Export markets and inward investment: The role of local councils

Final report to the Local Government Association

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SQW

Contents

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Executive Summary

Introduction

1. In the context of on-going recession, local government has a crucial role in economic development – both as a lead player within Local Enterprise Partnerships (LEPs) but also, more immediately, in generating a supportive environment for "doing business" locally. Against this backdrop, the Local Government Association (LGA) initiated a Local Growth Campaign. This was launched in November 2011, and through it, LGA called for a national debate on the role of local councils in driving economic development.

2. In order to provide part of the evidence base for the Local Growth Campaign, SQW was commissioned by the LGA to gather together evidence and insight with regard to international trade (i.e. export markets) and inward investment. To this end, we:

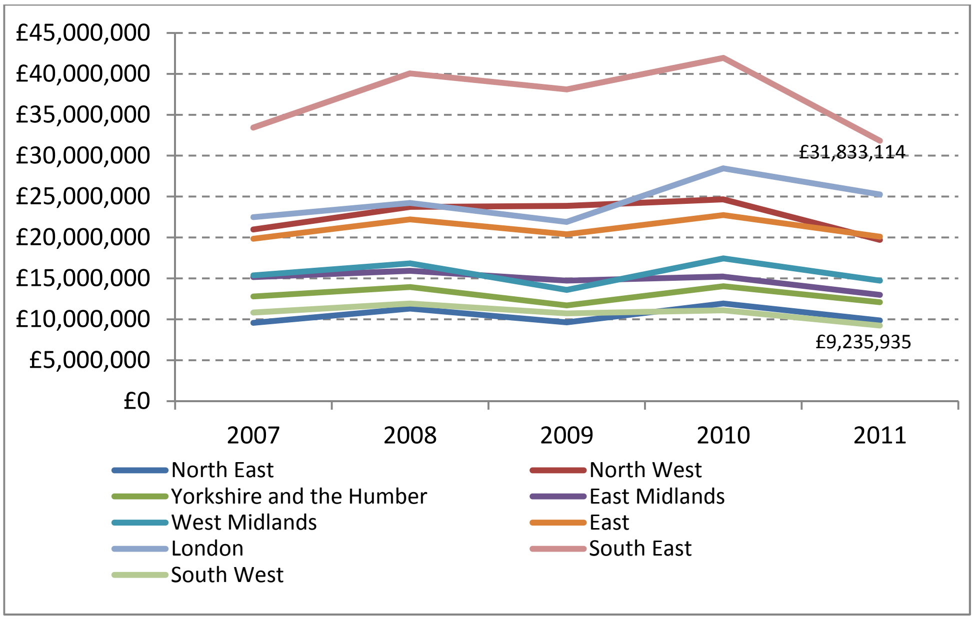
- reviewed and analysed secondary data on international trade and inward investment
- reviewed 30 local authority websites to distil the range and types of activities that councils are currently offering
- consulted with key national agencies and organisations – notably UK Trade and Investment (UKTI), China-Britain Business Council (CBBC), and the UK India Business Council (UKIBC)
- completed case studies with four local councils which provide distinctive service offers in international trade and/or inward investment services
- attended the LGA Local Growth Campaign: *Inward and outward investment and economic growth*, in early 2012.

Summary of key findings

Overall context

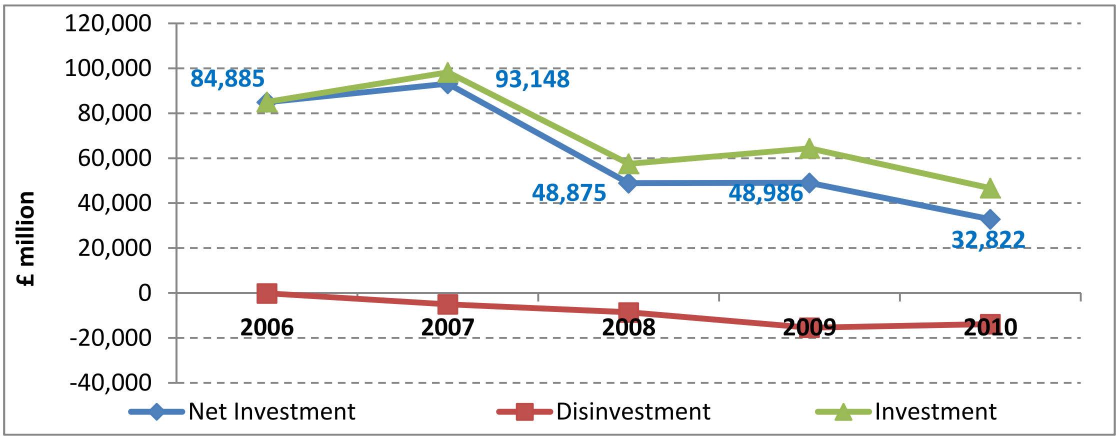
3. Our review of secondary data demonstrated that export markets (as of 2011) and inward investment markets (as of 2010) were both fragile, ever changing, and, from the UK's perspective, operating at their lowest levels for many years. Figure 1 shows that the total value of exports from the nine English regions in 2011 was the lowest since 2007, whilst Figure 2 shows that a total of £32.8 billion was invested in the UK by foreign companies in 2010. This was a decrease of £16.1 billion since 2009 and the lowest level since 2004.

Figure 1: Value of Exports (£000) for all English regions (2007-2011)



Source: SQW Analysis of UK TradeInfo data

Figure 2 Foreign direct investment flows into the UK by foreign companies (All countries) 2006-2010



Source: SQW analysis of ONS data

International trade

Current patterns of international trade

4. With all English regions generating exports to the value of about £10billion (or in some cases considerably more) in 2011 (see Table 1), international trade is an important element of local economies. It is therefore important for LEPs and/or local authorities to understand the extent to which businesses in their areas are contributing to regional totals and whether or not more could be done to support them.

5. The value of exports to China and India is still relatively small across England as a whole (see Table 1). However these countries have bucked the general downward trend over the past five years to show positive levels of growth. Indeed, the total value of exports from the nine English regions to China in 2011 was £5.4billion; this was the second highest value since

2007 (the highest value was in 2010). The total value of exports from the nine English regions to India in 2011 was £3.4billion.

Table 1: Total Value (£000) of Exports 2011

	All Countries	China	% of all exports	India	% of all exports
North East	£9,869,637	£291,717	3.0%	£62,437	0.6%
North West	£19,704,095	£1,068,398	5.4%	£274,966	1.4%
Yorkshire and the Humber	£12,079,757	£297,106	2.5%	£133,889	1.1%
East Midlands	£12,994,953	£375,706	2.9%	£220,070	1.7%
West Midlands	£14,728,408	£1,252,663	8.5%	£255,569	1.7%
East	£20,103,176	£519,212	2.6%	£211,173	1.1%
London	£25,261,859	£404,252	1.6%	£1,811,185	7.2%
South East	£31,833,114	£981,251	3.1%	£316,121	1.0%
South West	£9,235,935	£256,242	2.8%	£117,938	1.3%
TOTAL	**£155,810,934**	**£5,446,547**	**3.5%**	**£3,403,348**	**2.2%**

Source: SQW Analysis of UK TradeInfo data

6. Despite a general decline in exports to England's traditional export countries – the USA, Germany and France – these destinations still make up the largest share of exports, and are likely to continue to do so for some time. This backdrop is important: it provides the context for local authorities' ambitions in relation to China and India and suggests that approaches need to be selective and targeted.

Local authorities' responses – especially in relation to China and India

7. Based on the evidence we were able to review, building successful trade links with China involves tapping into, and remaining close to, the national/international services provided through the British Chamber of Commerce and its affiliates, but in a way that links with local strengths, opportunities and international connections.

8. Chambers of Commerce are one of the few organisations legally permitted to issue the various certificates required for firms to export products and services. Because of this, Chambers should be involved in the provision of local-level export support. Evidence from our web search and case studies suggested that a key role for local authorities is to ensure that export services across the sub-region offer a seamless service that is linked more widely to national support services. The case studies demonstrated that businesses are not interested in the 'public sector wiring' that sits behind support services. If businesses are to be encouraged to engage, and in certain cases pay for support, they need a service that is tailored to their needs and that minimises the bureaucracy that can be associated with excessive service signposting.

Inward investment

Current patterns of inward investment

9. The Americas remain the predominant source of inward investment, making up 86% of total world flows into the UK (see Table 2). Following a dramatic fall in net inward investment from Europe (which fell by 94.5% between 2009 and 2010), Asia is currently the UK's

second largest source of inward investment with 15% of all 2010 net inward flows. Figures for 2010 show investment from China and India amounting to less than 0.25% of the UK's world total; it is also noteworthy that the substantial rise in Asian inward investment in 2010 was largely driven by Hong Kong. This would suggest that local authorities should be cautious in assuming that China and India are obvious priorities. On the other hand, there are some examples of strong and locally significant connections – e.g. the investment of Jaguar Land Rover at the "i54 South Staffordshire" site which is now owned by Indian firm Tata.

Table 2: FDI into the UK by foreign companies by continent (2010) – total investment

Continent	2009	2010
Europe	32,075	1,751
The Americas	16,774	28,191
Asia	-2,330	5,074
Australasia and Oceania	2,450	-2,372
Africa	18	179
World total	**48,986**	**32,822**

Source: SQW analysis of ONS data. Note: A negative value indicates a net disinvestment to the UK (i.e. a decrease in the amount due from the UK).

Local authorities' responses – especially in relation to China and India

10. There are some clear barriers for businesses wanting to develop trade links with China and India (such as language, legal issues, physical distance, and the sheer enormity of the two countries). There are also more subtle differences in business culture and the relationship between the private sector and civic leaders; these too need to be understood. For example, in China ceremonial process and the concept of 'Guanxi', (i.e. the goodwill that comes from longstanding, tried and tested relationships), is seen as crucial to negotiations. Through their access to civic leaders, and ability to host delegations of potential investors, local authorities have an important role to play in this regard, but for most areas, this role would probably most usefully be performed by dovetailing activities with the wider UKTI/UKIBC service.

Overall recommendations for local authorities

11. With knowledge of their local area, connections with key local stakeholders and influence over the infrastructure and the planning system, local authorities have a role to play in the inward investment process and with regard to international trade. With this in mind, the fieldwork revealed a number of useful 'rules of thumb' to consider when developing service arrangements:

- *the inward investment offer and service needs to be promoted at a spatial scale that "makes sense" to businesses.* Once the decision has been made to locate in the country, sub-regional economic geographies become important, and in this context, approaches led by LEPs and/or groups of local authorities have a key role to play
- *services should be targeted to support the wider strategic priorities and opportunities for the area* (e.g. resonating with wider local and regional infrastructure, commercial and residential development plans). In implementation, there will be a need for *patience and consistency*: developing international relationships takes time

- *meaningful partnerships need to be developed* with UKTI and its affiliated organisations through the LEPs, regional UKTI partnership team staff and through other connections such as through local chambers. Specifically, local authorities need to strike a balance between (potentially costly) proactive activity, and ensuring that national services provided through UKTI are exploited
- a *strong relationship with the local media can also be advantageous* both in supporting and celebrating success, but also in ensuring responsible reporting if potential investments do not materialise and/or firms already located in the area decide to leave.

1: Introduction

Role of local government in economic growth – and the Local Growth Campaign

1.1 With the demise of Regional Development Agencies, local government needs to develop its historic role with regard to economic development – both as a lead player within Local Enterprise Partnerships (LEPs) but also, more immediately, by taking active steps to generate a supportive environment for "doing business" locally. To this end, various "carrots and sticks" have been – and are being – put in place. For example, by retaining a share in the uplift in any growth in business rates receipts, local government will be incentivised to encourage economic activity (and it will be penalised financially if business rates receipts fall). Equally, in the future, mechanisms like Tax Increment Financing will provide the means by which local government can effect investment in the critical infrastructure needed to realise local economic potential – albeit it will need to take a measured view, and to be prepared to borrow against future income streams.

1.2 Against this backdrop, the Local Government Association (LGA) initiated a Local Growth Campaign. This was launched in November 2011, and it called for a national debate on the role of local councils in driving economic development. In this context, LGA is seeking to gather together evidence and insight into the role that local government can – and should – be playing in driving forward economic growth. Armed with this evidence – and informed by an on-going debate within the sector – its intention is to influence national policy and, hence, to equip local councils to respond effectively to the challenge that central government has laid before it. The findings from the Local Growth Campaign will be set out in a paper titled *Local Leadership and Local Growth* which will be launched and published by the LGA at its annual summer conference.

Purpose of this study

1.3 In order to provide part of the evidence base for the Local Growth Campaign, SQW was commissioned by the LGA in early 2012 to gather together evidence and insight with regard to one element of the economic development process: international trade (i.e. export markets) and inward investment. More specifically, the study's aims were to:

- investigate the scale and nature of both inward investment to the UK and international trade, and how both are changing
- establish, more specifically, the challenges/opportunities linked to China and India
- understand, on an illustrative basis, the role(s) that local councils in England are currently playing within this context
- gather together short examples of where local government's role appears to have been crucial and what wider lessons/insights might be drawn.

1.4 In order to answer these research questions, we adopted a mixed-method approach involving:

- a review and analysis of publically available secondary data on international trade and inward investment
- a web-review of 30 local authorities in order to provide an inventory of the range and types of activities that councils are currently offering
- consultations with UK Trade and Investment (UKTI), China-Britain Business Council (CBBC), and the UK India Business Council (UKIBC)
- case studies with four local council areas identified through the fieldwork as demonstrating good practice in international trade and/or inward investment services
- attendance at the LGA Local Growth Campaign: *Inward and outward investment and economic growth*, in early 2012.

Structure of the report

1.5 This document reports on the findings from our study. It is structured into three main sections, supported by a number of annexes:

- ***Section 2*** provides a summary of trends in international trade and inward investment
- ***Section 3*** brings together the findings from the fieldwork to provide an overview of current activity across local councils and a summary and discussion of good practice currently being demonstrated by a number of local councils across England
- ***Section 4*** concludes the report with consideration given to the key findings of the study for the LGA and its members, as well as more widely for LEPs and UKTI.

1.6 The report is supported by three annexes:

- Annex A: Local Authority case studies for Essex, Staffordshire, Liverpool, and Birmingham
- Annex B: Secondary data trend analysis on international trade and inward investment
- Annex C: Local Authority service inventory (from the web research)

2: Current trends in international trade and inward investment

Introduction

2.1 Export markets and inward investment are influenced by a range of interdependent macro-economic and political factors in both host and origin countries. These factors include the level of economic growth and domestic demand, the prevailing exchange rate, the extent of export/import tariffs, and the existence of government subsidies to attract/retain inward investment. Many of these factors are not within the gift of local authorities to influence, but they do nevertheless define the context for all initiatives to encourage increased exports and attract inward investment.

2.2 Within this context, the analysis which follows examines:

- the current scale of export and inward investment across the UK, England, and, where the data allows, England's nine regions
- the trend data associated with exports and inward investment
- the dominant export destinations and sources of inward investment, and how these have changed over time
- the sectoral breakdown of exports and inward investment
- the scale, nature and trend data associated with exports to, and inward investment from, China and India.

2.3 Two sources of secondary data are used to inform this assessment:

- Export data – UKTradeInfo provided the HM Revenue and Customs (HMRC)
- Inward investment data – Office for National Statistics (ONS) Foreign Direct Investment Survey

2.4 An overview of the analysis from these data can be found in Boxes 1 and 2 below whilst more detailed data and analysis can be found in Annex B.

International trade

Box 1: Overview of international trade trend data

UKTradeInfo provide the most up to date data on trade statistics by region. The HM Revenue and Customs (HMRC) introduced the series in 1999 and these statistics provide a breakdown of the flows of imports and exports between regions of the UK and other countries. Data are taken from the Customs system (for all non-EU trade) and the Intrastat survey (for EU trade).

The data are collected from all VAT-registered businesses at the postcode of registration. VAT-registered businesses are identified through the HMRC Departmental Trader Register which is updated monthly.

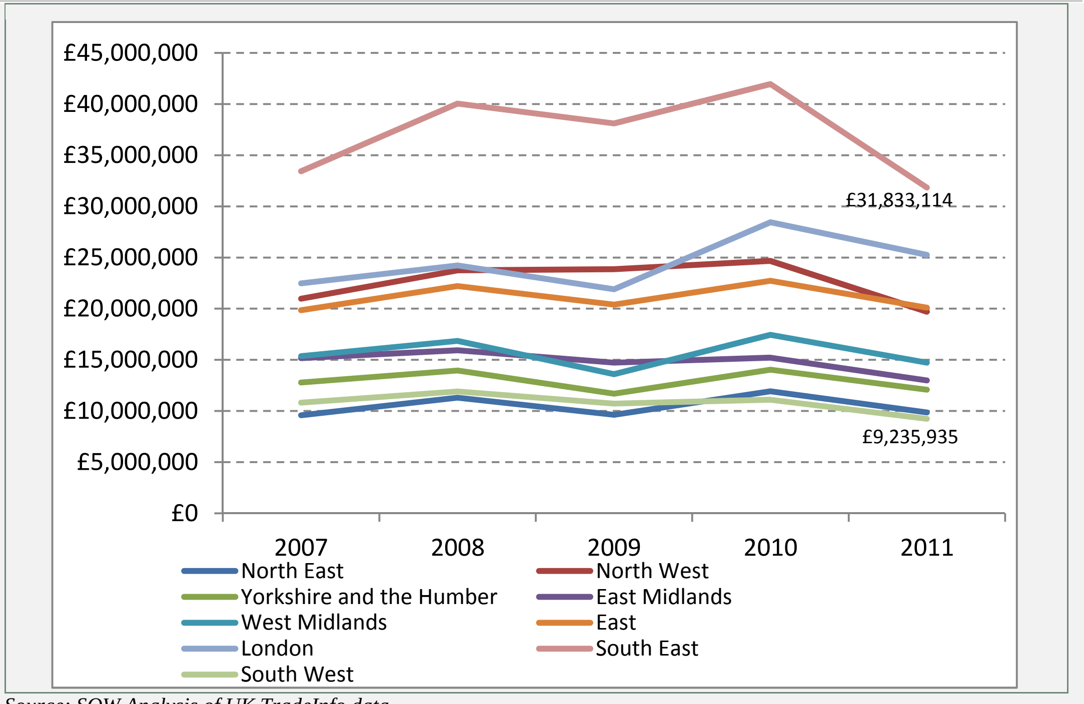
The supply of goods to a place outside of the UK is defined as a "direct export" by the HMRC. "Value of exports" refers to the statistical value in pounds sterling of trade at nominal prices.

Value of exports for English regions

Figure 2-1 shows the total value of exports for each of the nine English regions for the five year period 2007-2011. In 2011, the total value of exports from the nine English regions was £155.81 billion. Exports from the South East region accounted for the greatest share of all exports from England (20.4%) and the South West the smallest share (5.9%).

Overall, the total values of exports from the nine English regions in 2011 were the lowest since 2007. Over the period, exports from the South East have consistently accounted for the greatest share of all exports from England, although this gap has narrowed in recent years.

Figure 2-1: Value of Exports (£000) for all English regions (2007-2011)



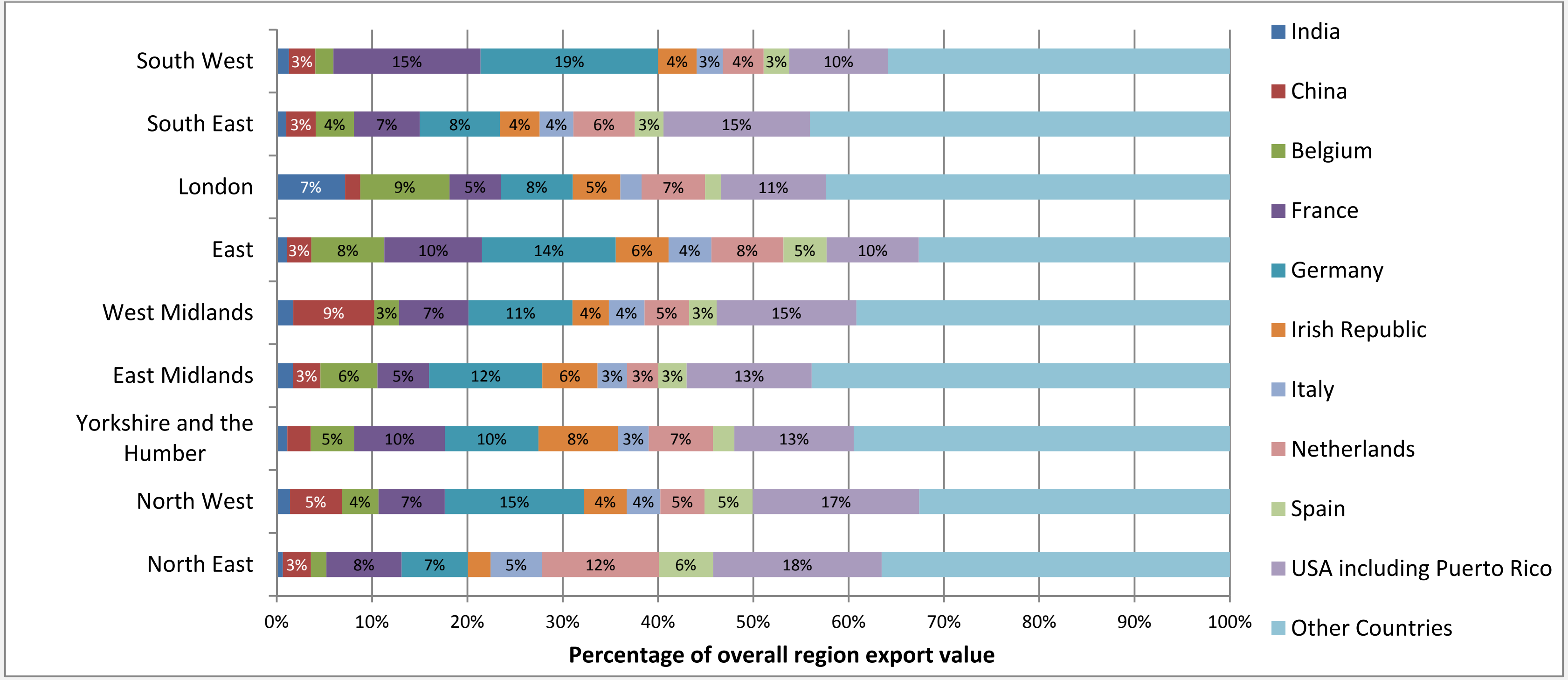
Source: SQW Analysis of UK TradeInfo data
Note: the data used to compile this chart can be found in Annex B

Exports by country

Figure 2-2 shows the distribution of exports by country for each English region in 2011. The chart shows those countries where export value accounted for more than 2% of exports in every English region, but also includes exports to China and India. Across all regions, exports to the United States accounted for 13.6% in 2011, a fall of 2.4 percentage points compared to 2007. The US accounted for the greatest share of exports to one single country in seven out of nine regions in 2011. The exceptions to this were in the South West (19% in 2011) and East England (14% in 2011) where the greatest share of exports to one single country went to Germany.

Exports to China were similar to export levels to the smaller economies of western European such as Belgium, the Netherlands, and Italy. However, with the exception of London, exports to India were modest, generally accounting for between 1% and 2% of all regional exports. Further details regarding exports to China and India are provided below.

Figure 2-2: Percentage of region export value by country (2011)



Source: SQW Analysis of UK TradeInfo data
Note: the data used to compile this chart can be found in Annex B

Significance of China and India to English regions

Table 2-1 shows the significance of China and India exports in 2011 as a percentage of all exports.

- In 2011 the total value of exports to China accounted for 3.5% of all exports out of the English regions. Exports to China from the West Midlands region were the most significant, accounting for 23.0% of all exports out of England to China and 8.5% of all exports out of the region.
- The total value of exports to India accounted for 2.2% of all exports out of the English regions. Exports to India from the London region were the most significant, accounting for 53.2% of all exports out of England to India and 7.2% of all exports out of the region.

Table 2-1: Total Value (£000) of Exports 2011

	All Countries	China	% of all exports	India	% of all exports
North East	£9,869,637	£291,717	3.0%	£62,437	0.6%
North West	£19,704,095	£1,068,398	5.4%	£274,966	1.4%
Yorkshire and the Humber	£12,079,757	£297,106	2.5%	£133,889	1.1%
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London	£25,261,859	£404,252	1.6%	£1,811,185	7.2%
South East	£31,833,114	£981,251	3.1%	£316,121	1.0%
South West	£9,235,935	£256,242	2.8%	£117,938	1.3%

Source: SQW Analysis of UK TradeInfo data

The total value of exports to China and India can also be assessed over time. Looking at each of the nine English regions during the five year period 2007-2011, the data show that:

China

- over the period 2007 - 2011, the value of exports to China has increased. The total value of exports from the nine English regions to China in 2011 was £5.4billion, this was the second highest value since 2007 (the highest value was in 2010)
- in 2007 the East of England accounted for the highest value of exports to China. However, in relative terms exports from this region have declined over the period and in 2011 exports from the West Midlands, North West and South East accounted for the highest value of exports.

India

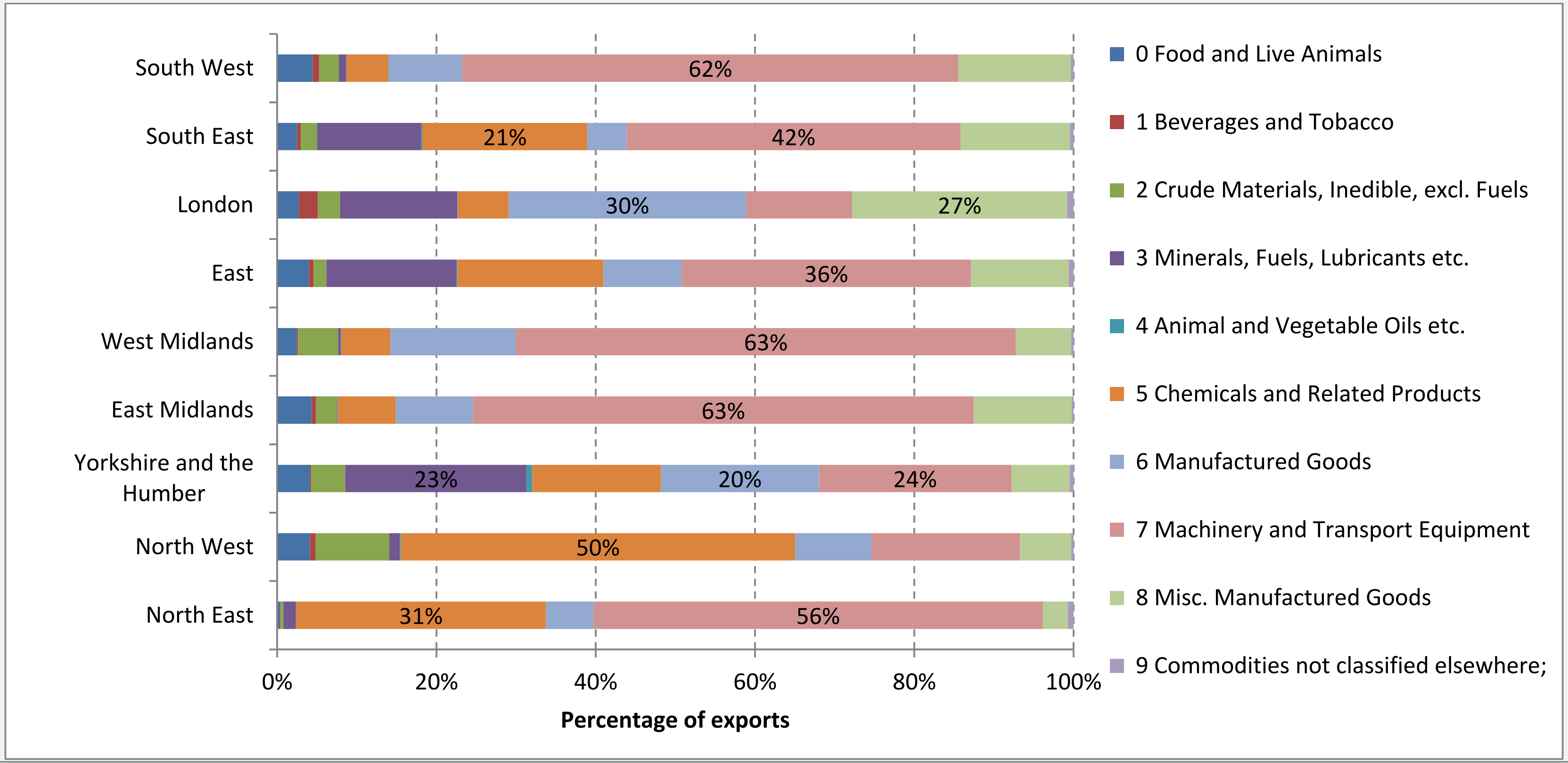
- over the period 2007 - 2011, the value of exports to India has increased. The total value of exports from the nine English regions to India in 2011 was £3.4billion
- exports from the London region have consistently accounted for the greatest share of all exports from England and since 2007 the gap between the London and all other regions has widened.

Exports by sector

Figure 2-3 shows the percentage of regional exports by sector for 2011 (it should be noted that the Regional Trade Statistics includes all merchandise trade and excludes trade in services (e.g. banking and tourism) and intangibles (e.g. financial investments) and so it is not possible to provide a breakdown for these sectors).

Based upon the available data, machinery and transport equipment, exports accounted for 13.2% of all exports from England and the greatest share of all exports out of the region for eight of the nine regions. The exception to this was in the North West where Chemicals and related products accounted for the greatest share of exports from the region (50%).

Figure 2-3: Percentage of region export value by sector (2011)



Source: SQW Analysis of UK TradeInfo data. Note: the data used to compile this chart can be found in Annex B

Table 2-2 looks in detail at the sectoral breakdown from those regions which export the greatest amount in terms of proportion of all exports from the region to India (London – 7%) and China (West Midlands – 9% and North West – 5%). In summary the data show that:

- 88% of the exports from London to India (equivalent to 10% of all exports from London) are manufactured goods
- 80% of the exports from the West Midlands to China are in the machinery and transport equipment sector
- exports from the North West to China are split between three main sectors; crude materials (35%), chemicals and related products (30%) and machinery and transport (27%).

Table 2-2: Value of exports (£000) for regions which export the largest proportional amount to India and China

	Food and Live Animals	Beverages and Tobacco	Crude Materials, Inedible, excl. Fuels	Minerals, Fuels, Lubricants etc.	Animal and Vegetable Oils etc.	Chemicals and Related Products	Manufactured Goods	Machinery and Transport Equipment	Misc. Manufactured Goods	Commodities not classified elsewhere
Exports from London to India										
Value	4,768	1,074	138,770	49,046	13	12,751	2,306,049	78,786	31,594	7
Percentage of all exports	0%	0%	5%	2%	0%	0%	88%	3%	1%	0%
Exports from the West Midlands to China										
Value	286	15	250,387	1,251	4	19,560	60,174	1,534,968	51,825	3
Percentage of all exports	0%	0%	13%	0%	0%	1%	3%	80%	3%	0%
Exports from the North West to China										
Value	5,631	155	504,116	319	30	434,746	59,340	387,087	41,348	..
Percentage of all exports	0%	0%	35%	0%	0%	30%	4%	27%	3%	..

Source: SQW Analysis of UKTradeInfo data

Inward Investment

Box 2: Inward Investment trends

Foreign Direct Investment (FDI) refers to *"investment that adds to, deducts from, or acquires a lasting interest in an enterprise operating in an economy other than that of the investor; the investor's purpose being to have an "effective voice" in the management of the enterprise"*[1].

ONS conducts an FDI Survey to measure "the flows of investment, earnings from investment and the international investment positions for UK businesses' affiliates abroad (outward) and conversely foreign businesses' affiliates in the UK (inward)"[2]. The ONS survey is the only UK source of data that conforms to FDI international definitions[3].

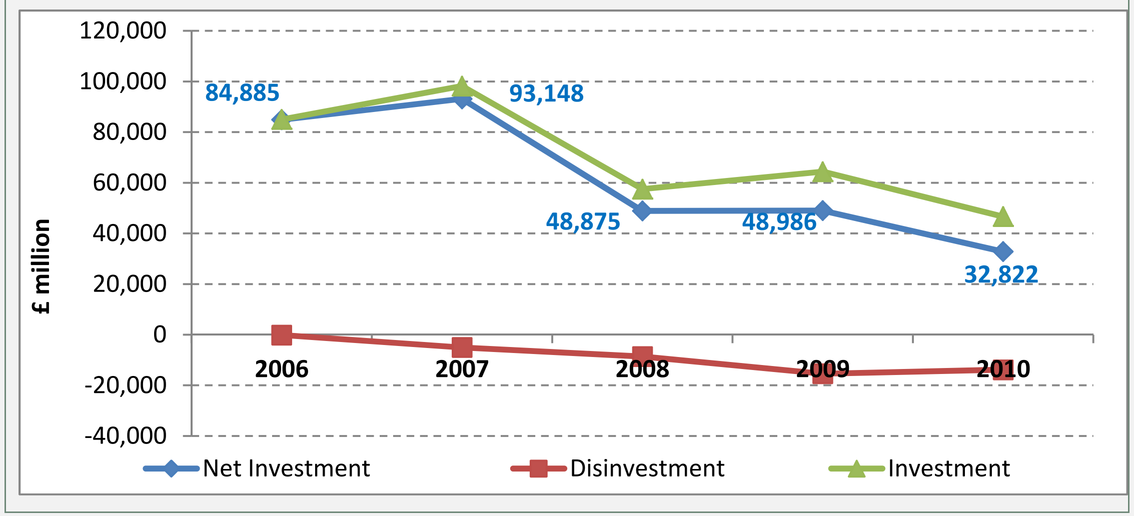
All investment figures which ONS publishes on a net basis consist of money invested into an enterprise by the parent company net of disinvestments by a company into its subsidiaries. All figures are in current prices.

FDI Flows

FDI flows show the inward investments made into the UK. Flows consist of acquisitions/disposal of equity capital, reinvestment of earnings and inter-company debt. Figure 2-4 shows the investment, disinvestment and net investment flows into the UK by foreign companies between 2006 and 2010.

A total of £32.8 billion was invested in the UK by foreign companies in 2010. This was a decrease of £16.1billion since 2009 and the lowest level since 2004.

Figure 2-4: Foreign direct investment flows into the UK by foreign companies (All countries) 2006-2010



Source: SQW analysis of ONS data

Table 2-3: Foreign direct investment flows into the UK by foreign companies (All countries) 2006-2010 (£million)

	2006	2007	2008	2009	2010
Net Investment	84,885	93,148	48,875	48,986	32,822
Disinvestment	-146	-5,041	-8,626	-15,405	-13,853
Investment	85,031	98,189	57,501	64,391	46,675

Source: ONS (2011) Foreign Direct Investment involving UK companies, 2010 Release – and SQW analysis

[1] Office for National Statistics, 2010. Summary Quality Report for Foreign Direct Investment Annual Surveys Releases[pdf] Available at: < http://www.ons.gov.uk/ons/guide-method/method-quality/quality/quality-information/business-statistics/summary-quality-report-for-foreign-direct-investment-annual-surveys-releases.pdf http://www.ons.gov.uk/ons/dcp171778_245878.pdf > [Accessed 23rd April 2012].

[2] Ibid

[3] Ibid

Table 2-4 shows the total net investment flow into the UK by continent. As can be seen, investment flows from Europe decreased by 94.5% between 2009 and 2010, the lowest investment flow from Europe since records began in 1988[4], and this was made up by several countries disinvestments in companies in the UK.

In contrast, investment into the UK by foreign companies from the Americas increased by 68%. This increase largely came from flows of equity capital from the US, with the acquisition of UK companies Cadbury Plc and Pets at Home group[5].

The significant increase in investment from Asia in 2010 was derived largely from £3 billion invested in the UK by Hong Kong companies, whilst the 2009 figure was driven by large levels of disinvestment from Japanese firms.

Table 2-4: FDI into the UK by foreign companies by continent (2010)

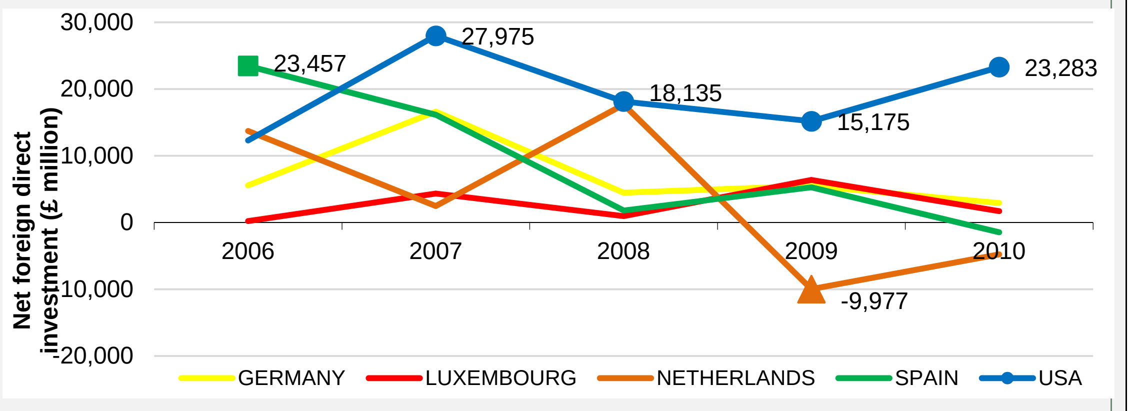
Continent	Total net investment	
	2009	**2010**
EUROPE	32,075	1,751
THE AMERICAS	16,774	28,191
ASIA	-2,330	5,074
AUSTRALASIA & OCEANIA	2,450	-2,372
AFRICA	18	179
WORLD TOTAL	**48,986**	**32,822**

Source: SQW analysis of ONS data
Note: A negative value indicates a net disinvestment to the UK (i.e. a decrease in the amount due from the UK).

Figure 2-5 examines the average net FDI flows into the UK by foreign companies between 2006 and 2010 and plots the top five contributors: these are USA (£96.9 billion), Spain (£45.2 billion), Germany (£35 billion), Netherlands (£19.1 billion) and Luxembourg (£13.6 billion). The graph shows that:

- Total net FDI investment from Spain was highest in 2006 with £23.5 billion invested.
- Net FDI investment from the USA was third highest in 2006 with £12.3 billion invested, this increased by 127% between 2006 and 2007 and since 2007 the USA has been the highest contributor of net FDI to the UK.
- Total net FDI investment from the Netherlands peaked in 2008 with £17.7 billion invested, this then dropped in 2009 with a £10 billion disinvestment.

Figure 2-5: Top 5 foreign direct investment contributors to the UK by foreign companies (average 2006-2010)



Source: SQW analysis of ONS data
Note: A negative value indicates a net disinvestment to the UK (i.e. a decrease in the amount due from the UK)

[4] Office for National Statistics, 2011. Foreign Direct Investment involving UK companies 2010 [pdf] Available at: <http://www.ons.gov.uk/ons/rel/fdi/foreign-direct-investment/2010-release/foreign-direct-investment-2010.html> [Accessed 23rd April 2012].
[5] Office for National Statistics, 2011. Foreign Direct Investment involving UK companies 2010 [pdf] Available at: <http://www.ons.gov.uk/ons/rel/fdi/foreign-direct-investment/2010-release/foreign-direct-investment-2010.html> [Accessed 23rd April 2012].

FDI Flows – China and India

Table 2-5 shows the net FDI flows into the UK by foreign companies in China and India in 2010 and shows their proportion of the total net world FDI flow into the UK. The table shows that India's contribution was higher than that of China with £50 million invested accounting for 0.2% of the total net world FDI flows into the UK. These two countries only account for 0.23% of the total net world FDI flows into the UK by foreign companies, compared to the USA which is the highest contributor with 70.9% of the total world flows.

Table 2-5: FDI into the UK by foreign companies (2010)

Country	Total net FDI investment (£million)	% of total Net World FDI flow
CHINA	9	0.03%
INDIA	50	0.20%

Source: SQW analysis of ONS data

Table 2-6 shows the net FDI flows into the UK by foreign companies in China and India over the period 2006-2010. The table shows that:

- India's contribution has been consistently higher than that of China in four out of five years.
- £265 million (i.e. 0.27 billion) was invested into the UK by Indian companies in 2008, accounting for 5% of the total net world FDI flows into the UK by foreign companies. It is highly likely that a large proportion of this has come from flows of equity capital, with the acquisition of UK company Jaguar Land Rover by Tata Motors in March 2008.

Table 2-6: Foreign direct investment contributions to the UK by Chinese and Indian companies (2006-2010) (£million)

	2006	**2007**	**2008**	**2009**	**2010**
CHINA	12	16	-20	123	9
INDIA	265	151	2,638	20	50

Source: ONS (2011) Foreign Direct Investment involving UK companies, 2010 Release – and SQW analysis

FDI by industry

The Foreign Direct Investment Business Monitor is published each February and includes a more detailed breakdown of FDI by the industry in which the FDI is spent[6].

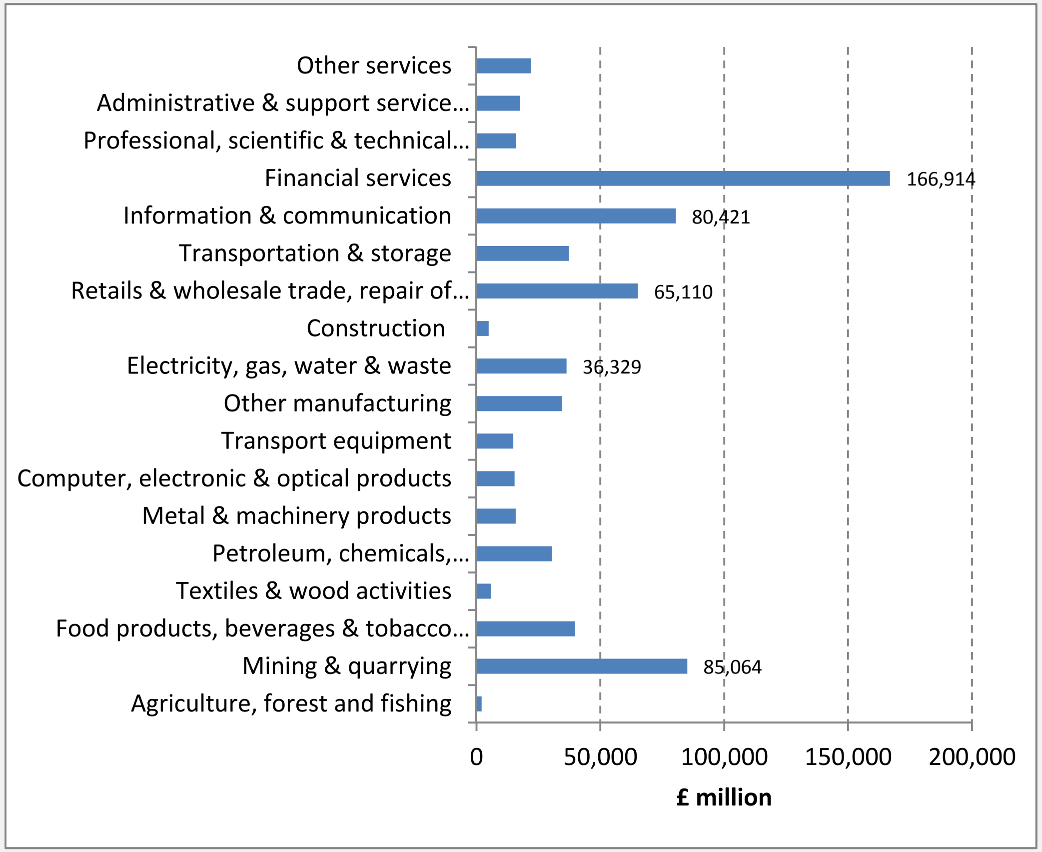
As shown in Figure 2-6, the five sectors holding the largest FDI 'position' (i.e. level or stocks) are financial services, mining & quarrying, retail/wholesale trade & repairs, information and communications, and food products.

In terms of investment flows (see Annex B for data and charts) , there were five sectors accounting for 90 per cent of the total net inward FDI flows to the UK in 2010:

- Food products with £9.5 billion
- Information and communication with £7.8 billion
- Financial services with £7.5 billion
- Transportation and storage with £2.5 billion
- Computer electronic and optical products with £2.3 billion

Taking the investment position and investment flows for 2010 together, this indicates that the largest FDI sectors that continue to dominate FDI flows are financial services, information and communications, and food products.

Figure 2-6: Net FDI investment position the UK by foreign companies by industry 2010



Source: SQW analysis of ONS data
Note: the data used to compile this chart can be found in Annex B

[6] Note: there is a discrepancy between the 2010 total figures above and below: this is because the FDI Business Monitor will be incorporated into revised figures in the December 2012 ONS survey publication.

FDI from China and India by sector

Table 2-7 shows the net foreign direct investment position (level or stocks) by industry for all countries and then India and China separately. The positions provide information on the total level of investment made into the UK at a particular point in time. The table shows:

- the total level of direct investment in the UK by Indian companies by the end of 2010 was £2.8 billion, and for Chinese companies the position was lower at £0.4 billion.
- a total of £1.1 billion has been cumulatively invested into the food products, beverages and tobacco products industry from India.

Table 2-7: Net FDI investment positions the UK by foreign companies by industry 2010

	Net FDI investment position all countries (£million)	**Net FDI investment position India (£million)**	**Net FDI investment position China (£million)**
Agriculture, forest and fishing	2,069		
Mining & quarrying	85,064	..	
Food products, beverages & tobacco products	39,724	1,093	
Textiles & wood activities	5,737	3	
Petroleum, chemicals, pharmaceuticals, rubber, plastic products	30,399	55	
Metal & machinery products	15,845	35	
Computer, electronic & optical products	15,367	..	
Transport equipment	14,828	7	..
Other manufacturing	34,404	13	
Electricity, gas, water & waste	36,329		
Construction	4,906		..
Retails & wholesale trade, repair of motor vehicles & motor cycles.	65,110	294	72
Transportation & storage	37,259	4	15
Information & communication	80,421	634	7
Financial services	166,914	..	..
Professional, scientific & technical services	16,040	28	..
Administrative & support service activities	17,631	57	4
Other services	21,904	10	..
Total	**689,951**	**2,781**	**401**

Source: ONS (2012) Business Monitor MA4 Foreign Direct Investment involving UK companies 2010
Note:'..' indicates figures are disclosive and blank cells are nil returns

Summary of findings from the secondary data

2.13 Revisiting the purpose of the secondary data analysis, Table 2-8 below provides the key findings with respect to international trade and inward investment.

Table 2-8: Key findings from the analysis of secondary data

Areas of analysis	**International Trade**	**Inward investment**
The current scale of export and inward investment across the UK, England and, where the data allows, England's nine regions	Export trade in 2011 stands at around £155billion. The south east contributed the largest share (£32billion), with London, the East of England and the North West all contributing around or in excess of £20billion in export trade. All regions had an export market of at least around £10billion/annum	A total of £46.7 billion of new investment was made in the UK by foreign companies in 2010, which once disinvestment is accounted for, provided £32.8 billion of new investment into the UK.
The trend data associated with exports and inward investment	Export trade in 2011 stands at its lowest point since 2007, with a particularly large fall in trade between 2010 and 2011. This highlights the close link to the economic cycle and suggests that the international export market is currently a very challenging and competitive one.	Net inward investment in 2010 fell by £16.1 billion compared to 2009, and was the lowest since 2006. Similar to export markets, therefore, this would suggest that the international market for inward investment is very competitive. Significant levels of disinvestment also underlines the need to provide quality aftercare in order to help retain current inward investors.
The dominant export destinations and sources of inward investment, and how this has changed over time	The United States remains the largest export destination despite this share falling over the past five years. The United States is followed closely by the largest European economies: Germany and France. Despite a general decline in exports to England's traditional export countries, these destinations still make up by far the largest share of exports, and based upon the trend data are likely to continue to do so for some time.	The Americas remains the predominant source for inward investment into the UK, making up 86% of total world flows into the UK. Major investments in Cadbury Plc and Pets at Home have meant that inward investment from the United States increased by 68% between 2009 and 2010 against the overall downward trend. Following a dramatic fall in net inward investment from Europe (which fell by 94.5% between 2009 and 2010), Asia is currently the UK's second largest source of inward investment with 15% of all 2010 net inward flows. Whilst the strikingly low current levels of inward investment from Europe should recover over the medium to long term, the emergence of Asia as a major source of inward investment cannot be overlooked.
The sectoral breakdown of exports and inward investment	Notwithstanding the data limitations associated with sectoral data, machinery and transport equipment, followed by chemicals and related products would appear to account for the largest share of exports in 2011. However, whilst the data is not available for service-based exports, we suspect that this hides a large proportion of financial service exports, particularly from London.	The five sectors holding the largest inward investment 'position' (i.e. level or stocks) are financial services, mining & quarrying, retail/wholesale trade & repairs, information and communications, and food products. Taking the investment position and investment flows for 2010 together, this indicates that the largest sectors that continue to dominate inward investment flows are financial services, information and communications, and food products.
The scale, nature and trend data associated with exports to, and inward investment from, China and India	Export trade to China and India is still relatively small across England as a whole, but these countries have bucked the general downward trend over the past five years to show positive levels of growth. In some regions (i.e. the West Midlands, the North West and the South East with respect to China, and London with respect to India) exports to these destinations has not been insignificant.	Looking at inward investment flows in 2010, India's contribution was higher than that of China with £50 million invested accounting for 0.2% of the total net world FDI flows into the UK. Taken together, however, these two countries account for just 0.23% of the total net world FDI flows into the UK by foreign companies. Currently, therefore, whilst inward investment from Asia as a whole is significant, inward investment from China and India is still relatively modest – indeed, by far the largest inward investor to the UK from Asia in 2010 was Hong Kong.

Source: SQW

3: Current and potential roles of local authorities in supporting international trade and inward investment

Introduction

3.1 Informed by the fieldwork undertaken as part of this study, this section provides insights into:

- current sub-regional and national arrangements for services to support international trade and inward investment *(from the stakeholder consultations)*
- the role of local authorities in supporting export trade and inward investment, including activity regarding China and India *(from the web-research of local authority support services)*
- approaches adopted by particular local authorities in supporting export trade and inward investment *(from the local authority case studies and stakeholder consultations)*

Current national service arrangements for international trade and inward investment

International Trade

3.2 In May 2011, UKTI published its five year strategy, *Britain Open For Business*[7]. This sets out four key areas of activity for supporting high growth SMEs into export markets:

- raising awareness of the benefits of exporting, among a wider number of companies
- running programmes of high impact regional events to raise awareness about opportunities in the high growth and emerging markets
- leveraging the communication channels of business partners such as the British Chambers of Commerce, the Confederation of British Industry, the Institute of Directors, Trade Associations, business schools and LEPs, to reach high growth and innovative companies with the potential to benefit by exporting
- deploying the outsourced network of International Trade Advisers around England to identify and target the companies with the best prospects for growth and plugging into the business networks of communities with overseas connections and activities.

3.3 As part of the fourth activity area, UKTI has developed contract delivery arrangements with the China-Britain Business Council (CBBC) and the UK-India Business Council, both of which provide support and advice to UK companies wanting to grow and develop their

[7] Britain Open For Business, Growth Through International Trade And Investment, UKTI, May 2011 http://www.ukti.gov.uk/uktihome/aboututki/aimsobjectives/corporatestrategy.html

business in India and China respectively. Consultations with CBBC, UKIBC and local authority stakeholders revealed a number of noteworthy observations regarding both “doing business” in these two countries and how local authorities can best engage with the service:

- Both China and India are vast countries with provinces (China) and states (India) that dwarf the UK in terms of population. For local authorities with little or no established trade links with these countries, the most effective means of getting a handle on (i) the potential opportunities for domestic firms and (ii) the appropriate routes to market, are through organisations such as the CBBC and UKIBC.

- Aside from the more obvious barriers for businesses wanting to develop trade links with China and India such as language, legal issues, physical distance, and the sheer enormity of these countries, more subtle differences in business culture (which can differ significantly within and between provinces and states), and the relationship between the private sector and civic leaders also need to be understood. For example, in China ceremonial process and the concept of ‘Guanxi’, (i.e. the goodwill that comes from longstanding, tried and tested relationships), is seen as crucial to negotiations.

- Along with local chambers, local authorities have an important role to play in identifying businesses that exhibit export potential to these counties, promoting the benefits of export activity, and, through organisations and programmes such as CBBC, UKIBC and the Link to China programme, ensure that businesses have the necessary support, connections and know-how to penetrate these markets.

Inward Investment

3.4 In April 2011, PA Consulting Services Ltd, in partnership with OCO Consulting and the British Chambers of Commerce, was appointed to deliver support for FDI as part of UKTI’s global network. The contract, which replaces the previous FDI contract provided through the Regional Development Agency network, was to:

- coordinate and manage the delivery of FDI support for the UK with prospective foreign direct investors, working with local partners across England, the devolved administrations of Scotland, Wales and Northern Ireland, the Greater London Authority, and the UKTI and wider FDI network

- provide a geographically dispersed resource to support the delivery arm for England (outside London)

- provide direct relationship management and investor development, in association with international, national and local stakeholders to nominated existing investors in England (outside London) as agreed with UKTI[8].

3.5 The service has four core teams: the marketing team (which links with the overseas representatives who are funded separately by BIS); the investment advisor team (which manages incoming inquiries and can provide and link into specialist sector advice); the investor development team (which manages existing investors and targets those with high

[8] See: http://www.publications.parliament.uk/pa/cm201012/cmselect/cmbis/735/735we04.htm

growth and further investment potential), and a partnership team (which focuses on developing meaningful arrangements with local delivery structures). The core teams are supported by a market intelligence team and a Fast Track team (for investors that are at an advanced stage of the investment pipeline).

3.6 Many of the sector specialists and investor development team members are strategically located around the country. However, with an overall service that is around a third of the size of its predecessor, much of the local support infrastructure that was previously in place has not been replicated under the new arrangements. The partnerships team consists of eight regional managers (i.e. covering all English regions expect for London) who are responsible for making the linkages between the national service and the sub-regions which fall within and across their area. As part of this, our understanding is Memoranda of Understanding have now been signed with almost all LEPs regarding joint working with the national service and, in particular, the recording of enquires that come via local routes into the central UKTI enquiries database. Once put into practice, this arrangement with the LEPs will provide the principal route through which local authorities are able to link with the UKTI service.

The current role of local authorities in supporting export trade and inward investment

3.7 In order to gain a broad overview of the activities that local authorities across England are currently providing in support of international trade and inward investment, we undertook a web review of 30 local authority websites in spring 2012. A summary of the findings are presented below, whilst the full inventory of activity listed by local authority can be found in Annex C.

Summary of findings from the web review

3.8 All but one (Redcar and Cleveland) of the 30 Local Authorities (LAs) that were reviewed appeared to provide some level of service with regards to international trade and inward investment:

- 22 offered some level of support with regards to international trade (exports)
- 29 offered some level of support with regards to inward investment.

Summary of export support services

3.9 Our review suggested that in all but seven cases, export support was provided by the Chamber of Commerce, and whilst difficult to detect through a web search alone, it would appear that local authorities do not play a significant role in design or delivery, acting mainly as a signposting service to businesses.

3.10 Chambers' services across these areas are both extensive and varied. They include: supply of export market data; legal support/advice; funding support; skills development; export missions; contacts for personalised/tailored information and support; tender alert services; and international strategy reviews.

3.11 The LAs that offered export support services through other organisations included:

- Durham – where support was provided by County Durham Development Company, the inward investment arm of Durham Council: while mainly set up to promote inward investment, this organisation also runs an initiative called 'Trading Globally' which is designed to support businesses wanting to become exporters
- Lincolnshire – where support is provided by Business Lincolnshire which links into three key areas of support for exporting businesses: UKTI, International Trade Chamber, and the East Midlands International Trade Association (emita)
- Nottinghamshire – where support is also provided through emita
- London Borough of Hounslow – where support is provided by Gateway Asia: a scheme which runs between West and South London and the greater Heathrow area to increase trade with China and India
- Devon – where support is provided by Devon International Trade Forum, formed from an amalgamation of the South Devon and Exeter Business Export clubs
- Cornwall and the Isles of Scilly – where support is provided by Export Cornwall, which works with specialist advisors from the UKTI and business people from Cornwall in order to provide SMEs with support.

3.12 With respect to services specifically tailored to support trade with China or India, eight provided some kind of advice and/or links with these countries. Noteworthy areas included:

- Liverpool, where the Chamber has a specific China programme of support and hosts events and overseas visits to encourage trade with India and China
- Birmingham, where through the India-Pakistan Trade Unit, a partnership has been developed to maximise trading opportunities between South Asian and West Midlands companies
- Essex, where strong relationships have been developed with China, particularly in the Jiangsu Province and links are being developed with Nanjing. With respect to India, relationships are being built with Maharashtra, Karnataka and Andhra Pradesh
- Hounslow, where, as discussed above, Gateway Asia is specifically designed to support trade with China and India
- Kent, where the website directs businesses to the 'Link to China' programme jointly managed by the British Chamber of Commerce and the China Council for the Promotion of International Trade.

Summary of inward investment support services

3.13 In contrast to export support services, the web review indicated that LAs are more directly involved in offering inward investment support, with many establishing specific 'arm's-length' organisations to provide support. Information regarding support tends to be provided on local authority websites themselves, rather than through external links.

3.14 From our review, a small number (four) appeared to offer services through larger city-region or LEP structures including:

- Manchester, which provides services through the MIDAS Manchester Investment Development Agency Service which promotes investment into the city region
- Warwickshire, which offers its service through the Warwickshire Investment partnership which is closely associated with the Coventry and Warwickshire LEP
- Northamptonshire, which provides services through 'Welcome to Northamptonshire' that works in partnership with Northamptonshire Council and the Northamptonshire Enterprise Partnership
- Hounslow, which links to West London Business, a private membership-based organisation operating across five West London boroughs.

3.15 Whilst in a small number of cases the service offer was limited to promotion of the area and property search, the general offer was more wide-ranging, including: information regarding infrastructure, workforce skills and recreational facilities; funding access; background economic data; links to sector/specialist representatives; contacts for personalised/tailored information and support; strategic account management; collaboration with universities; and investor development services for foreign owned businesses already located in the local authority area.

3.16 With respect to services specifically tailored to support trade with China or India, our review pointed to six local authorities which provided some kind of tailored support and/or were working to forge specific links. These included:

- Birmingham, which has developed a 'Treaty of Friendship with Guangzhou (China), formerly known as Canton, '*to further enhance its international role and to complement existing partner city activities'*
- Cambridgeshire, which is forging links with the Fujian District with the aim of stimulating trade between the two areas
- Suffolk, which has an entire website in Chinese aimed at attracting Chinese investment
- Coventry, which has been twinned with Jinan, China, by means of forging trade links
- Lincolnshire, which provides a dedicated support service for businesses investing in the area wanting to develop links with China and India
- Essex, where through the county council's inward investment service, Essex International, strong links have been developed with Jiangsu Province businesses.

Distinctive service offers provided by local authorities in supporting export trade and inward investment

3.17 Through the web research and attendance at the Inward and Outward Investment event hosted by the LGA in early 2012, we identified four local authorities with distinctive service offers and we sought to speak to each of these:

- ***Essex County Council***, which has an established inward investment team with a long standing track record of supporting with investment from China
- ***Staffordshire County Council***, which has recently launched a new approach to inward investment and in 2011/12 attracted in excess of 2,000 jobs to the area
- ***Liverpool City Council***, where the Liverpool Chamber is part of an established and joined up sub-regional export support service offer
- ***Birmingham City Council,*** which has also recently introduced a new, more targeted approach to attracting inward investment.

3.18 Below we consider the approaches developed by these local authorities and we attempt to draw together the possible implications for other local authorities. Summary comments can be found in Table 3-1 and Table 3-2, whilst the full case studies can be found in Annex A.

Table 3-1: Approaches to international trade and implications for other areas

Area	Key elements of the approach	Potential implications for other areas
Essex	Essex International's approach in relation to Jiangsu is incremental and strongly relationship-based. Essex International has built up links to senior business, cultural and civic leaders, and it is able to use these for the benefit of Essex-based businesses and the Essex economy more generally. Links of this nature have taken a long time to develop and results tend to flow incrementally – but they are "real" results, founded on working relationships, and they tend to last.	Essex's approach demonstrates that developing meaningful trade relationships with China can take a long time to establish and involves making connections across business, culture and politics. Whilst these types of connections are likely to be important for securing trade links with any country, the significant interconnections between the private and public sectors in China make the need to establish these links vital.
Essex	Essex International is exploring the opportunities to develop links with the Hyderabad area in India, the capital of Andhra Pradesh. Here, relationships have been forged with some of the major businesses, notably Tata Group (which owns Corus in the UK). Through these links, students from Anglia Ruskin University have benefited from a unique student placement programme, and hence, strong relationships are being developed. Compared to Jiangsu, Essex International's links with India are under-developed. They may come to resemble those with Jiangsu or it is possible that a different kind of collaborative model is developed.	Whilst the approach to developing trade links with India is still its infancy, it is possible that 'selling' the UK's educational offer could be an important tool for establishing initial connections with business and local government.
Liverpool	Liverpool Chamber's close working relationship with the City Council, COMIT (Chambers of Commerce on Merseyside in International Trade), and UKTI enables the organisation to provide a seamless and wide-range of free and fee-based support to both Chamber members and non-members.	Businesses are not interested in the 'public sector wiring' that sits behind support services. If businesses are to be encouraged to engage, and in certain cases pay for, support they need a service that is tailored to their needs and that minimises the bureaucracy that can be associated with excessive service signposting.

Area	Key elements of the approach	Potential implications for other areas
Liverpool	The Liverpool Chamber also acts as the north west hub for the national BCC led Link to China programme, which originated from an ex-Liverpool Chamber staff member who subsequently left to become the Chief China Advisor for BCC. The Link to China programme offers SMEs a wide range of free and fee-based advice and support regarding exporting to China. Liverpool has an historic twinning arrangement with Shanghai and has always enjoyed a steady flow of trade to and from China. With a strong and growing creative and digital sector in Liverpool, it was reported that the city is currently enjoying strong export demand from Chinese firms wanting to buy-in the manufacturing innovation and design expertise that this sector offers.	Building successful trade links with China involves tapping into, and remaining close to, the national/international services provided through BCC and its affiliates, but in a way that links with local strengths, opportunities and international connections.

Source: SQW drawn from the area case studies

Table 3-2: Approaches to inward investment and implications for other areas

Area	Key elements of the approach	Potential implications for other areas
Staffordshire	The new service's approach mirrors the drive to achieve a wider shift in the council's role from a delivery focused organisation to a 'prosperity enabling organisation'. This is encapsulated by the 'Prosperity Wheel' – a concept developed by the Deputy CEO and her team which, in broad terms will focus development onto the unique strengths of economic geographies to achieve a clear and agreed vision of the desired economic future for the area. For the inward investment team, this will provide a focus for the types of businesses that should be targeted and has already enabled tailored support packages to be developed to meet the requirements of these firms.	Proactive targeted can be undertaken by local authorities, but in order to ensure that this activity is both cost effective and linked with wider economic development objectives, the service should tie into the strategic priorities (and opportunities) for the area, have a proportionate level of resource attached to it, and allow for support to be tailored to meet individual business needs.
Staffordshire	Potential inward investors are allocated a dedicated account manager at the point of initial inquiry, who remains the key contact for the investor through the entire investment process - and, following location in the area, for aftercare support. Account managers provide a full spectrum of tailored support including facilitating site visits, providing local knowledge of the area and its skills base, discussing infrastructure requirements, including support with negotiation of infrastructure funding, navigation of the planning system, funding access (e.g. Regional Growth Fund and Growing Places Fund).	Whilst the account manager model can provide potential investors with the 'gold standard' service offer, the staff resource required to develop this model needs to be commensurate with the anticipated return. In some areas, a less labour intensive offer that is able to effectively tap into services provided through UKTI may be more appropriate.
Birmingham	In its first full-year of operation Business Birmingham has developed a new, more focused and targeted approach to encouraging inward investment. Recognising that UKTI has limited resources, and that in the past Birmingham, and the sectors that it has the potential to attract, have possibly not been at the forefront of national inward investment strategy, Business Birmingham has undertaken research to identify key target sectors and develop bespoke marketing plans to attract businesses operating within them. These key sectors, which have also been selected due to their potential to provide high volumes of jobs, an agreed economic priority for Birmingham, are logistics, food and drink, and large-scale ICT.	Adopting a similar approach to the one adopted in Staffordshire, Business Birmingham have also adopted a targeted and strategic approach to attracting inward investment. Whilst linked into UKTI, it is recognised that the national service does not always align with the specific economic strengths, weaknesses and opportunities in Birmingham.
Birmingham	In its first year of operation, and whilst the strategy and action plan for targeted inward investment has been in development, Business Birmingham has taken a 'back to basics' approach – focusing efforts on its key historical markets (especially North America) and selling the 'Big City Plan' (which sets out the physical regeneration investment taking place in the city over the next 20 years) as a major opportunity for inward investors.	Business Birmingham's use of the 'Big City Plan' as a platform for promoting inward investment provides a good example of how FDI strategies can (and should) link into wider local and regional infrastructure, commercial and residential development plans.

Source: SQW drawn from the area case studies

4: Conclusions and implications

4.1 This final section draws together the findings from Sections 2 and 3 to consider the conclusions from the study and their implications for the LGA and its members, and more widely for LEPs and UKTI.

4.2 However, before considering our substantive conclusions, it is worth noting that one of the outcomes from the fieldwork has been to highlight the level of interest and enthusiasm shown towards the study by local authorities, UKTI, and its affiliated organisations. With the on-going fragility of the UK's domestic economic recovery, the re-configuration of devolved responsibility for economic development, and a new UKTI regional support service, the need to examine the role that local authorities can play in supporting international trade and inward investment was welcomed and seen as very timely.

Implications for the LGA and its members, and for LEPs and UKTI

4.1 The secondary data (reported in section 2) demonstrated that export markets (as of 2011) and inward investment markets (as of 2010) are both fragile, ever changing, and, from the UK's perspective, operating at their lowest levels for many years. In addition, the wider fieldwork provided (through the web-trawl) a 'wide and shallow' assessment of the types of export market support and inward investment activity that local authorities are currently engaged in, and (through consultations) more in-depth insights into particular approaches. Taken together with the wider stakeholder consultations, this provides an evidence base from which a number of important conclusions may be drawn. These are summarised below:

International trade

- With all English regions generating exports to the value of at least £10billion in 2011, international trade is an important element of local economies. It is therefore important for LEPs and/or local authorities to understand the extent to which businesses in their areas are contributing to regional totals and whether or not more could be done to support them.
- Whilst the value of exports to China and India is still relatively small across England as a whole, these countries have bucked the general downward trend over the past five years to show positive levels of growth. However, despite a general decline in exports to England's traditional export countries, these destinations still make up by far the largest share of exports, and are likely to continue to do so for some time. This would suggest that any support for businesses designed to develop trade links with China and India needs to be selective and targeted, and seen be part of a longer term international trade growth strategy that sits alongside support for businesses wanting to export to the UK's core export markets. As demonstrated through the case study on Liverpool, building successful trade links with China involves tapping into, and remaining close to, the national/international services provided through the

British Chamber of Commerce and its affiliates, but in a way that links with local strengths, opportunities and international connections.

- Chambers of Commerce are one of the few organisations legally permitted to issue the various certificates required for firms to export products and services. Because of this, Chambers should be involved in the provision of local-level export support. Evidence from the web search and case studies suggests that a key role for local authorities is to ensure that export services across the sub-region offer a seamless service that is linked more widely to national support services.

Inward investment

- The Americas remain the predominant source of inward investment into the UK, making up 86% of total world flows into the UK. Following a dramatic fall in net inward investment from Europe (which fell by 94.5% between 2009 and 2010), Asia is currently the UK's second largest source of inward investment with 15% of all 2010 net inward flows. However, figures for 2010 show investment from China and India amounting to less than 0.25% of the UK's world total – indeed the substantial rise in Asian inward investment in 2010 was largely driven by Hong Kong. This would suggest that local authorities should be cautious in assuming that China and India are obvious priorities. On the other hand, there are some examples of strong and locally significant connections – e.g. the investment of Jaguar Land Rover at the "i54 South Staffordshire" site which is now owned by Indian firm Tata.

- Aside from the more obvious barriers for businesses wanting to develop trade links with China and India such as language, legal issues, physical distance, and the sheer enormity of the two countries, more subtle differences in business culture and the relationship between the private sector and civic leaders also need to be understood. Through their access to civic leaders, and ability to host delegations of potential investors, local authorities do have an important role to play in this regard, but for most areas this role would probably most usefully be performed by dovetailing activities with the wider UKTI service.

- More generally, with knowledge of the local area, connections with key local stakeholders and influence over the infrastructure and the planning system, local authorities have a role to play in the inward investment process. With this in mind, the fieldwork revealed a number of useful 'rules of thumb' that the LGA and local authorities may wish to consider when developing their inward investment service arrangements:
  - the inward investment offer and service needs to be promoted at a spatial scale that "makes sense" to businesses. In the early stages of an investment opportunity, this scale will in most cases be at the UK level, but once the decision has been made to locate in the country, the understanding and perception of sub-regional economic geographies is likely to become important when considering location options. This implies that at the sub-

regional level, LEPs and/or joint local authority approaches are likely to be the most appropriate outward facing inward investment structures

- services should be targeted to support the wider strategic priorities and opportunities for the area and in implementation, there will be a need for patience and consistency: developing international relationships takes time
- building on the above, local authorities need to strike a balance between (potentially costly) proactive activity, and ensuring that national services provided through UKTI are fully exploited
- inward investment strategies can (and should) link into wider local and regional infrastructure, commercial and residential development plans
- meaningful partnerships need to be developed with UKTI and its affiliated organisations through the LEPs, regional UKTI partnership team staff and through other connections such as through local chambers
- a strong relationship with the local media can also be advantageous both in supporting and celebrating success, but also in ensuring responsible reporting if potential investments do not materialise and/or firms already located in the area decide to leave.

Annex A: Case studies

A.1 In this Annex we provide the following four case studies demonstrating distinctive approaches to supporting international trade and inward investment:

- Essex County Council
- Staffordshire County Council
- Liverpool
- Birmingham City Council

Name of LA area: Essex County Council

Local context

Essex County Council is a very large local authority. In economic terms, Essex itself is extremely diverse. It includes some very prosperous areas (e.g. in Uttlesford) and some very rural and quite remote areas (e.g. around Maldon). However Essex as a whole is strongly influenced by London: there are substantial daily commuting flows and Essex hosts a good number of financial service firms' back office functions. Moreover South Essex – part of the Thames Gateway – remains a principal focus for regeneration.

Service description

Essex County Council's international trade and inward investment activity is delivered through Essex International. Structurally, Essex International sits wholly within Essex County Council and it is, in terms of management and governance, one team among many within the County Council. It has three members of staff based in Essex and one based in China and, although it is seeking to develop alternative funding streams, its total annual budget from the County Council is in the range £100-200k; hence within the overall context of Essex County Council, it is a very small operation.

Compared to the activities of other local authorities, Essex International is however really quite distinctive. Over the last 24 years, it has gradually built up a range of civic and economic links with the Chinese province of Jiangsu. The province is located on the coast of the Chinese mainland, immediately to the north of Shanghai. Hence in spatial terms, there are some similarities between Jiangsu and Essex – both are immediately adjacent to a major global city. However in scale the two areas are very different: the population of Essex is about 1.7m while that of Jiangsu is around 78m (which is broadly similar to the UK as a whole).

The links between Essex and Jiangsu originated in the educational sphere and over the last 24 years, they have broadened to include cultural and economic dimensions. They take a wide range of specific forms. For example, strong connections have been forged between museums in Nanjing, the capital of Jiangsu, and Essex (such that artefacts from Nanjing are to be displayed in Colchester).

It is within this context that links of a more straightforwardly economic character have emerged, based around identified synergies. These include significant demand in Jiangsu for waste treatment expertise which – through Essex International – is opening opportunities for Essex businesses. In addition – working with Norfolk and Suffolk – Essex International has identified opportunities linked to offshore renewables and this is now generating strong inward investment interest from businesses based in Jiangsu. The county has also organised 12 outward trade missions to Jiangsu over the years to promote exports.

Essex International's approach in relation to Jiangsu is incremental and strongly relationship-based. Essex International has built up links to senior business, cultural and civic leaders, and it is able to use these for the benefit of Essex-based businesses and the Essex economy more generally in a way that national organisations such as UKTI cannot. Links of this nature have taken a long time to develop and results tend to flow incrementally – but they are "real" results, founded on working relationships, and they tend to last and allow on-going programmes of work to develop.

Separately, Essex International is exploring the opportunities to develop links with the Hyderabad area in India. Here, relationships have been forged with some of the major businesses, notably Tata Group (which owns Corus in the UK). Through these links, students from Anglia Ruskin University have benefited from a unique student placement programme, and hence again, strong relationships are being developed. Compared to Jiangsu, Essex International's links with India are under-developed. They may come to resemble those with Jiangsu or it is possible that a different kind of collaborative model is developed.

Key successes

Essex International can identify a range of achievements – although these have not been assessed in formal “value for money” terms. The aims of the Essex International are wide-ranging and the links that are forged span the breadth of local authority functions and interests – education, culture and economic development. Some recent examples include the Council securing agreement from China’s largest publisher to set up its UK headquarters in Essex; winning training programmes for Jiangsu civil servants to study at Essex universities for the next three years; and helping an Essex business secure an agreement to set up a waste treatment facility in Jiangsu.

For Essex International, the view is that inward investment from Jiangsu is likely to increase: this is in part because of the depth and quality of linkages that now exist and in part because Chinese businesses are now at a position in their own growth trajectories where internationalisation is an obvious next step.

Future service development plans

In recent years Essex County Council has begun charging income to cover as much of its costs as possible. With growing levels of income being derived from this source, the Council anticipates that by the end of 2012/13 fee income will cover the cost of its one-person office in Nanjing.

Essex International is a relatively small organisation. Increasingly, its activities are funded from sources other than Essex County Council and the intention is to growth these further. Nevertheless, the links to Essex County Council – across a range of service areas – continue to be strong.

Based on a discussion with Peter Manning, Head of International Trade, Essex International – and amended in the light of an email exchange

27th April 2012 (updated 29th May 2012)

Name of LA area: **Staffordshire county council**

Local context

With a population of over 800 thousand people, Staffordshire is a large and diverse local authority with significant rural areas – parts of the National Forest lie within its boundaries – as well as urban and industrial centres such as Tamworth, Cannock and Stafford. The local authority area surrounds Stoke-on-Trent, the largest city in Staffordshire, which is governed separately by a City Council. Together, the population of Staffordshire and Stoke-on-Trent reaches over 1m.

Historically, the county has been one of the UK's main manufacturing bases with large reserves of clay, rich iron ore deposits, and large coalfields. With its central UK location, it boasts unrivalled connectivity to all parts of the UK and Europe: the County sits in close proximity to key road networks (such as the M6, M1 and M54), rail networks (London can be reached in an hour and twenty minutes from Stafford station - and Stoke-on-Trent, Birmingham and Manchester stations are close by) and airports (Birmingham, Manchester, East Midlands and Liverpool). Today manufacturing still makes up around 13% of all employment and almost a fifth of all economic output: Staffordshire remains a primary location for domestic and overseas manufacturing investment.

Service description

Staffordshire's current approach to driving prosperity has been developed over the past year by the council's Deputy CEO and Director of Place, Dr. Catherine Raines. As part of her accountabilities, the inward investment service "Make It! Stoke-on-Trent and Staffordshire", is a merged service working across the County and the City, with currently around ten staff financed through a combination of local authority and European Union funds. The Stoke-on-Trent and Staffordshire Local Enterprise Partnership (LEP) has been an important champion, supporting the merger of the two previous local authority inward investment teams.

The new service's approach mirrors the drive to achieve a wider shift in the council's role from a delivery focused organisation to a 'prosperity enabling organisation'. This is encapsulated by the 'Prosperity Wheel' – a concept developed by Raines and her team which, in broad terms will focus development onto the unique strengths of each economic geography to achieve a clear and agreed vision of the desired economic future for the area. For the inward investment team, this will provide a focus for the types of businesses that should be targeted and has already enabled tailored support packages to be developed to meet the requirements of these firms.

Inquires come into the investment team through marketing supported through Make It Stoke-on-Trent and Staffordshire, as well as through UKTI and other sources. Potential inward investors are allocated a dedicated account manager at the point of initial inquiry, who remains the key contact for the investor through the entire investment process - and, following location in the area, for aftercare support. Account managers provide a full spectrum of tailored support including facilitating site visits, providing local knowledge of the area and its skills base, discussing infrastructure requirements, including support with negotiation of infrastructure funding, navigation of the planning system, funding access (e.g. Regional Growth Fund and Growing Places Fund).

Key successes

In 2011/12 Staffordshire and Stoke-on-Trent managed to secure over 2,000 private sector jobs through inward investment, the highlight being Jaguar Land Rover's £355m Staffordshire plant, which will create 750 jobs, and which was approved by South Staffordshire District Council in December 2011. This level of employment creation was reported as being the highest in the country and four times the number of inward investment jobs created by London.

The Jaguar Land Rover investment was secured in September 2011 when the owner, Indian firm Tata, committed to a £355billion investment to build low-emission engines at the "i54 South Staffordshire" site. Securing the investment involved close joint working between the County Council, South Staffordshire District Council, Wolverhampton City Council, and the Homes and

Communities Agency, who had recently acquired the land from the former Regional Development Agency, Advantage West Midlands. Key to securing the investment was a decision, made within a week via an emergency Cabinet meeting, by Staffordshire County Council and Wolverhampton City Council jointly to fund a new £45m junction from the M6 to the “i54 South Staffordshire” site, the expectation being that this will be recouped through business rates from the site, which is a designated “Enterprise Zone”.

The successful inward investment of French mineral water company Roxane in Lichfield provides another example of good practice. Needing to find a location to process and distribute mineral water throughout the UK, Roxane was persuaded of the benefits of locating in Staffordshire through a combination of support including site selection, assistance with securing appropriate utilities provision, and guidance and support in securing planning permission (including use of an unused aircraft-hangar). It was reported that the site has recently installed specialist production machinery that will enable the plant to process 60,000 bottles of water an hour.

Future service development plans

Having worked in the private sector for over 20 years, in the UK, USA, Sweden and China, Raines brings extensive experience of the needs of businesses looking to locate overseas. She hopes her experience will help to shape the ability of her teams to understand the needs of business not only in terms of land and connectivity but also in terms of the availability of supply chain, skills, housing, R&D and innovation.

The overarching target for the inward investment team is to bring in 50,000 new jobs over the next ten years. Whilst it is recognised that this is an extremely ambitious target, with the investment team now fully established, coupled with the successes of 2011/12 which made the sub-region the UK leader for jobs from inward investment, Staffordshire and Stoke-on-Trent are holding this ambition firmly within their sights.

Based on a discussion with Dr. Catherine Raines, Deputy CEO, Staffordshire County Council

30th March 2012 (updated 14th June 2012)

Name of LA area: **Liverpool City Council**

Local context

With a population of around 450,000 Liverpool City is the largest of five boroughs which make up Merseyside Metropolitan County. Steeped in industrial, cultural, and sporting history, Liverpool enjoyed major economic success through the 19^{th} century due, in large part, to its status as a major world port, as well as severe economic decline as deindustrialisation, air freight and the containerisation of trade took hold in the 1970s. Over the last 20 years Liverpool has again reinvented itself and, through a programme of major regeneration and economic diversification has experienced growth rates higher than the UK average.

Today, despite continuing economic structural issues and severe deprivation in a number of areas, Liverpool remains one of the UK's best known cities across the world whilst its port remains a significant resource for supporting international trade.

Service description

As is the case in many local authorities, support for firms wanting to export products and services is provided by the local Chamber of Commerce. The Liverpool Chamber has a longstanding relationship with Liverpool City Council, Liverpool Vision, the council's arms-length economic development organisation that is also responsible for inward investment support activities, and local Councillors. The Chamber also sits on a working partnership called the Chambers of Commerce on Merseyside in International Trade (COMIT). Local UKTI International Trade Advisors also sit on COMIT.

Funded through a combination of membership, sponsorship, service fee, and UKTI funds, the Chamber offers four main types of international trade support: processing and issuing the certificates required to export products and services; training sessions every month covering all aspects of developing export markets; one/two events per month covering specific issues (e.g. the Bribery Act); and servicing individual export inquiries from SMEs.

The Chamber also acts as the north west hub for the national British Chambers of Commerce (BCC) led Link to China programme. The programme originated from an ex-Liverpool Chamber staff member who has subsequently left to become the Chief China Advisor for BCC. The Link to China programme offers SMEs a wide range of free and fee-based advice and support regarding exporting to China. Liverpool has an historic twinning arrangement with Shanghai and has always enjoyed a steady flow of trade to and from China. With strong and growing creative and digital sector in Liverpool, it was reported that the city is currently enjoying strong export demand from Chinese firms wanting to buy-in the manufacturing innovation and design expertise that this sector offers.

Key successes

Liverpool Chamber's close working relationship with the City Council, COMIT, and UKTI enables the organisation to provide a seamless and wide-range of free and fee-based support to both Chamber members and non-members. An example of the success brought about through this close working relationship is provided below.

In the winter of 2011, Liverpool hosted a Russian delegation of major construction and transport businesses who wanted to learn from Liverpool's physical and economic redevelopment over the past decade from a 'mono-city' dependent almost solely on its port, to a city demonstrating economic diversification. Through joint working between the Chamber and Liverpool Vision, local firms were given the opportunity to meet with the delegation. As a result, one Liverpool based firm has already agreed a substantial contract to supply specialist environmental construction services to one of the Russian firms, and it is hoped that more will contracts will follow.

Future service development plans

Peel Ports, the owner of Liverpool's port is currently taking forward plans to improve the infrastructure at the port to allow 'post Panamax' ships into the port. As a result, the cost of shipping to and from Liverpool via these ships, which currently have to port at Southampton and Felixstowe, will fall significantly making the city a more attractive UK export and import hub.

Supporting this development will be the Peel International Trade Centre on the Wirral Waters development on Birkenhead Docks. With planning permission granted and support from UKTI and surrounding local authorities, the centre, which is due to open in 2014, will include trade showrooms to display, promote and sell wholesale products to customers from the UK and Europe.

The international trade service at the Chamber recognise that this as a major opportunity for Liverpool firms to continue to develop their export markets and are currently planning future service support to ensure that this opportunity is maximised.

Based on a discussion with Sian Williams, International Trade Support Officer, Liverpool Chamber of Commerce

20th April 2012 (updated 12th June 2012)

Name of LA area: **Birmingham City Council**

Local context

With a population of over 1m Birmingham is the UK's second largest city and has the largest local authority in the country. In terms of economic history, Birmingham played a key role in the industrial revolution in the 18th century, and by the 19th century was recognised as a global manufacturing production and innovation hub. Deindustrialisation in the later part of the 20th century hit Birmingham's economy particularly hard leading to significant levels of structural unemployment across the city. However, with unrivalled connectivity to the UK's rail and road network, access to a large workforce, and established infrastructure Birmingham remains one of the UK's commercial centres. Birmingham has, and continues to, invest heavily in the physical regeneration of its city centre, and with a 20 year 'Big City Plan', and planned transport improvements such as the introduction of High Speed 2 (HS2) the city is likely to see growing interest from inward investors in the future.

Service description

Marketing Birmingham, the city's strategic marketing partnership, operates the city's leisure and business tourism programmes – Visit and Meet Birmingham – as well as its inward investment programme, Business Birmingham. The company is funded by the public and private sectors, including Birmingham City Council, European Regional Development Funding and some 400 local companies.

Business Birmingham is the city's official inward investment programme, part of Marketing Birmingham's destination marketing strategy. Supported by the European Regional Development Fund, Business Birmingham aims to position Birmingham, the Black Country and Solihull as leading inward investment locations in the UK and major engines of UK growth.

The programme is led by the Investment Director, whilst other staff include three Senior Business Development Managers, four support staff (who work across Marketing Birmingham) to help in the development of business propositions, as well a central PR and support services. The organisation also has a number of 'Lead Generators' who work on a sub–contractor basis to identify inward investment opportunities overseas.

Whilst Business Birmingham does not have a representative on the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP), it works very closely with the body and is currently working with the GBSLEP to develop an economic strategy for the region. Business Birmingham also has close ties with UKTI and, through the GBSLEP, has signed a Memorandum of Understanding to feed local leads into the national inquiry database. Business Birmingham is also recognised by UKTI as the principal supplier of support services in the city. Services include: business networking, data intelligence, relocation advice, labour market advice, personal support on issues such as local schools and recreation, familiarisation tours, legislation and tax advice, and access to funding.

In its first full-year of operation Business Birmingham has developed a new, more focused and targeted approach to encouraging inward investment. Recognising that UKTI has limited resources, and that in the past Birmingham, and the sectors that it has the potential to attract, have possibly not been at the forefront of national inward investment strategy, Business Birmingham has undertaken research to identify key target sectors and develop bespoke marketing plans to attract businesses operating within them. These key sectors, which have also been selected due to their potential to provide high volumes of jobs, an agreed economic priority for Birmingham, are logistics, food and drink, and large-scale ICT.

The organisation has also spent time assessing its key historical and prospective sources of inward investment and, as a result, has stated an intention to focus activity on four markets: North America, Germany, India, and other UK firms.

Key successes

In its first year of operation, and whilst the strategy and action plan for targeted inward investment has been in development, Business Birmingham has taken a ‘back to basics’ approach – focusing efforts on its key historical markets (especially North America) and selling the ‘Big City Plan’ as a major opportunity for inward investors. Within this, key successes have included:

- Whilst North America has historically provided the primary source of inward investment into Birmingham, the city had seen this fall from a high of around 60% to around 15% in 2010/11. Through the re-focusing of marketing efforts, around 45% of all completions and pipeline opportunities in 2011/12 were from North America, and it is anticipated that flows of investment from the continent will continue to increase over 2012/13.
- Business Birmingham has been working closely with Indian ICT firm, FIS Global, which has been operating an arm of its business from Birmingham for a number of years, to locate additional Indian-based teams at its Birmingham site. This has led to an additional 250 posts transferring into the city which in time will create substantial local employment opportunities.
- By marketing the opportunities flowing from the redevelopment of the city centre, Business Birmingham have recently supported the large Swedish construction and real estate firm Skanska to locate in Birmingham bringing with it 50 jobs as well as potentially significant local supply-chain benefits.

Future service development plans

The long term goal for Business Birmingham is to work with partners to ensure that the city is able to secure a level of inward investment that is commensurate with its size.

The Greater Birmingham and Solihull LEP has a target of bringing about an additional 100,000 jobs in the region over the next five years – Business Birmingham is determined that jobs created through inward investment play a significant role in the achievement of this target. As part of this, there is a determination to ensure that Birmingham‘s ‘soft infrastructure’ or ‘attractor products’ (i.e. its R&D offer, access to finance, and skills and training services) are globally competitive and complement the rail, road and connectivity infrastructure that Birmingham already has in place.

Based on a discussion with Wouter Schuitemaker, Investment Director, Marking Birmingham Ltd

28th May 2012 (updated 7th June 2012)

Annex B: Secondary data analysis

International trade data

B.1 UKTradeInfo provide the most up to date data on trade statistics by region. The HM Revenue and Customs (HMRC) introduced the series in 1999 and these statistics provide a breakdown of the flows of imports and exports between regions of the UK and other countries. Data is taken from the Customs system (for all non-EU trade) and the Intrastat survey (for EU trade).

B.2 HM Revenue and Customs does not receive information in respect to goods which move within the UK and so it is not possible to look at the value of exports against all outputs for the region. The Regional Trade Statistics includes all merchandise trade and excludes trade in services (e.g. banking and tourism) and intangibles (e.g. financial investments) and so it is not possible to provide a breakdown by sector on these.

B.3 The data is collected by all VAT-registered businesses at the postcode of registration and there is no mechanism in place to collect information on trade movements of traders who are not VAT registered. The information of VAT registered businesses comes from the HMRC Departmental Trader Register which is updated monthly.

B.4 Value of exports refers to the statistical value in pounds sterling of trade at nominal prices.

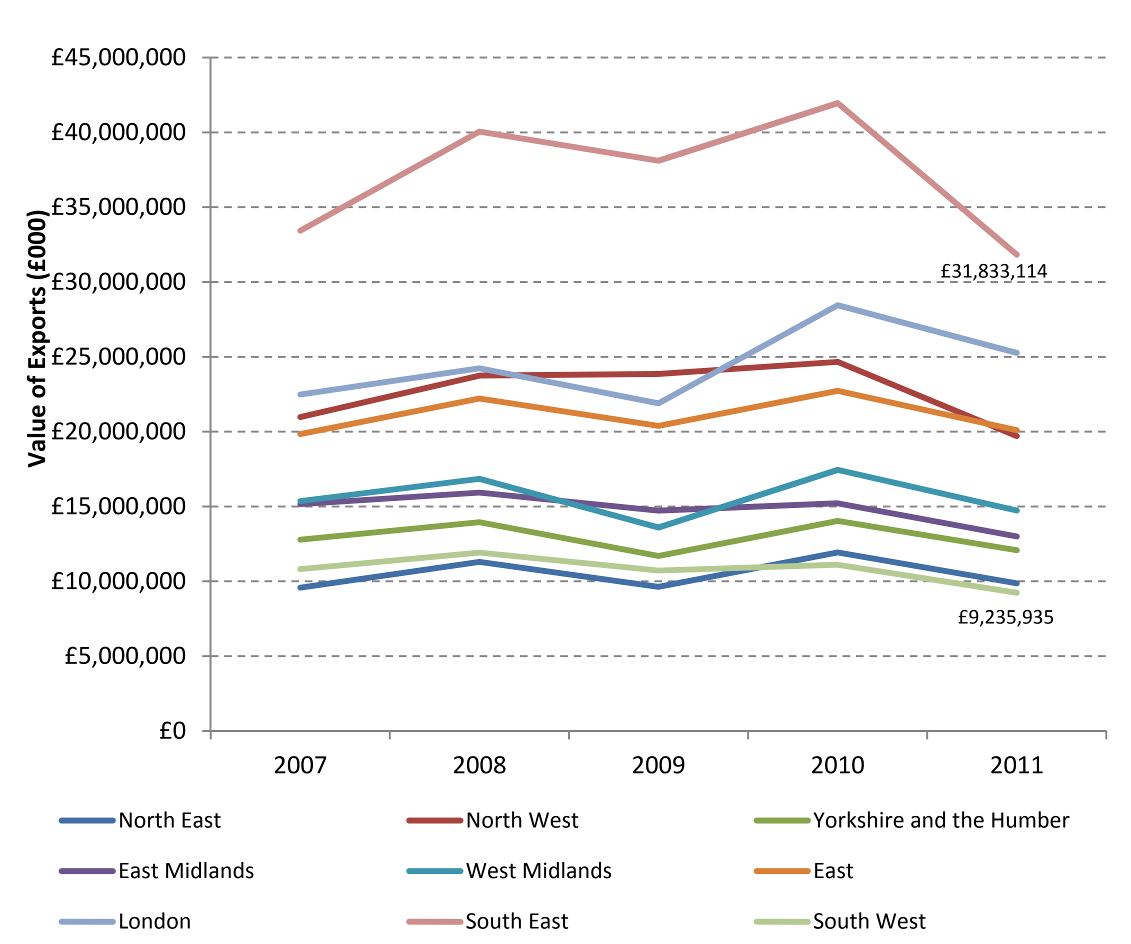
B.5 Exports are the supply of goods to a place outside of the UK as defined as a direct export by the HMRC.

Value of exports to English regions

B.6 In 2011 the total value of exports from the nine English regions was £155.81 billion. Exports from the South East region accounted for the greatest share of all exports from England (20.4%) and the South West the smallest share (5.9%). Figure B-1 shows the total value of exports for each of the nine English regions for the five year period 2007-2011:

- the total values of exports from the nine English regions in 2011 were the lowest since 2007.
- over the period exports from the South East have consistently accounted for the greatest share of all exports from England, although this gap has narrowed in recent years.

Figure B-1: Value of Exports (£000) for all English regions (2007-2011)



Source: SQW Analysis of UK TradeInfo data

Table B-1: Value of Exports (£000) for all English regions (2007-2011)

	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	East	London	South East	South West
2007	£9,576,671	£20,980,210	£12,789,609	£15,153,875	£15,366,237	£19,846,926	£22,478,752	£33,433,248	£10,815,450
2008	£11,302,928	£23,740,869	£13,952,422	£15,922,998	£16,843,787	£22,216,570	£24,233,117	£40,053,734	£11,917,434
2009	£9,628,791	£23,846,778	£11,693,278	£14,724,579	£13,599,081	£20,390,293	£21,896,250	£38,108,043	£10,717,693
2010	£11,923,889	£24,659,121	£14,039,225	£15,209,994	£17,450,472	£22,732,301	£28,445,924	£41,955,580	£11,100,322
2011	£9,869,637	£19,704,095	£12,079,757	£12,994,953	£14,728,408	£20,103,176	£25,261,859	£31,833,114	£9,235,935

Source: UK TradeInfo data

Significance of China and India to English regions

B.7 Table B-2 shows the significance of China and India exports in 2011 as a percentage of all exports:

- In 2011 the total value of exports to China accounted for 3.5% of all exports out of the English regions. Exports to China from the West Midlands region were the most significant, accounting for 23.0% of all exports out of England to China and 8.5% of all exports out of the region.
- The total value of exports to India accounted for 2.2% of all exports out of the English regions. Exports to India from the London region were the most significant, accounting for 53.2% of all exports out of England to India and 7.2% of all exports out of the region.

Table B-2: Total Value (£000) of Exports 2011

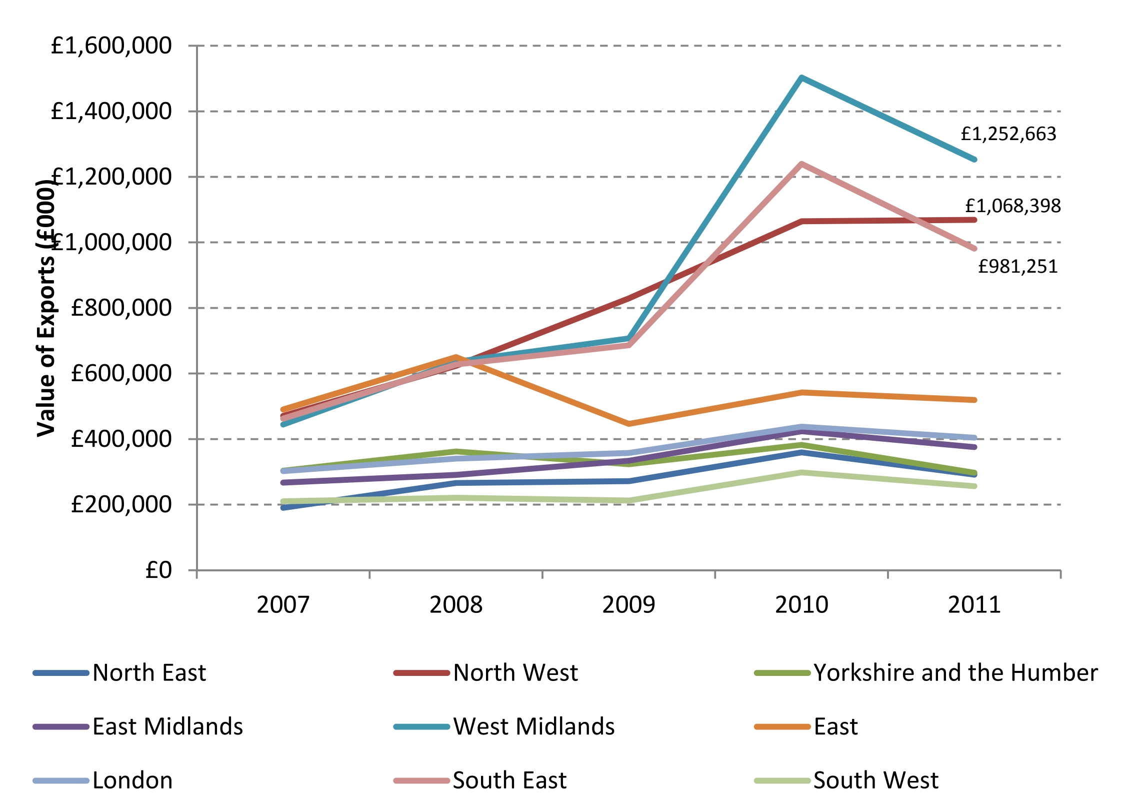
	All Countries	China	% of all exports	India	% of all exports
North East	£9,869,637	£291,717	3.0%	£62,437	0.6%
North West	£19,704,095	£1,068,398	5.4%	£274,966	1.4%
Yorkshire and the Humber	£12,079,757	£297,106	2.5%	£133,889	1.1%
East Midlands	£12,994,953	£375,706	2.9%	£220,070	1.7%
West Midlands	£14,728,408	£1,252,663	8.5%	£255,569	1.7%
East	£20,103,176	£519,212	2.6%	£211,173	1.1%
London	£25,261,859	£404,252	1.6%	£1,811,185	7.2%
South East	£31,833,114	£981,251	3.1%	£316,121	1.0%
South West	£9,235,935	£256,242	2.8%	£117,938	1.3%

Source: SQW Analysis of UK TradeInfo data

B.8 Figure B-2 shows the total value of exports to China for each of the nine English regions during the five year period 2007-2011:

- Over the period, the value of exports to China has increased. The total value of exports from the nine English regions to China in 2011 was £5.4billion this was the second highest value since 2007.
- In 2007 the Eastern region accounted for the highest value of exports to China, exports from this region have declined over the period and in 2011 exports from the West Midlands, North West and South East accounted for the highest value of exports.

Figure B-2: Value of Exports (£000) to China for all English regions (2007-2011)



Source: SQW Analysis of UK TradeInfo data

Table B-3: Value of Exports (£000) to China for all English regions (2007-2011)

	North East	North West	York-shire and the Humber	East Mid-lands	West Midlands	East	London	South East	South West
2007	£190,203	£470,841	£303,795	£267,172	£444,507	£490,332	£302,338	£462,534	£209,888
2008	£265,849	£623,699	£362,313	£290,524	£635,960	£649,765	£340,283	£627,394	£220,604
2009	£271,271	£829,265	£323,443	£334,071	£706,928	£446,326	£357,315	£686,070	£212,371
2010	£359,611	£1,064,389	£382,452	£423,878	£1,502,865	£542,081	£438,055	£1,239,387	£298,138
2011	£291,717	£1,068,398	£297,106	£375,706	£1,252,663	£519,212	£404,252	£981,251	£256,242

Source: UK TradeInfo data

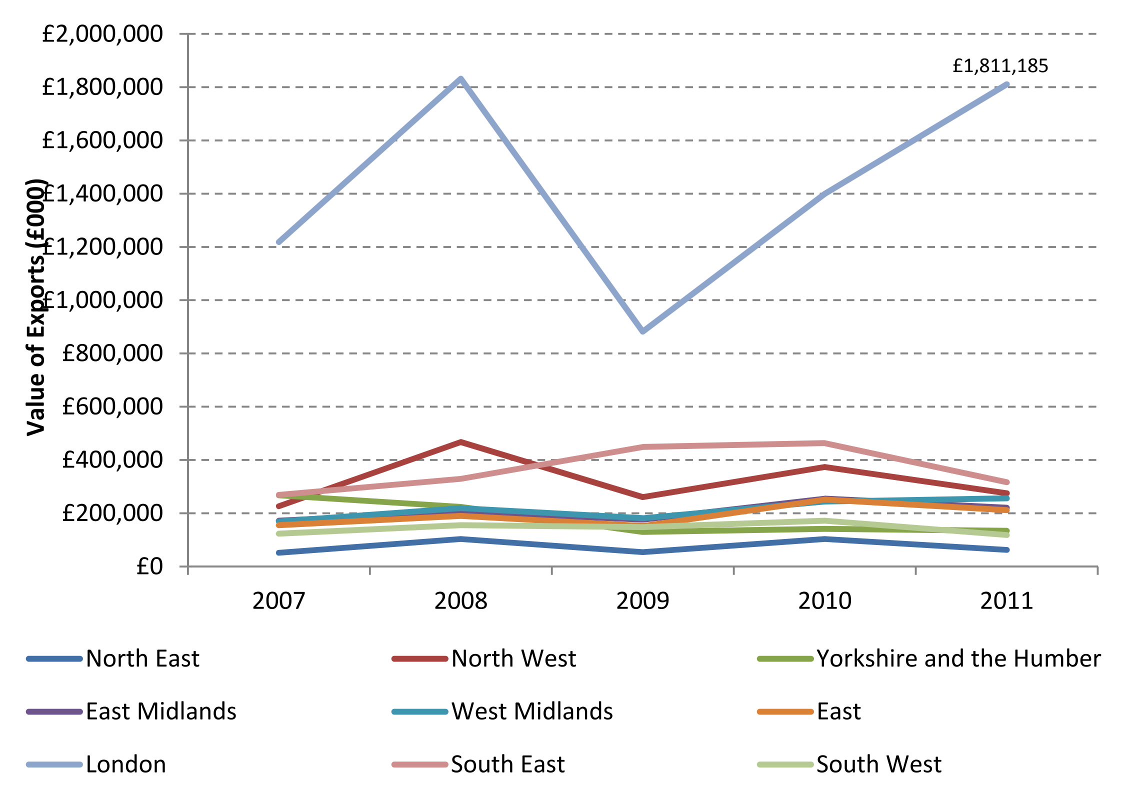
B.9 Exports from the London region have consistently accounted for the greatest share of all exports from England and since 2007 the gap between the London and all other regions has widened.

B.10 Figure B-3 shows the total value of exports to India for each of the nine English regions during the five year period 2007-2011:

- Over the period, the value of exports to India has increased. The total value of exports from the nine English regions to India in 2011 was £3.4billion; this was the highest value since 2007.

- Exports from the London region have consistently accounted for the greatest share of all exports from England and since 2007 the gap between the London and all other regions has widened.

Figure B-3: Value of Exports (£000) to India for all English regions (2007-2011)



Source: SQW Analysis of UK TradeInfo data

Table B-4: Value of Exports (£000) to India for all English regions (2007-2011)

	North East	North West	York-shire and the Humber	East Mid-lands	West Mid-lands	East	London	South East	South West
2007	£51,637	£226,136	£266,953	£171,673	£168,916	£154,981	£1,218,410	£268,698	£122,960
2008	£103,195	£467,522	£223,730	£205,119	£219,194	£189,777	£1,831,762	£328,831	£154,498
2009	£54,056	£260,317	£129,627	£175,743	£181,109	£151,926	£881,705	£448,367	£147,268
2010	£102,971	£373,265	£141,175	£254,250	£243,723	£251,166	£1,399,130	£463,053	£171,863
2011	£62,437	£274,966	£133,889	£220,070	£255,569	£211,173	£1,811,185	£316,121	£117,938

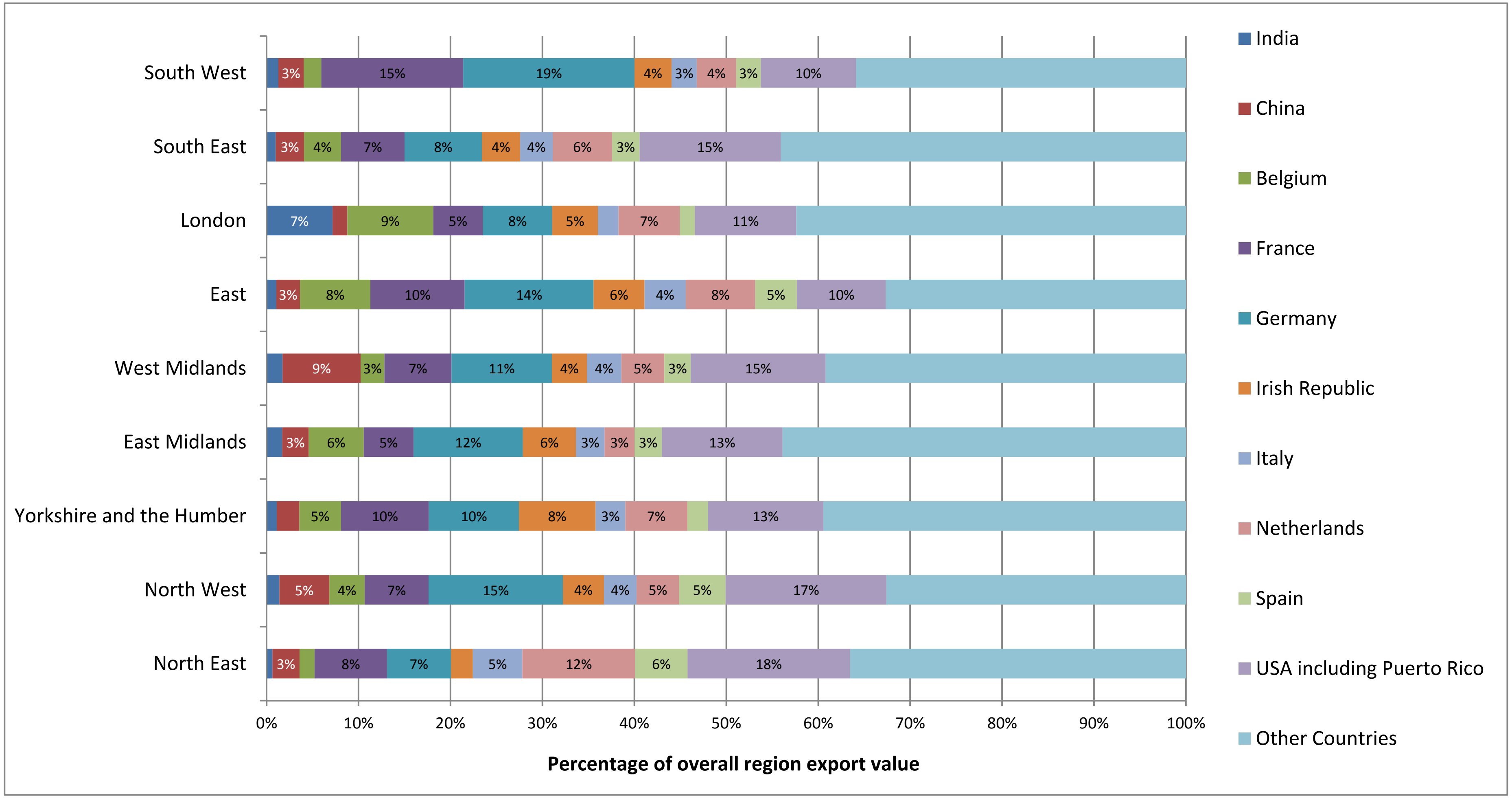
Source: UK TradeInfo data

Exports by Country

B.11 Figures A-4 and A-5 shows the percentage of regional exports by country for 2011 and 2007 for comparison. The charts show those countries where export value accounted for more than 2% in every English region and compares these with China and India.

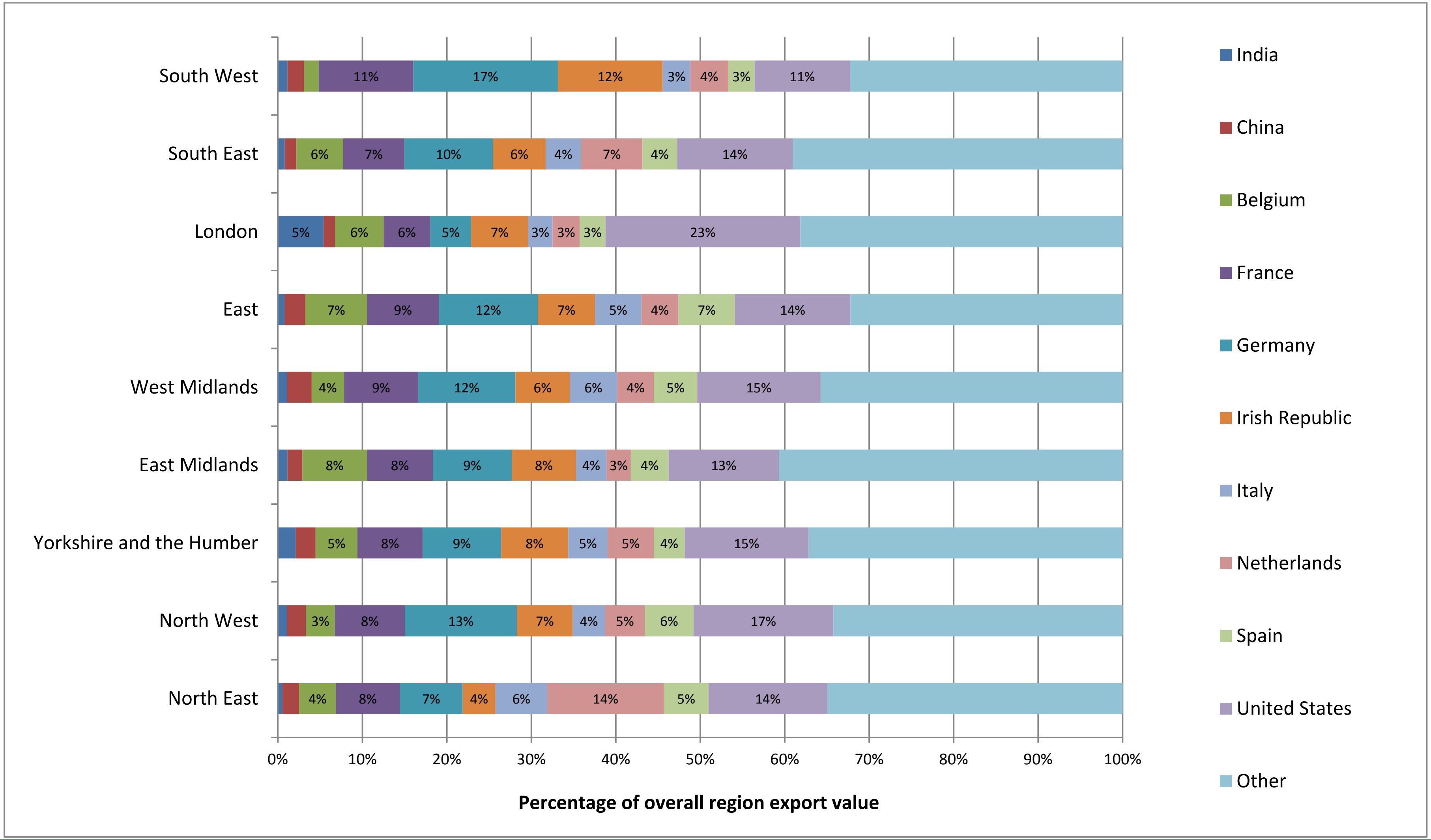
B.12 Exports to the United States accounted for 15% of all exports from England in 2007 and 13.6% in 2011. The US accounted for the greatest share of exports to one single country from eight out of nine of the English regions in 2007 and seven out of nine in 2011. The exceptions to this were in the South West (17% in 2007 and 19% in 2011) and East (14% in 2011) where the greatest share of exports to one single country went to Germany.

Figure B-4: Percentage of region export value by country (2011)



Source: SQW Analysis of UK TradeInfo data

Figure B-5: Percentage of region export value by country (2007)



Source: SQW Analysis of UK TradeInfo data

Table B-5: Percentage of region export value by country (2007)

2007	**North East**	**North West**	**Yorkshire and the Humber**	**East Midlands**	**West Midlands**	**East**	**London**	**South East**	**South West**
India	1%	1%	2%	1%	1%	1%	5%	1%	1%
China	2%	2%	2%	2%	3%	2%	1%	1%	2%
Belgium	4%	3%	5%	8%	4%	7%	6%	6%	2%
France	8%	8%	8%	8%	9%	9%	6%	7%	11%
Germany	7%	13%	9%	9%	12%	12%	5%	10%	17%
Irish Republic	4%	7%	8%	8%	6%	7%	7%	6%	12%
Italy	6%	4%	5%	4%	6%	5%	3%	4%	3%
Netherlands	14%	5%	5%	3%	4%	4%	3%	7%	4%
Spain	5%	6%	4%	4%	5%	7%	3%	4%	3%
United States	14%	17%	15%	13%	15%	14%	23%	14%	11%
Other	35%	34%	37%	41%	36%	32%	38%	39%	32%

Source: SQW Analysis of UK TradeInfo data

Table B-6: Percentage of region export value by country (2011)

2011	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	East	London	South East	South West
India	1%	1%	1%	2%	2%	1%	7%	1%	1%
China	3%	5%	2%	3%	9%	3%	2%	3%	3%
Belgium	2%	4%	5%	6%	3%	8%	9%	4%	2%
France	8%	7%	10%	5%	7%	10%	5%	7%	15%
Germany	7%	15%	10%	12%	11%	14%	8%	8%	19%
Irish Republic	2%	4%	8%	6%	4%	6%	5%	4%	4%
Italy	5%	4%	3%	3%	4%	4%	2%	4%	3%
Netherlands	12%	5%	7%	3%	5%	8%	7%	6%	4%
Spain	6%	5%	2%	3%	3%	5%	2%	3%	3%
United States	18%	17%	13%	13%	15%	10%	11%	15%	10%
Other	37%	33%	39%	44%	39%	33%	42%	44%	36%

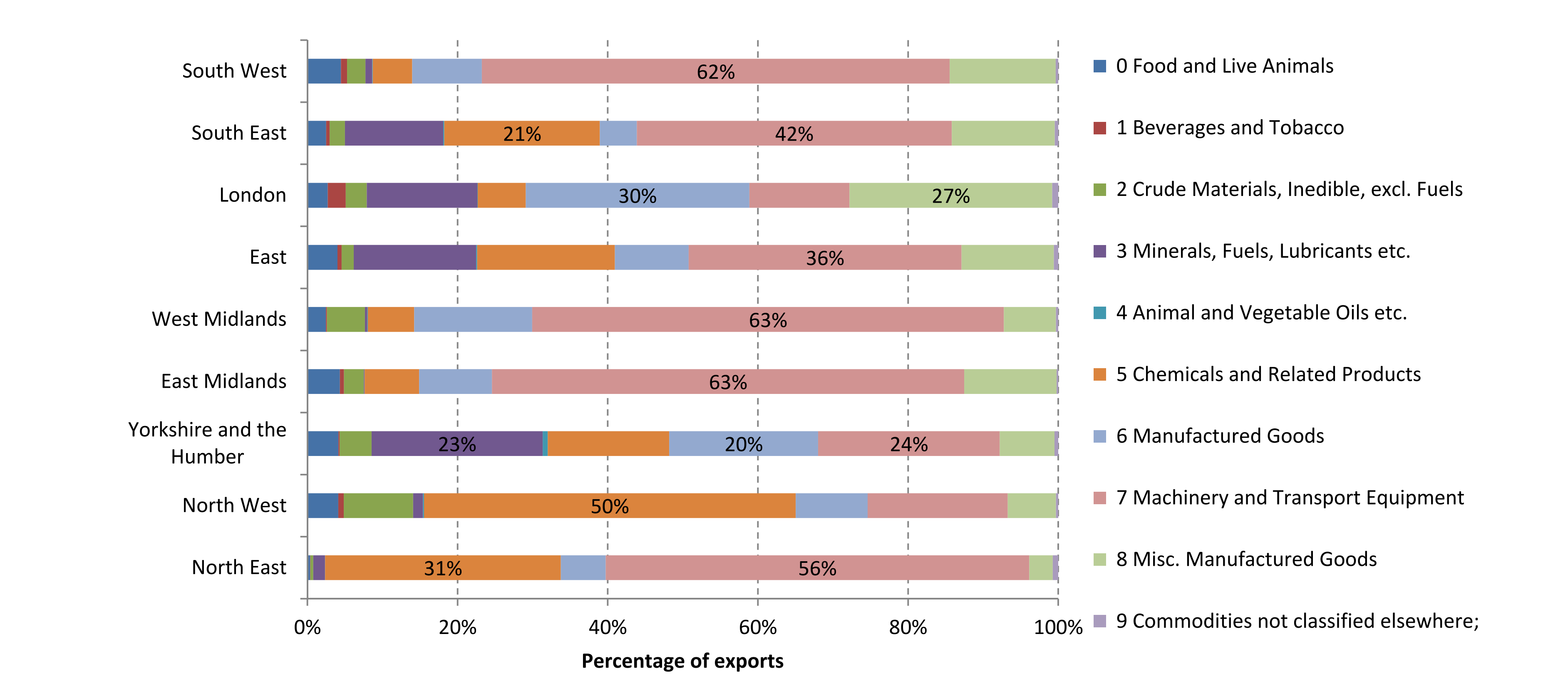
Source: SQW Analysis of UK TradeInfo data

Exports by sector

B.13 Figure B-6 shows the percentage of regional exports by sector for 2011.

B.14 Machinery and transport equipment exports accounted for 13.2% of all exports from England and the greatest share of all exports out of the region for eight of the nine regions. The exception to this was in the North West where Chemicals and related products accounted for the greatest share of exports from the region (50%).

Figure B-6: Percentage of region export value by sector (2011)



Source: SQW Analysis of UK TradeInfo data

Table B-7: Percentage of region export value by sector (2011)

	Food and Live Animals	Beverages and Tobacco	Crude Materials, Inedible, excl. Fuels	Minerals, Fuels, Lubricants etc.	Animal and Vegetable Oils etc.	Chemicals and Related Products	Manufactured Goods	Machinery and Transport Equipment	Misc. Manufactured Goods	Commodities not classified elsewhere;
North East	0%	0%	0%	2%	0%	31%	6%	56%	3%	1%
North West	4%	1%	9%	1%	0%	50%	10%	19%	6%	0%
Yorkshire and the Humber	4%	0%	4%	23%	1%	16%	20%	24%	7%	0%
East Midlands	4%	1%	3%	0%	0%	7%	10%	63%	12%	0%
West Midlands	2%	0%	5%	0%	0%	6%	16%	63%	7%	0%
East	4%	1%	2%	16%	0%	18%	10%	36%	12%	1%
London	3%	2%	3%	15%	0%	6%	30%	13%	27%	1%
South East	3%	0%	2%	13%	0%	21%	5%	42%	14%	0%
South West	4%	1%	2%	1%	0%	5%	9%	62%	14%	0%

Source: SQW Analysis of UK TradeInfo data

B.15 The following tables look in detail at the sector breakdown at those regions which export the greatest amount in terms of value of all exports from the region to India (London – 7%) and China (West Midlands – 9% and North West – 5%).

B.16 Table B-8 shows that 88% of the exports from London to India and 10% of all exports from London are to India's manufactured goods sector.

Table B-8: Value of exports (£000) by sector from London to India

	Food and Live Animals	Beverages and Tobacco	Crude Materials, Inedible, excl. Fuels	Minerals, Fuels, Lubricants etc.	Animal and Vegetable Oils etc.	Chemicals and Related Products	Manufactured Goods	Machinery and Transport Equipment	Misc. Manufactured Goods	Commodities not classified elsewhere;
Value	4,768	1,074	138,770	49,046	13	12,751	2,306,049	78,786	31,594	7
Percentage of all exports	0%	0%	5%	2%	0%	0%	88%	3%	1%	0%

Source: SQW Analysis of UKTradeInfo data

B.17 Table B-9 shows that 80% of the exports from the West Midlands to China are in the machinery and transport equipment sector.

Table B-9: Value of exports (£000) by sector from West Midlands to China

	Food and Live Animals	Beverages and Tobacco	Crude Materials, Inedible, excl. Fuels	Minerals, Fuels, Lubricants etc.	Animal and Vegetable Oils etc.	Chemicals and Related Products	Manufactured Goods	Machinery and Transport Equipment	Misc. Manufactured Goods	Commodities not classified elsewhere;
Value	286	15	250,387	1,251	4	19,560	60,174	1,534,968	51,825	3
Percentage of all exports	0%	0%	13%	0%	0%	1%	3%	80%	3%	0%

Source: SQW Analysis of UKTradeInfo data

B.18 Table B-10 shows that the exports from the North West to China are split between three main sectors; crude materials (35%), chemicals and related products (30%) and machinery and transport (27%).

Table B-10: Value of exports (£000) by sector from North West to China

	Food and Live Animals	Beverages and Tobacco	Crude Materials, Inedible, excl. Fuels	Minerals, Fuels, Lubricants etc.	Animal and Vegetable Oils etc.	Chemicals and Related Products	Manufactured Goods	Machinery and Transport Equipment	Misc. Manufactured Goods	Commodities not classified elsewhere;
Value	5,631	155	504,116	319	30	434,746	59,340	387,087	41,348	..
Percentage of all exports	0%	0%	35%	0%	0%	30%	4%	27%	3%	..

Source: SQW Analysis of UKTradeInfo data

Inward Investment

B.19 Foreign Direct Investment refers to "investment that adds to, deducts from, or acquires a lasting interest in an enterprise operating in an economy other than that of the investor; the investor's purpose being to have an "effective voice" in the management of the enterprise"[9].

B.20 ONS conduct a FDI Survey to measure "the flows of investment, earnings from investment and the international investment positions for UK businesses' affiliates abroad (outward) and conversely foreign businesses' affiliates in the UK (inward)" [10]. The ONS survey is the only UK source of data that conforms to FDI international definitions [11].

B.21 For the purposes of the ONS survey, an investors "effective voice" is taken as equivalent to a holding of 10% or more of the ordinary shares or voting power for any incorporated subsidiary or associate enterprises or the equivalent for unincorporated branch enterprises. This is an internationally recognised definition taken from the International Monetary Fund (IMF). The ONS survey does not cover the portfolio investor's voice; this is where the investor does not have an effective voice in the management of the enterprise.

B.22 All investment figures which ONS publishes on a net basis consist of money invested into an enterprise by the parent company net of disinvestments by a company into its subsidiaries. FDI is not the same as capital expenditure and only covers the money invested into an enterprise by the parent company not expenditure on fixed assets. All figures are in current prices.

[9] Office for National Statistics, 2010. Summary Quality Report for Foreign Direct Investment Annual Surveys Releases[pdf] Available at: < http://www.ons.gov.uk/ons/guide-method/method-quality/quality/quality-information/business-statistics/summary-quality-report-for-foreign-direct-investment-annual-surveys-releases.pdf http://www.ons.gov.uk/ons/dcp171778_245878.pdf > [Accessed 23rd April 2012].
[10] Ibid
[11] Ibid

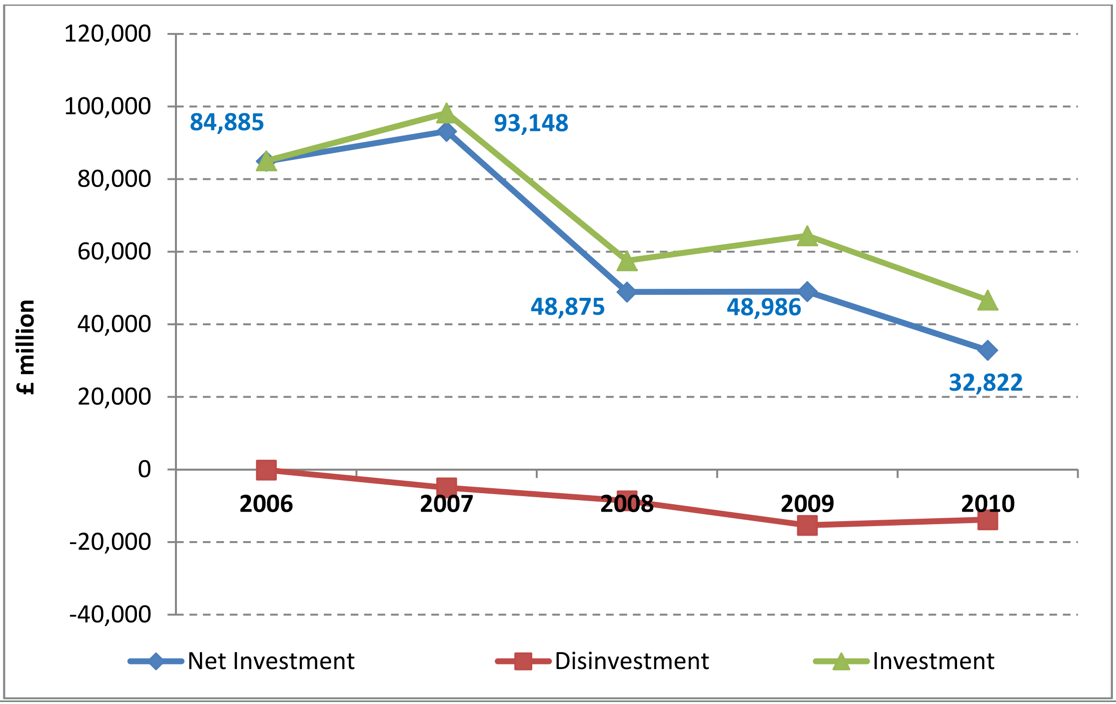
FDI data analysis

B.23 FDI data produced by ONS provides estimates of flows during the year. All figures are published on a net basis, consisting of investments net of any disinvestments. Data on FDI involving UK companies is published each December and includes estimates broken down by continent and country. This consists of the following inward investment data: net flow of direct investment into the UK by foreign companies, inward investment position (direct investment in the UK by foreign companies) and inward earnings (from direct investment by foreign companies into the UK)

FDI Flows

B.24 FDI flows show the inward investments made into the UK. Flows consist of acquisitions/disposal of equity capital, reinvestment of earnings and inter-company debt. Figure B-7 shows the investment, disinvestment and net investment flows into the UK by foreign companies between 2006 and 2010.

Figure B-7: Foreign direct investment flows into the UK by foreign companies (All countries) 2006-2010



Source: SQW analysis of ONS data

Table B-11: Foreign direct investment flows into the UK by foreign companies (All countries) 2006-2010 (£million)

	2006	2007	2008	2009	2010
Net Investment	84,885	93,148	48,875	48,986	32,822
Disinvestment	-146	-5,041	-8,626	-15,405	-13,853
Investment	85,031	98,189	57,501	64,391	46,675

Source: ONS (2011) Foreign Direct Investment involving UK companies, 2010 Release – and SQW analysis

B.25 A total of £32.8 billion was invested in the UK by foreign companies in 2010. This is a decrease of £16.1 billion since 2009 and the lowest level since 2004.

B.26 Table B-12 shows the total net investment flow into the UK from Europe decreased by 94.5% between 2009 and 2010, the lowest investment flow from Europe since records began in 1988[12], and this was made up by several countries disinvestments in companies in the UK.

Table B-12: FDI into the UK by foreign companies by continent (2010)

Continent	Total net investment	
	2009	2010
Europe	32,075	1,751
The Americas	16,774	28,191
Asia	-2,330	5,074
Australasia & Oceania	2,450	-2,372
Africa	18	179
World Total	48,986	32,822

Source: SQW analysis of ONS data
Note: A negative value indicates a net disinvestment to the UK (ie a decrease in the amount due from the UK).

B.27 In contrast, Table B-13 shows a breakdown of investment into the UK by foreign companies by country. Total net FDI investment from the USA was highest in 2010 with £23.3bn invested; this was an increase of 53% from 2009. This largely came from flows of equity capital, with the acquisition of UK companies Cadbury Plc and Pets at Home group[13].

Table B-13: Top 10 origins of FDI into the UK by foreign companies (2010)

	Country	Total net FDI investment (£million)	% of total Net World FDI flow
1	USA	23,283	70.9%
2	Canada	3,405	10.4%
3	Hong Kong	3,041	9.3%
4	Germany	2,921	8.9%
5	UK Offshore Islands [14]	2,873	8.8%

[12] Office for National Statistics, 2011. Foreign Direct Investment involving UK companies 2010 [pdf] Available at: <http://www.ons.gov.uk/ons/rel/fdi/foreign-direct-investment/2010-release/foreign-direct-investment-2010.html> [Accessed 23rd April 2012].
[13] Office for National Statistics, 2011. Foreign Direct Investment involving UK companies 2010 [pdf] Available at: <http://www.ons.gov.uk/ons/rel/fdi/foreign-direct-investment/2010-release/foreign-direct-investment-2010.html> [Accessed 23rd April 2012].
[14] The UK Offshore Islands consist of the Channel Islands & the Isle of Man

	Country	Total net FDI investment (£million)	% of total Net World FDI flow
6	Switzerland	1,854	5.6%
7	Luxembourg	1,708	5.2%
8	Irish Republic	1,296	3.9%
9	Sweden	349	1.1%
10	Belgium	253	0.8%

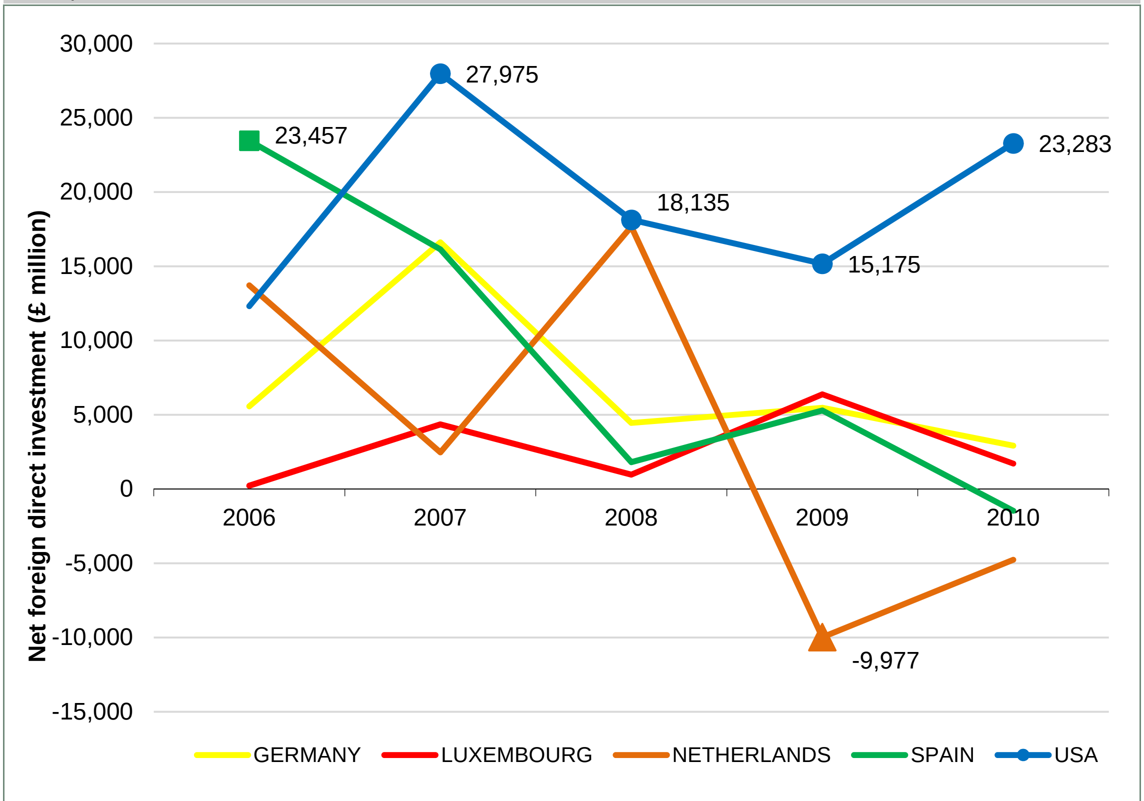
Source: SQW analysis of ONS data

B.28 Figure B-8 takes a look at the average net FDI flows into the UK by foreign companies between 2006 and 2010 and plots the top five contributors. These are USA (£96,881m), Spain (£45,225m), Germany (£35,030m), Netherlands (£19,114m) and Luxembourg (£13,632m).

B.29 The graph shows that:

- Total net FDI investment from Spain was highest in 2006 with £23,457m invested.
- Net FDI investment from the USA was third highest in 2006 with £12,313m invested, this increased by 127% between 2006 and 2007 and since 2007 the USA has been the highest contributor of net FDI to the UK.
- Total net FDI investment from the Netherlands peaked in 2008 with £17,668m invested, this then dropped in 2009 with a £9,977m disinvestment.

Figure B-8: Top 5 foreign direct investment contributors to the UK by foreign companies (average 2006-2010)



Source: SQW analysis of ONS data
Note: A negative value indicates a net disinvestment to the UK (ie a decrease in the amount due from the UK).

Table B-14: Top 5 foreign direct investment contributors to the UK by foreign companies (average 2006-2010) (£million)

	2006	2007	2008	2009	2010
Germany	5,566	16,616	4,454	5,473	2,921
Luxembourg	221	4,349	972	6,382	1,708
Netherlands	13,715	2,471	17,668	-9,977	-4,763
Spain	23,457	16,139	1,807	5,287	-1,465
USA	12,313	27,975	18,135	15,175	23,283

Source: ONS (2011) Foreign Direct Investment involving UK companies, 2010 Release – and SQW analysis

FDI flows – China and India

B.30 Table B-15 show the net FDI flows into the UK by foreign companies in China and India in 2010 and shows their proportion of the total net world FDI flow into the UK. The table shows that India's contribution was higher than that of China with £50 million invested accounting for 0.2% of the total net world FDI flows into the UK. These two countries only account for 0.23% of the total net world FDI flows into the UK by foreign companies, compared to the USA which is the highest contributor with 70.9% of the total world flows.

Table B-15: FDI into the UK by foreign companies (2010):

Country	Total net FDI investment (£million)	% of total Net World FDI flow
CHINA	9	0.03%
INDIA	50	0.20%

Source: SQW analysis of ONS data

B.31 Table B-16 show the net FDI flows into the UK by foreign companies in China and India over the period 2006-2010. The table shows that:

- India's contribution has been consistently higher than that of China in four out of five years.
- £2,638 million was invested into the UK by Indian companies in 2008, accounting for 5% of the total net world FDI flows into the UK by foreign companies. It is unclear as to what this anomaly accounts for because this increased percentage in comparison to other years is still low compared to other countries contributions and so is not highlighted in ONS report. However, it is highly likely that a large proportion of this has come from flows of equity capital, with the acquisition of UK company Jaguar Land Rover by Tata Motors in March 2008.

Table B-16: Foreign direct investment contributions to the UK by Chinese and Indian companies (2006-2010) (£million)

	2006	2007	2008	2009	2010
CHINA	12	16	-20	123	9
INDIA	265	151	2,638	20	50

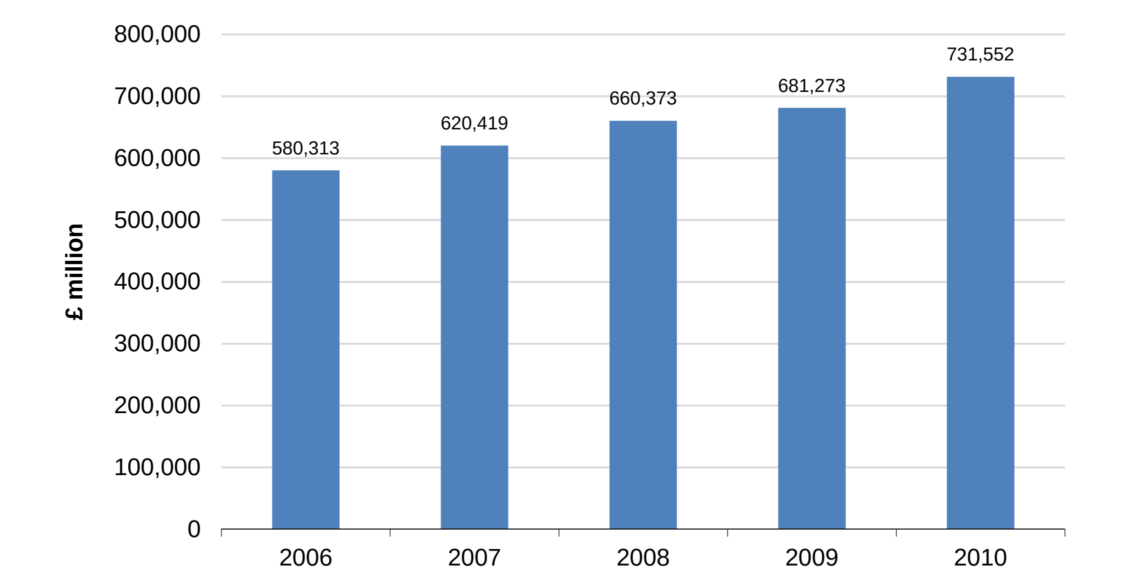
Source: ONS (2011) Foreign Direct Investment involving UK companies, 2010 Release – and SQW analysis

FDI Positions

B.32 FDI 'positions' show information on the total level of investment received from abroad - this data shows the equity or worth of FDI in a company.

B.33 As Figure B-9 shows, the total level of direct investment in the UK by overseas companies by the end of 2010 had increased by £50.3bn from the 2009 position to £731.6bn. This is the largest inward FDI position since 1987 when ONS began collecting position data on an annual basis[15].

Figure B-9: Foreign Direct Investment positions 2006 – 2010



Source: SQW analysis of ONS data

Table B-17: Foreign Direct Investment positions 2006 – 2010

	2006	2007	2008	2009	2010
World Total	580,313	620,419	660,373	681,273	731,552

Source: ONS (2011) Foreign Direct Investment involving UK companies, 2010 Release

A more detailed analysis of FDI flows, positions and earnings by industry

B.34 The Foreign Direct Investment Business Monitor is published each February and includes a more detailed breakdown of FDI by the industry in which the FDI is spent.

Please note, there is a discrepancy between the 2010 total figures above and below: this is because the FDI Business Monitor will be incorporated into revised figures in the December 2012 ONS survey publication.

FDI Flows by industry

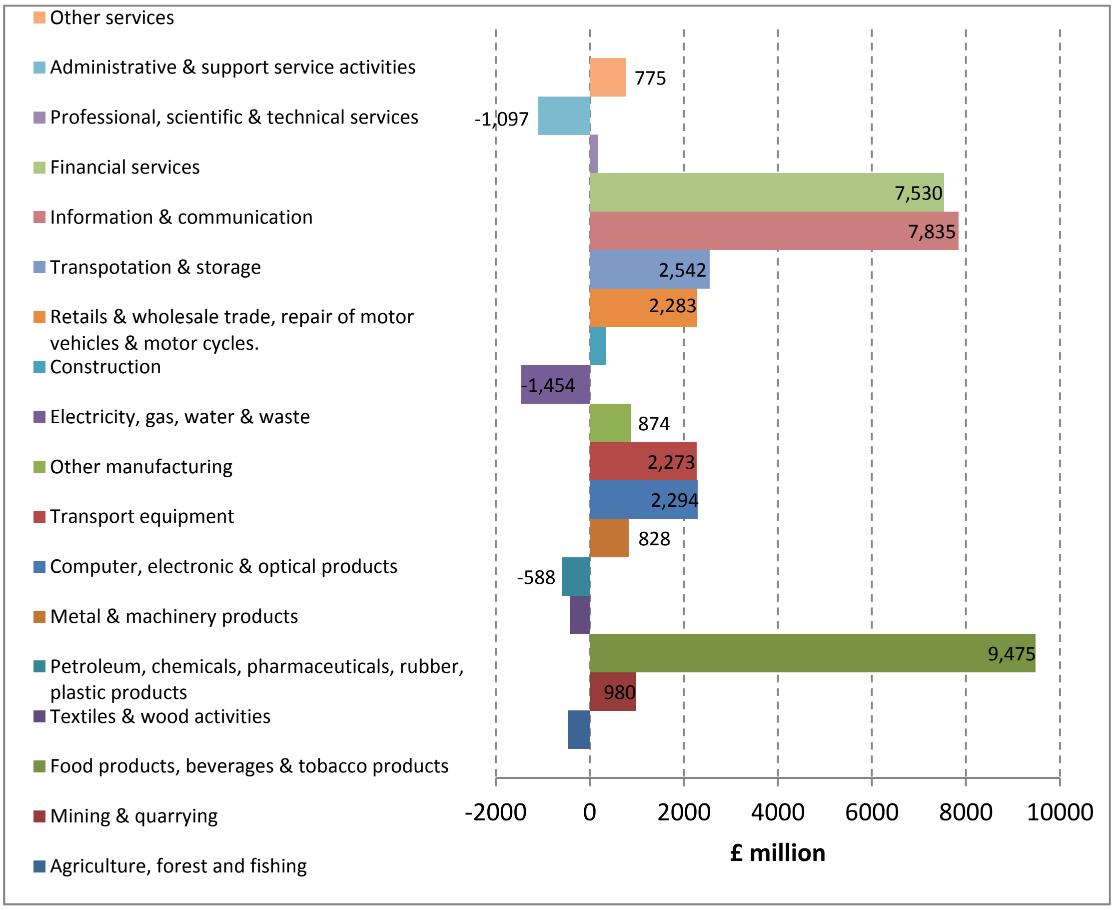
B.35 There were five sectors accounting for 90 per cent of the total inward FDI flows to the UK in 2010. As shown in Figure B-10, the largest five sectors were:

- Food products with £9,475 million

[15] Office for National Statistics, 2011. Foreign Direct Investment involving UK companies 2010 [pdf] Available at: <http://www.ons.gov.uk/ons/rel/fdi/foreign-direct-investment/2010-release/foreign-direct-investment-2010.html> [Accessed 23rd April 2012].

- Information and communication with £7,835 million
- Financial services with £7,530 million
- Transportation and storage with £2,542 million
- Computer electronic and optical products with £2,294 million

Figure B-10: Net FDI investment flows into the UK by foreign companies by industry 2010



Source: SQW analysis of ONS data

B.36 Table B-18 shows by industry, the net foreign direct investment flows into the UK by all foreign companies and extracts out Indian and Chinese investment. In 2010, £31 million out of a total of £50 million invested into the UK by Indian companies was in the financial services industry, £17 million was also invested into the retails & wholesale trade industrial sector. From China, £4 million out of a total of £9 million invested into the UK was into the transportation and storage industrial sector.

Table B-18: Net FDI investment flows into the UK by foreign companies by industry 2010

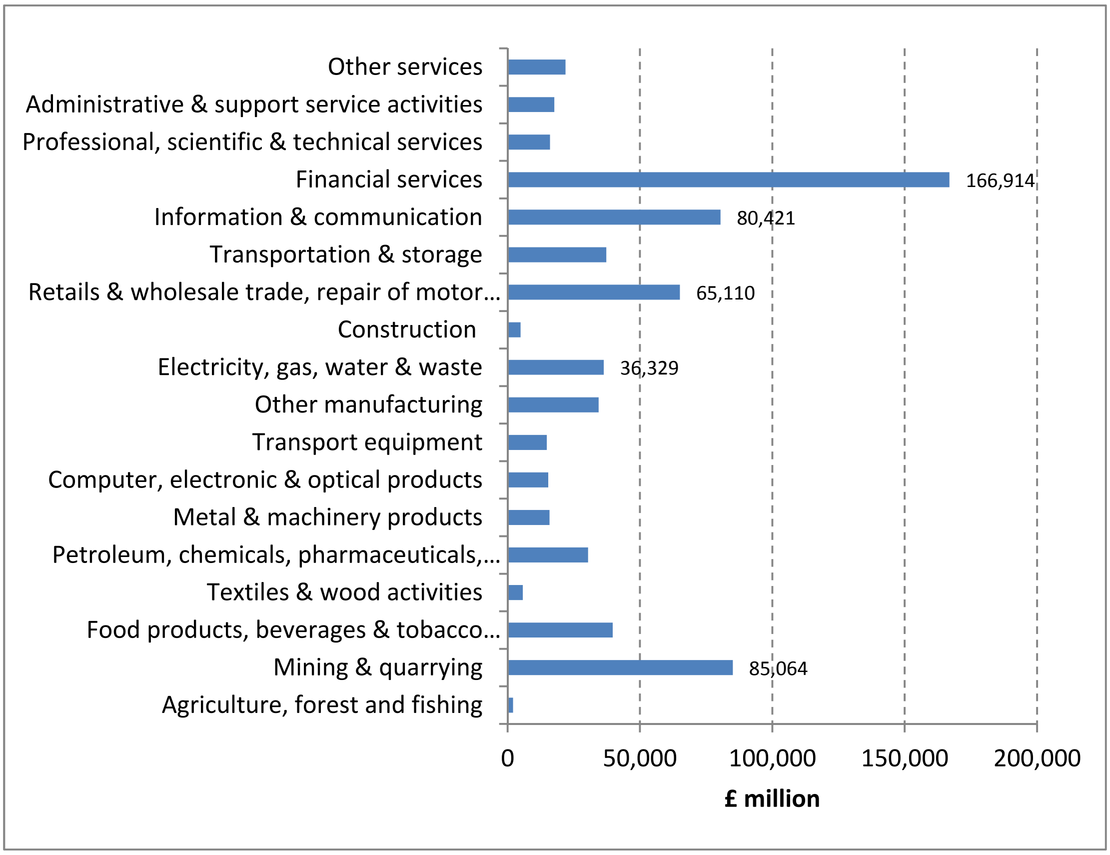
	Total World net FDI investment (£million)	Total India net FDI investment (£million)	Total China net FDI investment (£million)
Agriculture, forest and fishing	-454		
Mining & quarrying	980	..	
Food products, beverages & tobacco products	9,475	-11	
Textiles & wood activities	-410	0	
Petroleum, chemicals, pharmaceuticals, rubber, plastic products	-588	2	
Metal & machinery products	828	2	
Computer, electronic & optical products	2,294		..
Transport equipment	2,273	0	..
Other manufacturing	874	0	
Electricity, gas, water & waste	-1,454		
Construction	350		..
Retails & wholesale trade, repair of motor vehicles & motor cycles.	2,283	17	0
Transportation & storage	2,542	0	4
Information & communication	7,835	8	0
Financial services	7,530	31	-1
Professional, scientific & technical services	169	0	
Administrative & support service activities	-1,097	2	0
Other services	775	0	
Total	**34,205**	**50**	**9**

Source: ONS (2012) Business Monitor MA4 Foreign Direct Investment involving UK companies 2010
Note:'..' indicates figures are disclosive and blank cells are nil returns

FDI Position by industry

B.37 As shown in Figure B-11, the five sectors holding the largest FDI 'position' are financial services, mining & quarrying, retail/wholesale trade & repairs, information and communications, and food products.

Figure B-11: Net FDI investment position into the UK by foreign companies by industry 2010



Source: SQW analysis of ONS data

B.38 Table B-19 shows the net foreign direct investment position (level or stocks) by industry for all countries and then India and China separately. The positions provide information on the total level of investment made into the UK at a particular point in time. The table shows:

- The total level of direct investment in the UK by Indian companies by the end of 2010 was £2,781 million, and for Chinese companies the position was lower at £401 million.
- A total of £1,093 million has been cumulatively invested into the food products, beverages and tobacco products industry from India.

Table B-19: Net FDI investment positions into the UK by foreign companies by industry 2010

	Net FDI investment position all countries (£million)	Net FDI investment position India (£million)	Net FDI investment position China (£million)
Agriculture, forest and fishing	2,069		
Mining & quarrying	85,064	..	
Food products, beverages & tobacco products	39,724	1,093	
Textiles & wood activities	5,737	3	
Petroleum, chemicals, pharmaceuticals, rubber, plastic products	30,399	55	

	Net FDI investment position all countries (£million)	Net FDI investment position India (£million)	Net FDI investment position China (£million)
Metal & machinery products	15,845	35	
Computer, electronic & optical products	15,367	..	
Transport equipment	14,828	7	..
Other manufacturing	34,404	13	
Electricity, gas, water & waste	36,329		
Construction	4,906		..
Retails & wholesale trade, repair of motor vehicles & motor cycles.	65,110	294	72
Transportation & storage	37,259	4	15
Information & communication	80,421	634	7
Financial services	166,914	..	..
Professional, scientific & technical services	16,040	28	..
Administrative & support service activities	17,631	57	4
Other services	21,904	10	..
Total	**689,951**	**2,781**	**401**

Source: ONS (2012) Business Monitor MA4 Foreign Direct Investment involving UK companies 2010
Note:'..' indicates figures are disclosive and blank cells are nil returns