is thought to be fundamental to achieving meaningful, long-standing relationships, with numerous trips often being required before anything actually comes to fruition. This is something which is thought to be lacking in UKTI's one shot approach and minimal ongoing support.

3.3.2. Given how important Essex considered this building of relationships to be, the decision was taken to establish an office in China. In order to get around legislation issues, this takes the form of a separate private sector company to the County Council. Two people are currently employed at this office, around a third of each person's time being spent on developing relationships with relevant political organisations and individuals in Jiangsu and two-thirds on building relationships with the businesses themselves. Having the direct relationship and understanding of political organisations and businesses within the province is believed to ultimately make it easier to set-up meetings and have conversations with relevant organisations when attempting to develop export opportunities and target potential inward investment.

3.3.3. The Invest Essex team have also tried in the past to create links to India, following a similar model to their approach in China. However, this had little success, and was like "pushing on a piece of string". This was believed to be due to the politics and nature of the businesses within India, which make it difficult to create any meaningful relationships within the country. Essex has therefore come to the conclusion that focusing on China is the best strategy for them at the moment as the politics and business environment within Jiangsu offers them the best chance of success.

3.4. Structure / Funding

3.4.1. The Invest Essex service is part of the economic development team at Essex County Council, and is almost entirely funded by the local authority. The only external funding

that the service pulls in comes from Service Level Agreements with partner organisations and some consultancy work, helping other inward investment teams with strategy setting for example. In 2011/12 the Council earned £29k income from consultancy fees and anticipates £50k in 2012/13.

- 3.4.2. The South East Local Enterprise Partnership covering Essex, Southend, Thurrock, Kent, Medway and East Sussex is the largest enterprise partnership outside of London. Given the size of the LEP, it tends to focus on high level strategic issues. Inward investment remains the responsibility of the individual local authorities and does not form part of the LEP. Therefore the Invest Essex service is essentially competing with the other local authorities within and outside of its LEP area.
- 3.4.3. At the moment little thought has been given by the team to the changing funding framework. The Essex Community Budget⁷, LEP single funding pot, City Deals and EU Structural & Investment Funds will all impact on economic development funding and how this is devolved to LEPs and local authorities. However, little consideration has currently been given as to how the Invest Essex team may alter in light of these funding changes, or not below very senior level anyway.

3.5. Suffolk & Norfolk

- 3.5.1. In early 2012, a two year project between Essex County Council, Suffolk County Council and Norfolk County Council was agreed to promote opportunities around the east coast off-shore renewable energy sector. This agreement offers Suffolk County Council, Norfolk County Council and the Suffolk and Norfolk Energy Alliance (NSEA) the opportunity to utilise Essex County Council's relationships with the Jiangsu Provincial People's Government and to use the Essex office in Nanjing to identify and target potential inward investors.
- 3.5.2. The partnership focuses on attracting inward investors within the energy sector from China, building upon an agreement between the three authorities to work together to provide the skills base that businesses in the energy sector will need to realise their growth potential. Energy is perceived to be an important sector across all three authority areas, and it is believed that the East of England Energy Coast (world's biggest offshore wind farms) presents Chinese businesses with major investment and joint venture opportunities.
- 3.5.3. Suffolk and Norfolk have a service level agreement with Essex to make use of the authority's links to China. Suffolk is also making cultural links to China in a similar fashion to how Essex began making links to Jiangsu, with four Suffolk schools currently having links to the province.
- 3.5.4. However, whilst the opportunity to bring in some additional funding through arrangements with partners is clearly welcomed, the Invest Essex team do seem to be cautious about extending this service. The partnership with Suffolk and Norfolk is based on a sector that is mutually beneficial to all three areas. Having put the resources into establishing the link to Jiangsu, they are clearly protective over how this is used. The service is now viewed as a comparative advantage that the area has over others, and given the competitive nature of inward investment this advantage is something that they would like to maintain. In particular, having a service level

⁷ <http://www.wecb.org.uk/>

agreement with another area where the agreement would not be mutually beneficial would be difficult to sell to members.

3.6. Success

- 3.6.1. Whilst the Essex-Jiangsu arrangement has had a few successes in terms of inward investment up to this stage, the greatest benefit appears to have been in generating export opportunities for Essex companies. The greatest levels of foreign direct investment into Essex still come from the traditional heartlands of Europe and the USA. However, Essex may have first mover advantage, with Centre for Cities recently suggesting that, “The economies such as China and India are likely to become increasingly important for purchasing our goods and services.”
- 3.6.2. One of the more recent inward investment successes is Phoenix Publishing & Media Group, China’s biggest publishing company, opening a digital printing plant and copyright trading business in Essex. The decision of the company to invest in Essex followed a trade mission by the team in March 2012. Suffolk has also benefited from investment from China. The Port of Felixstowe is owned by Chinese-owned company Hutchison Whampoa Ltd, and the company recently invested £300 million to expand the quayside.

4. Conclusions

- The increased budget of UKTI and their apparent desire for LEPs to become the strategic direction-setters for their service may result in an improved exports and foreign direct investment offer for all areas, meaning that a local supplementary service may provide little positive additional benefit. However, past experience and the data-driven approach of UKTI mean that the ability to engage with them and influence their offer may be limited. Ultimately it needs to be decided whether a supplementary service would deliver better results than could be achieved through stronger engagement with UKTI.
- The development of relationships within the targeted area is key to the success of any international trade and investment project. The amount of time, effort and funding needed to make the project a success should not be underestimated.
- Invest Essex, whilst also unsuccessfully trying to create ties to India, have ultimately taken the decision that the Jiangsu province of China offers them the best opportunities for exports and inward investment success. The political nature of the targeted region / country and the businesses environment within that area are thought to be important factors in the success of any exports and inward investment project.
- Whilst the Invest Essex team has service level agreements with other local authorities to make use of their links to China, they are apparently careful of extending this offer in the future. Any future agreements with other areas would need to be mutually beneficially as it would be difficult to sell to members if this was not the case.
- The Essex-Jiangsu relationship has seemingly had much greater success in terms of generating export opportunities rather than attracting Chinese investment up to this stage. However, they may have established first mover advantage given the increasing importance of the developing countries.