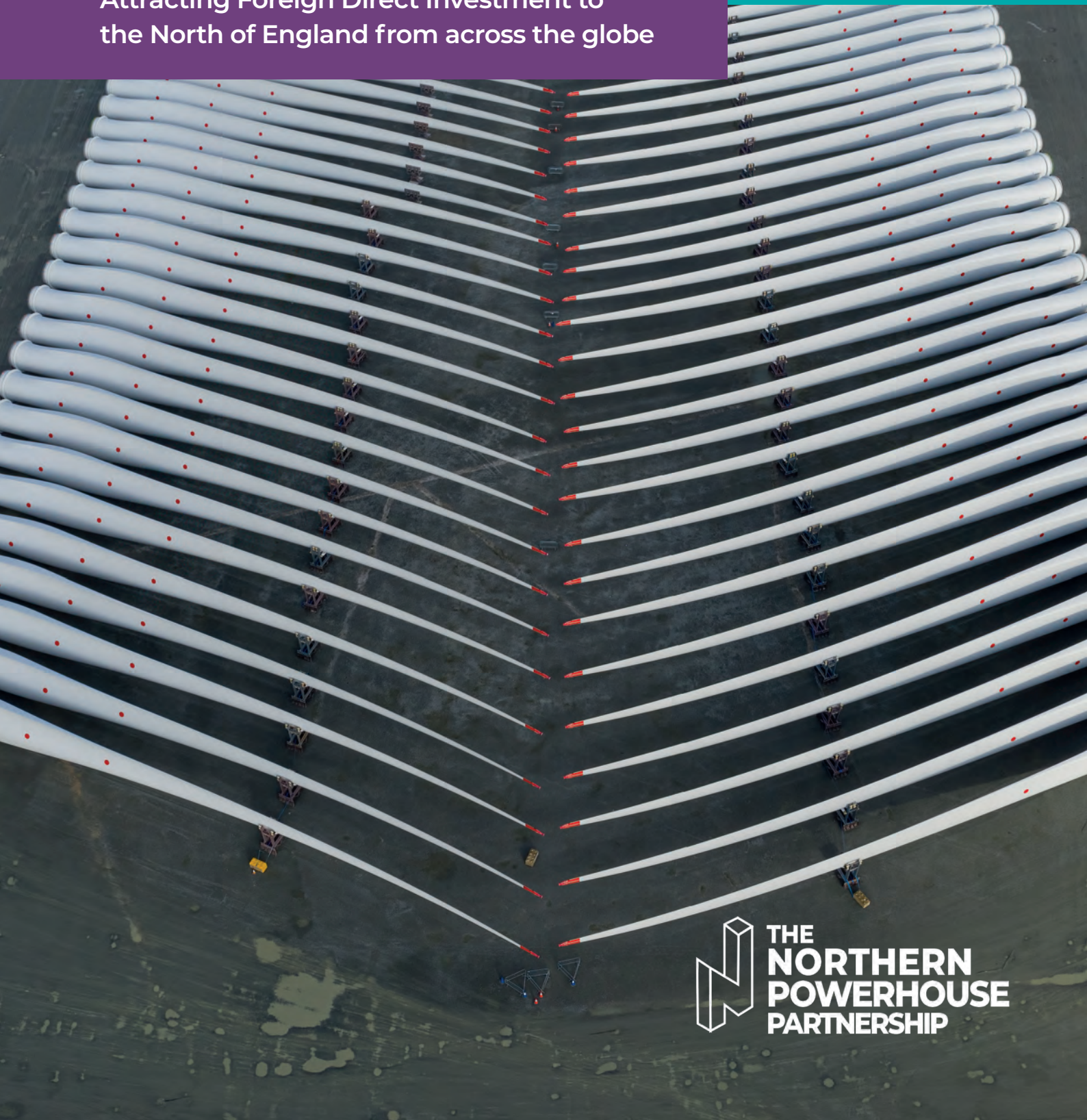


Internationalisation of the Northern Powerhouse

Attracting Foreign Direct Investment to the North of England from across the globe



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Prime Minister Liz Truss on a visit to Sai Life Sciences in Alderley Park, Cheshire, in August 2022

FOREWORD

Foreword by Lord Jim O'Neill, Vice Chair of the Northern Powerhouse Partnership and former Commercial Secretary to the Treasury.

I have spent a whole career seeking to better understand how to achieve economic success. After growing up in Gatley in Manchester, I studied at the University of Sheffield before going on to work in investment banking, spending nearly two decades at Goldman Sachs as their Chief Economist. In that time, I've learnt a lot about what does – and doesn't – support economic growth.

Ambition is key - whether that be the four once rapidly developing BRICs countries of Brazil, Russia, India and China, or here in the Northern Powerhouse. Success does not happen in businesses or places that are unfocused or unclear about what they are seeking to achieve. The Northern Powerhouse, based as a concept on my previous work with the City Growth Commission, represented such an ambition. Former Chancellor George Osborne and I as his Commercial Secretary at the Treasury used fiscal events - a unique opportunity for any Chancellor to exert their political will - to realise this ambition across government.

However, the strength of this ambition has ebbed and flowed since we left the Treasury. Nearly a decade on, it's true that we've made a good start on devolution but has the North got enough powers or share of national spending? No. Have we invested enough in transport, schools or skills? No.

There has been one notable exception – the mission to put the North on the world stage has been a resounding success. From the beginning, we wanted to showcase the very best of what we had to offer to international investors and, not long after George Osborne's first Northern Powerhouse speech at the Power Hall in Manchester,

he was on a plane with Northern civic leaders to bang the drum for the North around the world. It worked. Indeed, I felt at one point that the Northern Powerhouse concept was better understood by investors in Asia, who recognised the ambitious vision of a global mega-city, than it was among politicians and financiers in London.

We're now seeing the fruits of those labours in the foreign direct investment data. The Northern Powerhouse has overtaken London in its share of capital investment in recent years. This upsurge has been driven by the continued strong performance of Greater Manchester and amplified more recently by huge successes in neighbouring Cheshire and in the North East.

The government's levelling up agenda needs to become far more serious in order to build on this momentum, putting economic credibility over political expediency. If the Chancellor is to achieve his 2.5% growth target for the UK, we will need higher productivity overall - which means closing the North – South divide. FDI has the power to make a meaningful contribution to the productivity challenge, and in the case of the North it is already happening. Devolution, specifically to improve skills and deliver on innovation, will be key.

I would like to acknowledge the support of HSBC and EY in informing the report with their insights, and to its authors in our staff team at NPP including Henri Murison, Tegan Massey and Andrew McPhillips.

This is a big moment for the Northern Powerhouse. Despite its doubters, it has started to work. FDI is our first big win, now onto the next.



EXECUTIVE SUMMARY

“Not one city, but a collection of northern cities - sufficiently close to each other that combined they can take on the world.”

- George Osborne outlining the Northern Powerhouse vision in 2014

Individually, the great Northern cities stand some way behind their international competition in terms of scale. When combined, however, their economic potential can act as a counterweight to London and allow them and their surrounding towns to compete on a global level. This idea – the internationalisation of the Northern Powerhouse - has been central to our mission since our inception, beginning with the City Growth Commission led by Lord Jim O’Neill between 2013-14. By driving the North’s ambitions and making improvements across education, skills and infrastructure, we would become more attractive to foreign direct investment (FDI) investors.

Less than a decade later and the impact of that strategy is already being felt, with the North becoming a counterweight to London and the South East for overseas investment. It is the only megaregion or nation of the entire UK which has seen an increase in FDI in recent years, rising from \$25.4bn between 2012-16 to \$43.7bn between 2017-21 – 72% over and above the previous period. By contrast, FDI into Greater London fell back over the same time period, from \$43.4bn to \$33.4bn. By unlocking the full potential of both the North and the South the UK can raise its overall productivity.

In particular, the transition to Net Zero represents a huge opportunity, with foreign investment into renewable energy in the North of England almost trebling, from \$6.95bn between 2012-16 to \$20.25bn between 2017-21. In the preceding decade, there were industrial policy failures which resulted in the UK losing out on taking a larger share of the offshore wind construction sector. However, this does not diminish the success of investments such as Siemens’ factory for wind turbine blades in Hull (an achievement of the coalition government), which is set to double in size by the end of the year.

Tax incentives are also already beginning to bear fruit with overseas investors, with Mayor Ben Houchen bringing South Korean investor SeAH wind to the Teesport site. There are serious economic opportunities to be unlocked through the Freeports in the Tees Valley, both banks of the Humber as well as in the Liverpool City Region with Mayor Steve Rotherham. Unfortunately, a bid for a Freeport in the wider North East was rejected, despite strong evidence in favour of its economic potential. We need to move forward to the next natural step of special economic zones focused on FDI opportunities, designated by Metro Mayors by legislative right, with no need for bidding rounds.

The Northern Powerhouse is now firmly on the international map, but work still needs to be done across our skills and innovation ecosystems in order for us to become even more competitive globally.

With this in mind, we have made a series of key recommendations to central government and the Metro Mayors:

- 1 Free trade agreement (FTA) opportunities could be supported by member businesses of the Northern Powerhouse Partnership in sourcing overseas inward investors for Northern projects (especially those promoted by Metro Mayors).
- 2 Trade showcases, such as the Global Investment Summit and this autumn’s inaugural Green Trade and Investment Expo, should be developed by combined authorities and government then hosted jointly by the Prime Minister and Metro Mayors.
- 3 Introduce a new Northern Powerhouse Trade and Investment Leadership Board, co-chaired by the Levelling Up Secretary as Minister for the North and Secretary of State for International Trade.
- 4 Build investment on promoting the Northern Powerhouse as an international brand and support export activity, by increasing the budget fivefold from central, metro region and private investment with all DIT officials promoting the Northern Powerhouse based overseas.
- 5 Build stronger links between FDI and innovation through the creation of world-class clusters in emerging innovation deals. Beginning with Greater Manchester, before securing at least two further such deals in the North East and Yorkshire, building on progress including clean growth clusters and accelerators like in Tees Valley.
- 6 Commit to giving each Metro Mayor the power to establish an FDI focused special economic zone with tax incentives by right, including up front funding to improve the readiness of strategic sites.
- 7 Influence over and devolution of post-19 skills funding to Metro Mayors following the successful roll out in Greater Manchester and the West Midlands, as provided for in the Levelling Up White Paper.

1. <https://www.productivity.ac.uk/wp-content/uploads/2021/11/WP014-Inward-investment-and-UK-productivity-FINAL.pdf>

INTRODUCTION

Foreign Direct Investment (FDI) plays a vital role in the UK and Northern Powerhouse economies. The UK has two relevant divides for this report: between the longstanding productivity gap between North and South, and the analogous performance differential between FDI in London as compared the regions in the North and Midlands, as well as with Scotland and Wales.

Understanding the relationship between these is key, with the table showing how important foreign owned businesses are to Gross Value Added (GVA) in all UK regions. FDI is also, we argue in this report, one of the spheres in which the government and places could make progress and be able to as a result drive higher productivity; and, with it, growth as targeted by the new Chancellor at 2.5% for the UK. Without addressing the productivity challenge, achieving sustained growth at that level will not be sustainably or consistently delivered.

Table 1: Impact of foreign owned firms on UK GVA

Region	Percentage of foreign owned firms	Percentage of GVA from foreign owned firms
North East	5.3%	26.1%
North West	4.1%	26.1%
Yorkshire and The Humber	4.1%	21.4%
Northern Powerhouse	4.3%	24.5%
London	4.7%	33.1%
South East	4.1%	28.4%
UK	4.1%	27.2%

Source: ONS Annual Business Survey 2020

A recent paper from the Productivity Institute¹ found that on average inward investors have a 40% productivity advantage over UK firms, though at least half of this advantage was due to the sectors and industries that these firms tended to operate in. Comparing with the

most productive UK firms brings this difference down to 3% which, although clearly much lower than the headline estimate of 40%, is clearly significant in a UK economy that has had average productivity growth in the region of just 1% per annum since 2004. Many of the most significant British and Northern businesses benefit from being part of a global network. Siemens Mobility, for example, is constructing a new facility to build trains in Goole, Yorkshire, alongside the existing Siemens wind turbine blade factory in Hull. It may be unfashionable in some parts of the regional economic debate, but as much as driving up productivity in foundational industries matters, the job of expanding our frontier sectors to the scale of our global competitors is not done.

Beyond the immediate impact of the knowledge transfer from the initial FDI, there is the secondary impact from knowledge spillovers whereby the new technologies and processes filter into domestic firms and the supply chain². As well as being difficult to measure, the size of such spillover effects can depend on many factors, including the motive of the FDI, the strength of the supply chain and the industrial sector.

FDI by its nature has different forms. Some does generate wholly new activity, whereas other deals are where investors build on existing companies or facilities (including merger, acquisitions and expansion.) This already leads us to consider how we may assess the quality of FDI opportunities. For example, we need to give thought to targeting those areas that are struggling most in terms of productivity and where transfers from the FDI can be most far-reaching. In short, if the government's 'levelling up' agenda is to be more than lip service, publicly-funded institutions which support attracting FDI need to be focused in areas with long-standing economic issues, where opportunities and assets may have been hitherto under-capitalised and where also critically, the at scale opportunities also exist for serious economic growth if the impediments to it were removed.

2. There are occasions where the FDI can be for the purpose of acquiring local knowledge rather than bringing new knowledge to a country/market.



▲ Siemens Gamesa offshore blade factory in Hull



The Catalyst at the Helix, Newcastle - Credit: Gillespies ▲

The Northern Powerhouse

The Northern Powerhouse was launched as an economic project by former Chancellor Rt Hon George Osborne CH in 2014, and he remains Chair of the private and public sector backed Northern Powerhouse Partnership. The purpose of the project was to bring together the major cities of the North to become more than the sum of their individual parts. The North had – and still has - a significant productivity gap with the economies of London and the South East. With the full backing of the Treasury and the appointment of Lord Jim O'Neill as a minister, the government's Northern Powerhouse project aimed to tackle the barriers to this productivity gap, including in education, skills, infrastructure and innovation.

Initial policy activity focused on the negotiation of metro mayoral devolution deals and transport improvements, before moving on to tackle skills issues and turbocharge innovation, including through investments in Manchester's Royce Institute and the National Centres for Data and Ageing at Newcastle University. Most importantly for this report, the Chancellor and Northern core city leaders visited Asia and other parts of the world on trade missions, with the aim of boosting inward investment.

The creation of the Northern Powerhouse team, within the Department for International Trade, was a commitment over and above core government activity. It was the policy of the Chancellor implemented by a fiscal event which made this happen, and the credit for what has followed is that of the Chancellor at the time and the civic leaders who backed and worked with him. In the Northern Powerhouse Strategy, the ongoing commitment included £15m for trade missions and £7m for the Northern Powerhouse Investment Taskforce, in addition to c.£7m p.a. on DIT trade delivery services – around £30m over five years.

More recently, the Office for Investment has identified its own Levelling Up function, appointing the former Chief Executive of MIDAS Tim Newns to lead it. The presence of place-based expertise in government is a critical – and welcome - sign of the system beginning to integrate better. A 'one government' approach to securing significant deals for the UK is already bringing forward serious propositions – a marked improvement from a time when Whitehall bandwidth might have failed to match city and regional ambitions.

The most comprehensive study of the economy of the North and its potential was the Northern Powerhouse Independent Economic Review (NPIER) published in 2016. This was notable for a number of reasons – first it defined the scale of the ‘problem’ in terms of the productivity gap with GVA per capita being roughly 25% below the average for the rest of England or 10-15% below the rest of England excluding London. Digging into the drivers of this productivity gap revealed the following:

- Most importantly for this report, the NPIER identified an investment gap with spending measured as fixed capital expenditure per capita considerably lower in the North, especially in science, technology and infrastructure. It was also observed that investment funding was more readily available in the South East, potentially due to a greater demand for funding as a consequence of the enterprise and innovation gaps.
- An enterprise gap (measured as business starts per capita) was potentially negatively affecting innovation.
- A skills gap existed and consisted of the North having a smaller proportion of the workforce with higher level skills, and a larger proportion with low level skills.
- A lack of agglomeration. In other words, the North was not taking advantage of its potential due to economic activity across its towns and cities being too spread out and disconnected from each other.
- A lack of connectivity, in particular physical connectivity through transport, was a primary cause of the lack of agglomeration effects.

The NPIER then essentially became a pitchbook for investors by setting out the areas and scale of opportunities. Four prime and three enabling capabilities were identified. The primes consisted of advanced manufacturing, energy, health innovation and digital. These groupings of sectors were identified as ones where the North had a comparative advantage at both national and international levels. The three enabling capabilities were financial and professional services, logistics and education. The latter notably included higher education, with the N8 group of the North’s most research-intensive universities and emerging leaders, such as Northumbria University, rising up global indexes through the Research Assessment Exercise.

All three enablers were important if the prime capabilities were to grow and drive productivity improvements in the North.

At the time of the analysis, the prime capabilities accounted for 2.1 million jobs and over £100 billion in GVA, representing around 30% of all jobs in the North and just over 35% of GVA (for which the economic modelling is currently being updated).

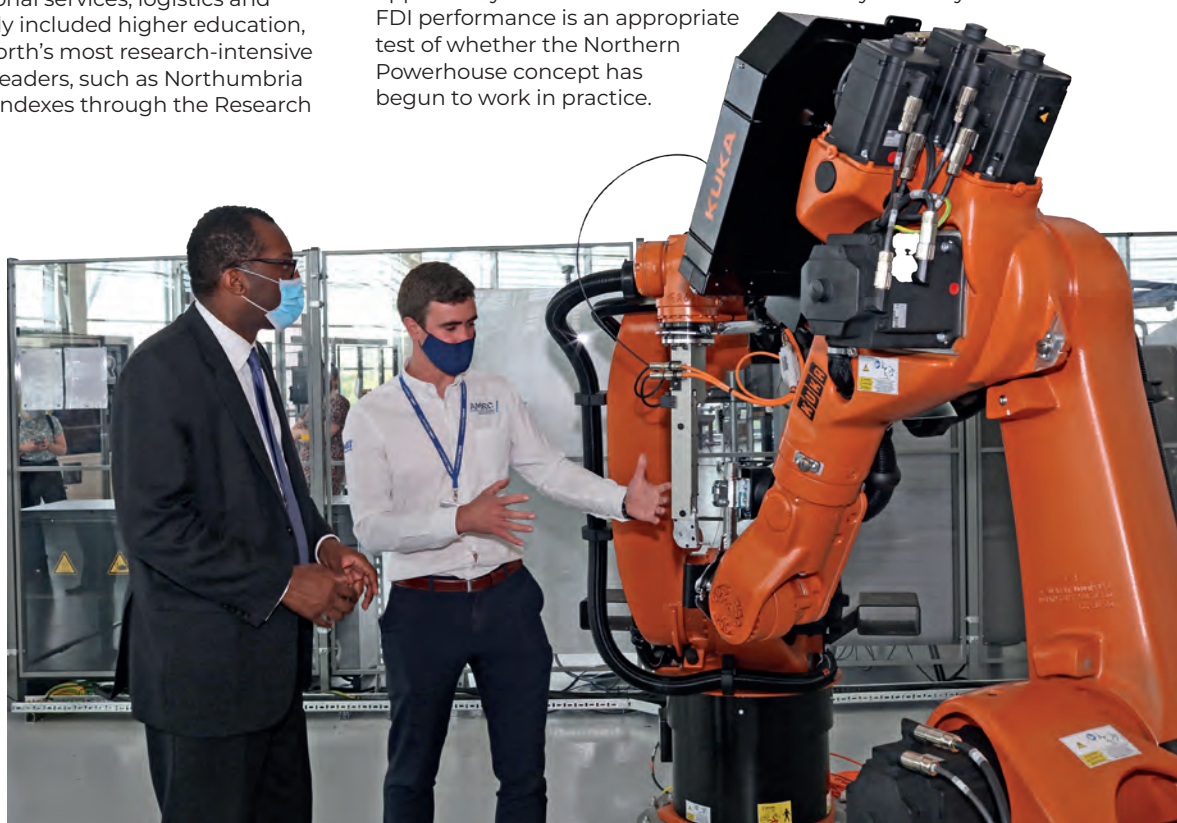
In addition to this, the NPIER provided regional profiles which gave greater detail on which regions excelled in each capability, as well as outlining the challenges in each (such as a lack of a highly-skilled workforce).

A transformational scenario, based on securing growth across the four prime capabilities and progress on tackling the barriers to productivity, was presented to further illustrate the scale of the prize on offer. This would boost the economy by 850,000 additional jobs and £100bn in additional GVA by 2050, compared with a ‘business as usual’ scenario. This would translate to huge improvements for people living in the North, as well as a significant positive impact on the UK economy.

In the intervening years since this ambition was set, devolution in particular has led to huge steps forward in the internationalisation of the Northern Powerhouse. In his first trade-focused overseas engagement, Mayor of Tees Valley Ben Houchen was part of the Northern Powerhouse delegation at the ‘Great Campaign’ UK Government event in Asia, supported by HSBC. Here he gained vital insight into how Freeports operated on the ground in advance of the Tees Valley securing its own Freeport in 2021. Significant funding and powers over skills have transformed the wider investment environment, including in Greater Manchester, the Liverpool City Region, North of Tyne as well as South and West Yorkshire.

Unlike productivity - with its wide variety of determinants affected by education, skills and transport infrastructure (which all take many years to change) - the FDI competitiveness of a place is a leading indicator as it is a reflection of confidence of future progress or opportunity as well as current economic reality. It is why FDI performance is an appropriate test of whether the Northern Powerhouse concept has begun to work in practice.

Rt. Hon. Kwasi Kwarteng MP on a visit to the Advanced Manufacturing Research Centre in Sheffield.



INTRODUCTION continued

A New Political Environment and Levelling Up

Since the City Growth Commission chaired by Lord Jim O'Neill and the subsequent NPIER, a number of political, social and economic events have taken place that have disrupted the path of this transformational scenario. The Integrated Rail Plan, published in November 2021, set back key transport projects such as Northern Powerhouse Rail (NPR) and the linked high-speed rail lines, which are critical for connecting Manchester Airport (the gateway to the North from the rest of the world) to places across the Pennines including Bradford, Leeds, Sheffield, Hull, Darlington and Newcastle. The Prime Minister has indicated a general commitment to NPR, and whilst campaigning, intimated a return to a more ambitious new line across the Pennines through Bradford.

The Levelling Up White Paper committed to trailblazer devolution deals for Greater Manchester and the West

Midlands. Following the completion of negotiations, this will hand powers over skills budgets to the Mayors in a game-changing move for international attractiveness.

The existing Freeports, which are an evolution of the longstanding Enterprise Zones, have now been designated and are there to be capitalised upon. It is the tax site status which is of most interest to inward investors and this should be the focus of agencies responsible with marketing Northern Freeports globally; including for the Tees Valley, Humber and Liverpool City Region.

The economic environment is also an uncertain one with concerns around global growth, the cost-of-living crisis hitting household budgets hard and tightening monetary policy. Against this backdrop, there is an even greater need to secure the wider UK bounce-back in FDI.



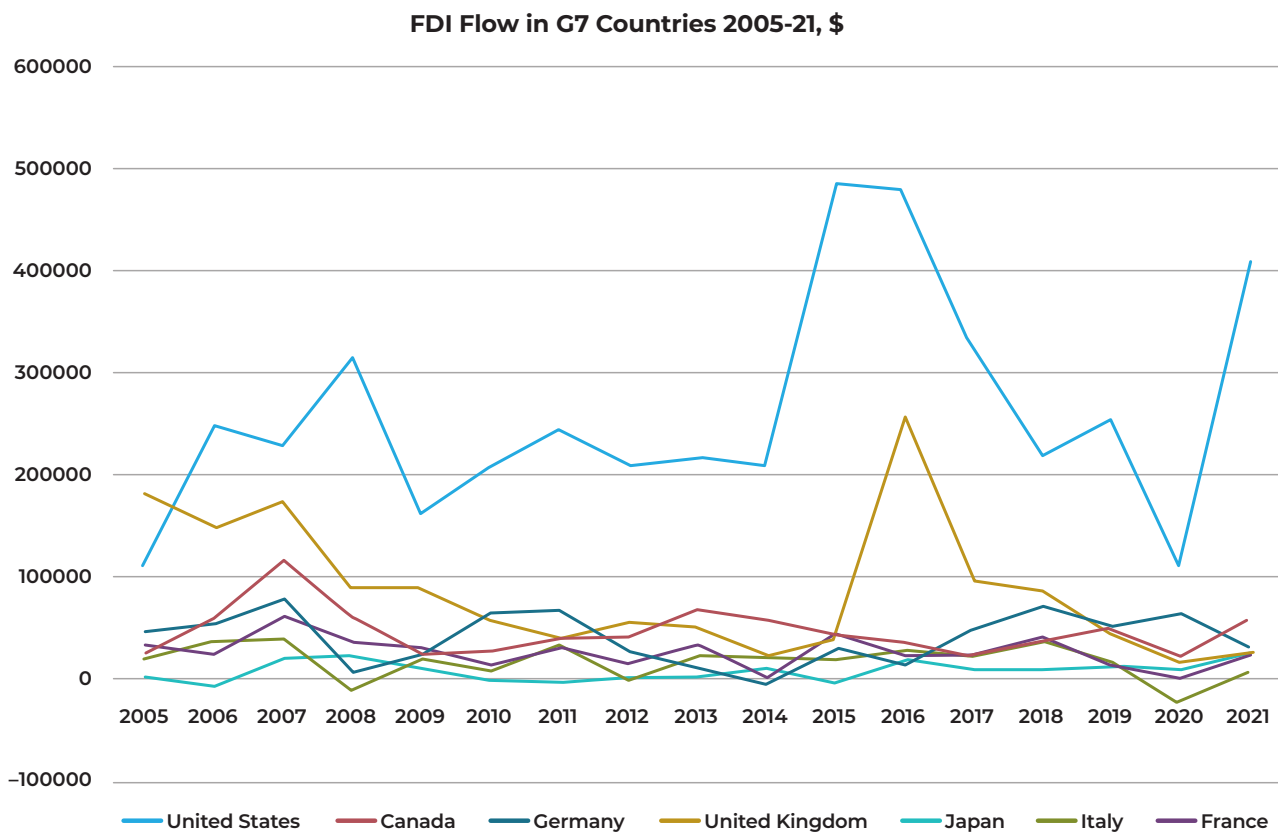
▲ Green Port Hull, Humber Freeport

TRENDS IN FOREIGN DIRECT INVESTMENT

International Trends in FDI

The G7 countries are the world's largest advanced economies and liberal democracies. Consequently, all seven have a substantial amount in common concerning their political, social, and economic values and operations. Rather than provide a global snapshot of FDI, we here present where the UK stands in relation to other G7 countries.

Chart 1: FDI Flow in G7 Countries



As seen above, FDI flows can be quite volatile over time both in terms of overall trends and in individual countries' performance from one year to the next. Data from the OECD indicates that in 2021 the combined value of FDI flows in G7 countries was \$584,475 million, the highest value since the peak in 2016. 2020 was undoubtedly disrupted by the pandemic as FDI more than halved from 2019, yet a strong bounce back was witnessed in 2021, with FDI almost trebling.

The UK's share of FDI in 2021 was 4.7%, the fifth successive annual decrease from a high of 30% in 2016. Prior to 2016, the UK averaged around an 18% share of FDI. The USA dominated inward FDI flows, with Canada and Germany following it in 2021. However, in 2021 the UK still surpassed Japan, Italy, and France in terms of their respective share of FDI. What is not clear at this stage is whether the UK has become a less attractive destination for foreign investors since 2016, which accounts for this falling share of FDI. Regardless of opinion over the result of the UK's decision to leave the EU, it is not unreasonable to suggest that the uncertainty surrounding the UK's future relationship with the EU may have dented some investor confidence. However, if this was the case then it could also be argued we could have expected a rebound as the details became clearer, yet that does not appear to have happened in the 2021 data where the UK share of FDI in the G7 was its lowest for at least 15 years.

Nations like France have raised their game since Emmanuel Macron became President, raising the question of whether the UK's previous longstanding focus on marketing London and the South East has meant our offer has not been sufficiently diversified. We must acknowledge the global context, but the key ambition must be to increase UK productivity through securing more FDI over time. The wider attractiveness of our G7 partners must be an encouragement for us to step up our performance, rather than compete in a game of league tables for its own sake.

TRENDS IN FOREIGN DIRECT INVESTMENT continued

UK FDI Data Sources

There is no single source of data on FDI that provides everything that we need to investigate how the regions of the UK, and the Northern Powerhouse in particular, are performing relative to their own past performance and other regions both within and outside of the UK.

We set out to source data which could inform us on the sectoral composition, regional distribution, and investment trends in the UK, with a focus on the north. To gain insight into this, it was necessary to employ multiple datasets. Data on FDI by nature is complicated, owing to the privacy rights of companies to withhold the information on the value of investments and an array of other telling metrics.

The Department for International Trade (DIT) data measures the number of FDI projects, number of safe/new jobs produced by FDI projects, a source market breakdown of projects, and most importantly for our purposes a regional breakdown. The data is collected by parties entering information onto a DIT system which is then subject to rigorous eligibility and verification tests. Figures for jobs are sourced from interactions with businesses and public announcements and in the case of non-involved projects estimated in external databases. These figures are estimates made at the start of each investment project and new jobs captures the number of jobs likely to be created within three years of the project starting.

Despite the data's apparent detail, it has one key omission: the value of investment projects. When investigating regional distribution of FDI, value is an integral aspect of this. Without it, the full picture can't be painted. For example, if the West Midlands has 135 FDI projects while the North East has 180 projects, without knowing the value, we can't definitively say that the North East received more FDI in terms of the inward flow. And while we could take jobs as a proxy for size of investment, this could be affected greatly for example by the industrial sector of the investment where some may be more capital intensive and result in fewer jobs created per pound of investment than in other sectors. Nonetheless, the data from DIT is a rich source of information on inward FDI and will allow us to set the scene of inward FDI in the UK.

ONS data focuses on measuring FDI flows by value, positions and earnings analysed by component, area, main country, and industrial activity. It sources its data from the annual FDI survey combined with data from Bank of England. The survey sample size is approximately 45,000 enterprise groups. The survey responses are then used to estimate FDI values for every company in the UK's inward and outward populations.

For the purposes of this report, this data was very limited as it doesn't separate the data by UK region, nor does it distinguish between types of investment. The ONS also changed the methodology which requires comparing data from earlier years to be done with caution. However, the ONS did release experimental subnational UK statistics. The latest release in October 2021 detailed industry activities and FDI positions by ITL1 region and city regions. However, it only covers 2015-2019 making it quite outdated, relatively speaking.

The main data source which can give us granular detail on inward investment is from fDi Markets, part of the Financial Times. This source is a comprehensive database which records cross-border greenfield investments.

It monitors investment projects across all countries and sectors and includes data on source, capital investment, job creation, and investors motives. It can be analysed by city level, cluster, sector, sub-sector, and activity. The data is collected by the daily monitoring of thousands of media sources, financial times newswires, and project data from over 2,000 industry organisations and investment agencies. The data is limited due to its collation method being via media sources which can be inaccurate at times, however this is counteracted by the fact that fDi Markets aims to confirm projects recorded. A limitation of the database is that it only covers greenfield³ investment.

However, by using data from ONS and DIT we are ensuring that we get a clear picture of the state of investment. This granular level data is highly valuable for the purposes of this report and will serve to fortify and give key insights into the exact patterns and trends of FDI into the UK.

Finally, EY⁴ is another valuable data source on inward FDI. They measure new projects, jobs created, associated capital investment and investors perception. The focus on investors perception distinguishes this dataset from others. The data it presents is based on the EY European Investment Monitor which is produced in collaboration with OCO. The database tracks FDI projects that have resulted in the creation of new facilities and jobs. These projects are identified by monitoring 10,000 news sources every day. It can give insight into which sectors are most attractive to FDI investors, which regions and industries. It does not, by methodological choice, include brownfield or M&A investments, nor does it include stocks or positions which is also the same as the DIT data.

3. Greenfield FDI is where a company establishes operations in a foreign country such as new facilities including sales office, manufacturing facility cross-border from the ground up. – Corporate Finance Institution "Greenfield Investment." Corporate Finance Institute, 1st July 2020, <https://corporatefinanceinstitute.com/resources/knowledge/strategy/greenfield-investment/>

4. EY is a sponsor of the Northern Powerhouse Partnership and have provided support to the section of this report on what inward investors are looking for from places and the wider ecosystem to support their investment.

FDI into UK Regions

As seen in the international data, FDI can be quite volatile from year to year, and this is amplified when looking at smaller geographies. Year-on-year changes therefore become potentially misleading and meaningless. Where possible we have chosen to look at changes for the most recent five-year period with the preceding five-year period to smooth out this volatility.

Using DIT data, we can measure the number of FDI projects recorded in the UK. In the most recent five-year period (2017/18-2021/22), 8,833 FDI projects were reported for the UK, a reduction of 10% on the previous five-year period. Considering that at least two years of that period were affected by Covid disruptions, a 10% fall would appear, without any wider international comparison, a reasonable outcome.

Upon further inspection of the regional breakdown of FDI projects in the most recent 5-year period we can see that;

- London and the South-East accounted for 52.6% of FDI projects in 2015-2016. However, from 2018 London & SE's share decreased every year reaching its lowest share in 2021-2022 accounting for 38.9% of FDI projects.

This indicates that London's dominance is declining, which, if nothing else had changed, would be very damaging for UK plc collectively, due to our traditional reliance on this part of the UK to disproportionately drive our overall FDI performance.

- The Northern Powerhouse share of FDI projects stood at 15.3% in 2015-2016 and this increased with each year, apart from 2017, until reaching 21% in 2021-2022.
- When it comes to the rest of England, their share has also increased from an original figure in 2015 of accounting for 21% of FDI projects to accounting for 27.5% of projects in 2021-2022.

The data from DIT indicates that the composition of FDI in the UK is shifting, with the UK's over reliance on London and the South East declining and the North of England making rapid progress to account for a larger share of FDI into the UK.

As previously mentioned, without knowing the value of investments we are unable to discern definite trends. As

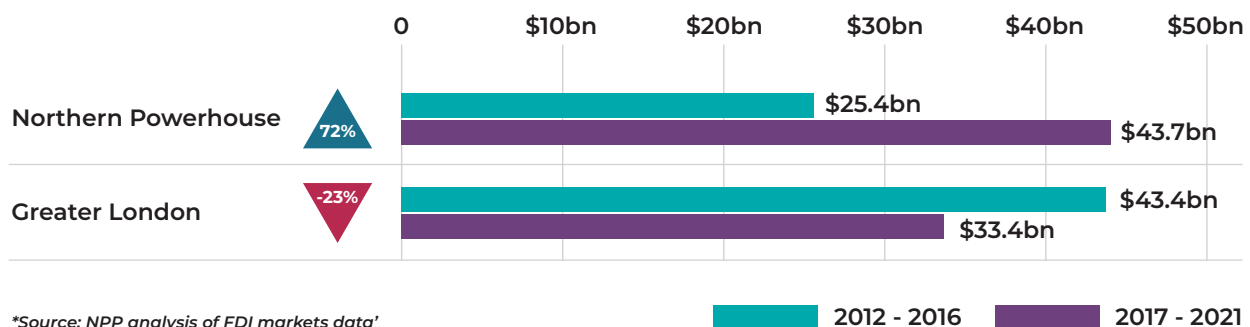
such, we will supplement data from the ONS to better inform us of the configuration of FDI in the UK. Here, we will look at FDI flows into the UK from 2015-2019 using the ONS experimental statistics, which represents what was happening only up to three years ago. FDI flows represent the net investment and as such it is possible for a region to have negative FDI.

- London's share of net FDI flows into England stood at 49% in 2015 and by 2019 this had fallen to 26%.
- As for the Northern Powerhouse, its share of FDI flow in 2015 was 3% compared to its share of 17% in 2019. This aligns with the DIT data.

However, when it comes to investment trends a longitudinal approach is a more fruitful and accurate avenue through which to dissect the regional composition of FDI into the UK. Concluding on these sources of data, it points towards a shift in the configuration of FDI in the UK. However, due to data limitations this is to be taken as an indication rather than a conclusion. The reason this data was utilised is to mitigate the limitations of using fDi Markets as the main data source, as it only covers greenfield FDI. However, a key justification of the suitability of using fDi Markets, is that data from DIT revealed that in the past six years new investment accounted for 56% of FDI projects in the UK.

One of the principal objectives for this report, is a renewed understanding of the regional distribution of FDI flows in the UK. More specifically, the Northern Powerhouse (constituting the regions of the North East, North West, and Yorkshire and the Humber) and how they fare compared to other regions. Not only this, but what are certain areas in the North doing differently to attract more FDI and fulfil their potential as a means of boosting the local economy and reaping the benefits that comes with it. Unfortunately, though DIT data is provided at a regional level, it does not go back far enough to allow us to do a five-year on five-year comparison. The remainder of this analysis will therefore be based on data from fDi Markets.

Looking purely at the regional breakdown of FDI in England, the value of FDI into the Northern Powerhouse increased from \$25.4bn in 2012-16 to \$43.7bn in 2017-21: an increase of 72% and the largest increase of any region of England. Over the same period, FDI in London went from \$43.4bn to \$33.4bn.



TRENDS IN FOREIGN DIRECT INVESTMENT continued

As discussed previously, a primary aim of the Northern Powerhouse initiative was to make the North a more attractive location for investors. The data from fDi Markets suggests that this policy, in under a decade, has begun delivering this with a substantial change in an economic trend; not just in perceptions or sentiment alone. In addition to the increase in absolute FDI into the North, perhaps more importantly the Northern Powerhouse increased its share of FDI into England from 19% in 2012-16 to 33% in 2017-21 (higher than its share of population – which is 28%).

Looking across the UK, and taking London and South East as a combined geography equivalent as a 'mega region' to the Northern Powerhouse, we find comparable overall trends, with the North dramatically catching up the best performing mega region of London and the South East.

Table 2: Value of FDI (\$m) into the UK

Destination	2012-2016	2017-2021	% change
Northern Powerhouse	25,357	43,683	72%
Greater London & SE	56,620	48,524	-14%
Rest of England	49,822	41,482	-16%
Scotland	29,631	22,694	-23%
Wales	7,885	6,992	-11%
Northern Ireland	3,815	3,671	-4%

Source: fDi Markets

To avoid the figures above being skewed by perhaps one or two large investments, we can also look at the number of investments (rather than the value) that took place in the same time periods. For the Northern Powerhouse region, 669 projects were recorded in 2012-16 compared with 855 in 2017-2021, an increase of 28%.

Table 3: Number of FDI projects into the UK

Destination	2012-2016	2017-2021	% change
Northern Powerhouse	669	855	28%
Greater London & SE	2,425	2,791	15%
Rest of England	860	997	16%
Scotland	543	495	-9%
Wales	150	116	-23%
Northern Ireland	171	176	3%

Source: fDi Markets

In terms of jobs, we also see a significant shift since the Northern Powerhouse initiative, suggesting that this change in the FDI environment could be a leading indicator for longer term change – including in productivity. The additional 10,000 jobs in the North of England could be as such considered a down payment on the additional 800,000 jobs which the NPIER projected would be delivered in the North in the transformational scenario by 2050.

Table 4: Jobs resulting from FDI into the UK

Destination	2012-2016	2017-2021	% change
Northern Powerhouse	52,603	62,094	18%
Greater London & SE	108,987	116,214	7%
Rest of England	84,489	85,042	1%
Scotland	32,869	26,652	-19%
Wales	12,349	7,334	-41%
Northern Ireland	16,412	10,318	-37%

Source: fDi Markets

Where does inward investment come from?

We have also been able to look at the source region of investment to identify any trends that may have contributed to the increase in value of FDI into the Northern Powerhouse. Europe accounted for the majority of the increase, and this can primarily be accounted for by an £11bn investment from Norway in 2020.

Table 5: Source region of FDI into the Northern Powerhouse

Region	2012-2016 (US\$m)	2017-2021 (US\$m)	% change
Europe	14,944	28,119	88%
North and South America	4,220	8,935	112%
Asia	5,933	6,323	7%
Australasia & Oceania	256	288	12%
Africa	5	18	287%
Total	25,357	43,683	72%

Source: fDi Markets

Furthermore, to assess how the Northern Powerhouse truly fares in terms of its attractiveness to source markets, we will now compare this to the figures on the UK with the North deducted.

Table 6: Source region of FDI into the UK (excluding Northern Powerhouse)

Region	2012-2016 (US\$m)	2017-2021 (US\$m)	% change
Europe	69,118	56,383	-18%
North and South America	46,557	48,683	5%
Asia	50,383	22,187	-56%
Australasia & Oceania	4,333	7,520	74%
Africa	748	276	-63%
Total	171,140	135,050	-21%

Source: fDi Markets

As we can see, the rest of the UK has experienced a decrease in the volume of FDI in recent years. Interestingly, there was a significant drop of over 50% in the volume of FDI from Asia into the rest of the UK, which could be accounted for by the post-Brexit period leading to the UK losing its position as a guaranteed entry point into wider EU markets.

Meanwhile, the North saw a 7% growth in FDI from Asia, out-performing the rest of the UK's wider challenges. This overperformance compared to the UK is one of the strongest signs of the Northern Powerhouse approach to Asia yielding significant benefits, such as the strong North East – Japan relationship and the development of pan-Northern framed relationships with in market representation, including India.

- ▼ In 2021 global diagnostics firm QIAGEN, headquartered in Germany, completed its move of its European Centre of Excellence for Precision Medicine into facilities in Manchester's Citylabs 2.0, in a £35m, 15 year deal.



TRENDS IN FOREIGN DIRECT INVESTMENT continued

Sectoral Composition

The fDi Markets dataset also provided us with details on the industrial sectors into which FDI was being directed. Early in this document we discussed how the Northern Powerhouse concept was used to make the region an attractive proposition to foreign investors. The NPIER also identified the prime capabilities where the North had a comparative advantage. Here we will be able to see if this has started to show any impact in terms of actual investment, remembering that the prime capabilities were identified as advanced manufacturing, energy, health innovation and digital alongside the enablers of financial and professional services, logistics and education.

Table 7 below looks at the sectors that have attracted the most FDI into the Northern Powerhouse over the whole 2012-21 period, but then breaks this down into two five-year periods to see there has been any noticeable change in investment patterns since the initiative was launched.

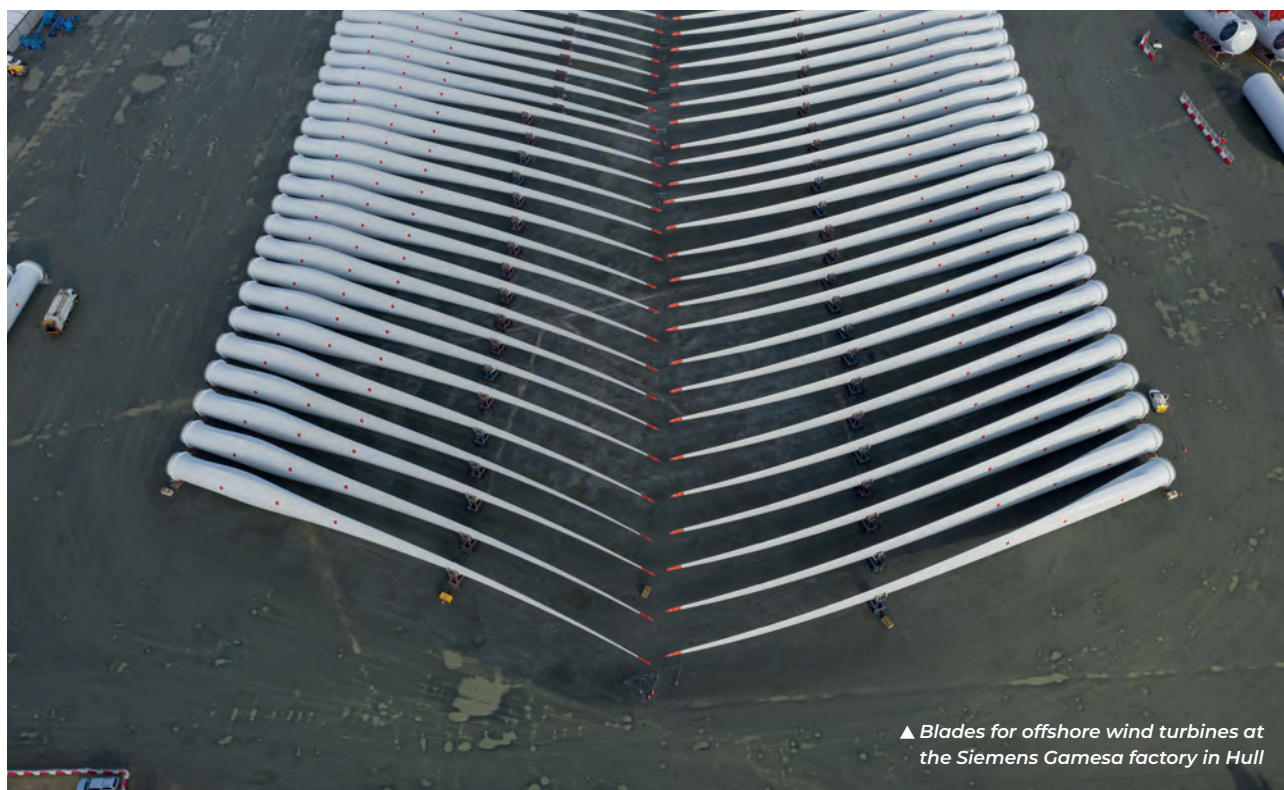
As always, we need to be careful in interpreting these results as one very large investment in either time period can then distort the comparison with the other period. That said, it is unsurprising to see the renewable energy sector as a large beneficiary of increased FDI in the North. Given that energy is one of the North's prime capabilities and net zero has been viewed as a major opportunity for the North to lead on, this is to be welcomed. On the reverse, coal, oil and gas appears to have suffered from the shift to green alternatives, dropping from \$1,299m between 2012-16 to \$471m between 2017-21. It's worth noting, however, that the 2012-16 figure was boosted by a single project worth \$1.2bn.

Whilst recognising that digital as a prime capability is overarching rather than a distinct sector, the increase in FDI into software and IT services supports this ambition.

Table 7: Industrial sectors in the Northern Powerhouse receiving the greatest value of FDI 2012-21

Sector	2012-2016 (US\$m)	2017-2021 (US\$m)	% change
Renewable Energy	6,946	20,346	193%
Real Estate	3,681	4,393	19%
Automotive OEM	2,033	1,539	-24%
Transportation & Warehousing	3,282	2,788	-15%
Chemicals	665	2,457	269%
Software & IT services	624	1,408	126%
Food & Beverages	916	1,120	22%
Coal, Oil & Gas	1,299	471	-64%
Industrial Equipment	1,132	492	-57%
Business Services	557	642	15%
Consumer Products	556	791	42%
Communications	487	643	32%
Automotive Components	783	263	-66%
Electronic Components	98	880	799%
Biotechnology	97	768	694%

Source: fDi Markets



▲ Blades for offshore wind turbines at the Siemens Gamesa factory in Hull

CASE STUDY: ARCTIC WOLF

A part of this digital growth, Arctic Wolf as a global leader in security operations has announced the opening of its Europe, the Middle East and Africa (EMEA) headquarters in Newcastle.

Founded in Silicon Valley and now based in Minnesota, Arctic Wolf's Newcastle city centre headquarters is initially bringing 50 jobs to the city with a further 150 by the end of next year, tapping into the region's growing pool of technology talent.

The large increase in investment into the biotechnology sector also maps onto the prime capabilities, given the North's strength in health innovation, with strong examples of investment into advanced manufacturing as well.

Elsewhere, transport and warehousing remain important destinations for FDI, as do business services, ensuring the enabling capabilities continue to grow.

Perhaps the only negative would be the reduction in FDI in the automotive Original Equipment Manufacturer (OEM) and components sectors, given the North's historic strengths and successes of these industries. However, in Cheshire we have VW Group owned Bentley investing significant sums from its retained profits and the £100 million Stellantis is investing into the Vauxhall factory at Ellesmere Port.

BOEING SHEFFIELD

In October 2018, Boeing opened a production facility in Sheffield – its first manufacturing site in Europe. The £40 million, 6,200-square-metre facility is located on Sheffield Business Park and manufactures components for trailing edge actuator systems for 737 aircraft. All suppliers to the factory are based within 100 miles of Sheffield.

Boeing Sheffield employs 75 people and more than 25 machining operatives have been trained there in conjunction with its training partner, the AMRC. Following their first year in the training centre, the apprentices spend years two and three of the programme in the Boeing Sheffield facility.

Boeing has a long-standing partnership with the University of Sheffield and founded the AMRC with the university in 2001. The machining and materials research campus was crucial in Boeing's decision to build its first new-build factory constructed worldwide in 30 years in Sheffield.

In July, Boeing became the founding member of the University of Sheffield's Energy Innovation Centre (EIC), leading the way for the company to help develop and bring sustainable aviation fuels (SAF) to the market with a first-of-its-kind facility in the UK that will help test and certify new SAFs, and pilot-scale production facilities suitable for investigating different methods of producing SAF.

*Boeing's production
facility at the Advanced
Manufacturing Research
Centre in Sheffield*



CASE STUDY: JDR CABLE SYSTEMS

In April 2022, JDR Cable Systems (JDR) – a global subsea cable and umbilical supplier and servicer, part of the TFK Group headquartered in Poland - received the first ever green loan through the UK Export Finance (UKEF) Export Development Guarantee (EDG) for its new subsea cable manufacturing facility on a brownfield site in Cambois, near Blyth, Northumberland.

The loan, which was jointly funded by HSBC and two other banks, means JDR can begin construction on their new facility in autumn 2022, with a planned opening in 2024. It is set to create 171 local jobs on completion while securing a further 270 existing roles.

Once complete, the facility will produce the next generation of medium and high-voltage cables to link energy infrastructure in the offshore wind energy and interconnector markets. The project is the first stage of JDR's plans to expand its product portfolio to support the growing global renewable energy market, adding high voltage export and long length array cables to its existing capacity and product capabilities.

As well as supporting regional jobs and growth, the project will also contribute to the transition to a low carbon economy. This is just one example of the correlation between the transition to net zero, accelerating innovation to help scale up climate change solutions, and building global partnerships to ensure FDI is directed to areas that are lagging behind.

There is a strong relationship between those areas which needed to decarbonise and boost regional economic development. This example illustrates the productivity enhancing benefits of FDI flows and how the net zero transition can boost FDI investment in manufacturing. It also illustrates that the right type of FDI project can create jobs and grow both the local and nationwide economy.

To catalyse the required flow of private investment into JDR, UKEF facilitated greater risk sharing between the public and private sectors when risk/return ratios may have been insufficient to attract private investment alone.



PLACE BASED PERFORMANCE DRIVING NORTHERN POWERHOUSE SUCCESS

There are also differences in relative performance within the Northern Powerhouse. When it comes to the most significant megaprojects, it is notable how successful the Metro Mayoral devolved region of the Tees Valley has been. One of those top five deals in the Northern Powerhouse region has been Sabic with a multi-million dollar investment in its iconic 'Cracker' plant in Teesside. The works, known as the Teesside Improvement Project, will strengthen site operations and the integration between the Cracker and the world-scale LPDE plant, 'System 18', at the Wilton International Site at Redcar. The first phase of the Teesside Improvement Project will reduce the company's carbon footprint at the Teesside site by up to 60 per cent. During the second phase, a feasibility study for carbon neutrality will be undertaken to evaluate the use of blue and green hydrogen as fuel sources.



▲ The SABIC 'cracker' plant in Teesside

PLACE BASED PERFORMANCE DRIVING NORTHERN POWERHOUSE SUCCESS continued

CASE STUDY: TEESSIDE, HUMBER AND LIVERPOOL CITY REGION FREEPORTS

Freeports are special areas within the UK's borders where different economic regulations apply. The UK model includes a range of policy levers to incentivise investment comprising tax reliefs, concessions on customs, business rates retention, planning advantages, regeneration, innovation and trade and investment support for those business operating inside the designated area.

Freeports also provide a supportive planning environment for the development of tax and customs sites through an extension of permitted development rights and incentivising use of local development orders. Each freeport was also granted up to £25 million of seed capital funding, primarily used to address infrastructure gaps in tax and/or customs sites that are holding back investment.

With the success of the Tees Valley on the largest FDI projects before this opportunity the opportunity could be significant if fully capitalised upon. The existing designated Freeports as well as a further round of special economic zones, replicating their advantaged status on tax treatment, could be what supercharge overall performance across all the wider devolved areas in the North, which we are still seeking to be all our places. In the course of this year, Korean based SeAH Wind were attracted to the Freeport in the Tees Valley, onto the Teesworks site. This was an over \$300m investment and is a signal of the scale of impact that FDI could have across all the north's existing three Freeports in coming years, generating from this deal alone 750 jobs by the end of the decade.



▲ Mayor Steve Rotheram with EY's Jenn Hazlehurst

▼ Liverpool Freeport



Table 8: Value of FDI into the UK

Destination	2012-2016 (US\$m)	2017-2021 (US\$m)	% change
Northern Powerhouse	25,357	43,683	72%
Greater Manchester	5,350	3,314	-38%
Cheshire	2,605	4,556	75%
North East	2,370	4,651	96%

Source: fDi Markets. North East includes the North of Tyne Combined Authority with Gateshead, South Tyneside and Sunderland in addition.

In looking at the totality of investment, having already addressed the largest deals by value, we will analyse initially the top three performing sub-regions by total capital investment in the North to see what we can learn from them about FDI attraction.

Over the last 5 years, we have seen significant shifts in the total value of capital projects, with the three best performing regions over the decade including Greater Manchester which had the highest in amount received in the previous period. The surge in value of capital investment in Cheshire has included FDI landing on to the Alderley Park development. Finally, the performance in the North East also shows a significant increase in the amount of capital investment since 2017 compared with the previous period.

CASE STUDY: SAI LIFE SCIENCES



▲ Lab Space at Alderley Park

Headquartered in Hyderabad, India, Sai Life Sciences is a global contract research, development and manufacturing (CRO-CDMO) who work with over 150 innovative biotech and pharma companies to accelerate the discovery, development and manufacture of complex small molecules for the creation of new medicines. Globally, the organisation employs over 2,200 people across its facilities in India, UK, USA and Japan. Today, Bruntwood SciTech's Alderley Park is home to its European hub.

Sai Life Sciences landed at Alderley Park in 2020. Since then, the company has gone from strength to strength growing from an initial team of 3 to

now employing 63 people, alongside a four-fold increase in floor space from 5,000 to 20,000 sq. ft. In September 2022, Sai Life Sciences launched a further recruitment drive aimed to expand their Alderley Park based scientific team by 20%, to serve growing demand.

Since arriving in Cheshire, Sai Life Science's Alderley Park site has grown to become a reliable partner to many innovator companies across the world, providing high quality chemistry, non GMP delivery, and successful technology transfer to its sites in India for scale-up. Currently, work is underway to also set-up a GMP Kilo Lab at the site.

PLACE BASED PERFORMANCE DRIVING NORTHERN POWERHOUSE SUCCESS continued

Table 9: Number of FDI projects in the UK

Destination	2012-2016	2017-2021	% change
Northern Powerhouse	669	855	28%
Greater Manchester	187	222	19%
North East	94	125	33%
West Yorkshire	66	122	85%

Source: fDi Markets. North East includes the North of Tyne Combined Authority with Gateshead, South Tyneside and Sunderland in addition

In terms of volume of projects, Greater Manchester remains the most successful recipient of FDI. The second-best performer is the North East, followed by West Yorkshire which includes the leading cities of Leeds and Bradford.

Table 10: Jobs created by FDI

Destination	2012-2016	2017-2021	% change
Northern Powerhouse	52,603	62,094	18%
Greater Manchester	15,230	13,303	-13%
North East	7,376	10,487	42%
West Yorkshire	4,960	7,018	41%

Source: fDi Markets. North East includes the North of Tyne Combined Authority with Gateshead, South Tyneside and Sunderland in addition

In terms of the number of jobs created, almost half of them came from just three city and sub-regions: Greater Manchester, the North East and West Yorkshire.

▼ West Yorkshire has seen a near doubling in FDI projects benefitting city centres like Leeds



CASE STUDY: LABCORP

Headquartered in North Carolina in the US, Labcorp is a leading global life sciences company that provides vital information to help doctors, hospitals, pharmaceutical companies, researchers, and patients make clear and confident decisions.

The company aims to leverage its strong diagnostics and drug development capabilities to provide key insights and accelerate innovations for its global partners.

It currently operates out of two sites in Leeds, with plans underway to consolidate the team into one building by early 2023 for more efficient, collaborative working.

The new Labcorp facility will be based in the heart of the Temple masterplan area where CEG, alongside Leeds City Council, are bringing forward up to 4 million sq ft of high quality accommodation for further development.

The area is already home to several technology and

life science companies and just minutes away from hospitals and key transportation links.

The company's new site in Leeds marks further investment by Labcorp Drug Development into the local economy.

The plans for the site include a 100-bed clinic - , expanding the Leeds clinic bed capacity by over 30% - pharmacy and Labcorp's UK office headquarters, retaining and creating almost 300 highly skilled scientific and healthcare jobs in the city.

Instead of building a new space to accommodate expanded clinical pharmacology services, a landmark building from the 1950s is being refurbished and brought up to code.

This decision has significant sustainability advantages, conserving environmental resources and drastically cutting down on potential waste and carbon emissions.

The major deals into places led by the Tees Valley, and the success in terms of value, volume and jobs overall in city and sub-regions has delivered an overall transformational achievement, not in 2050s but in the early 2020s. The growth in FDI flows into the North in recent years, especially in futureproofed sectors such as renewable energy is helping the Northern Powerhouse to begin the journey to raise its overall productivity, and then be able to close the North – South divide including in incomes for good.



DRIVERS OF INWARD INVESTMENT – PERSPECTIVES FROM PETER ARNOLD, EY’S CHIEF ECONOMIST

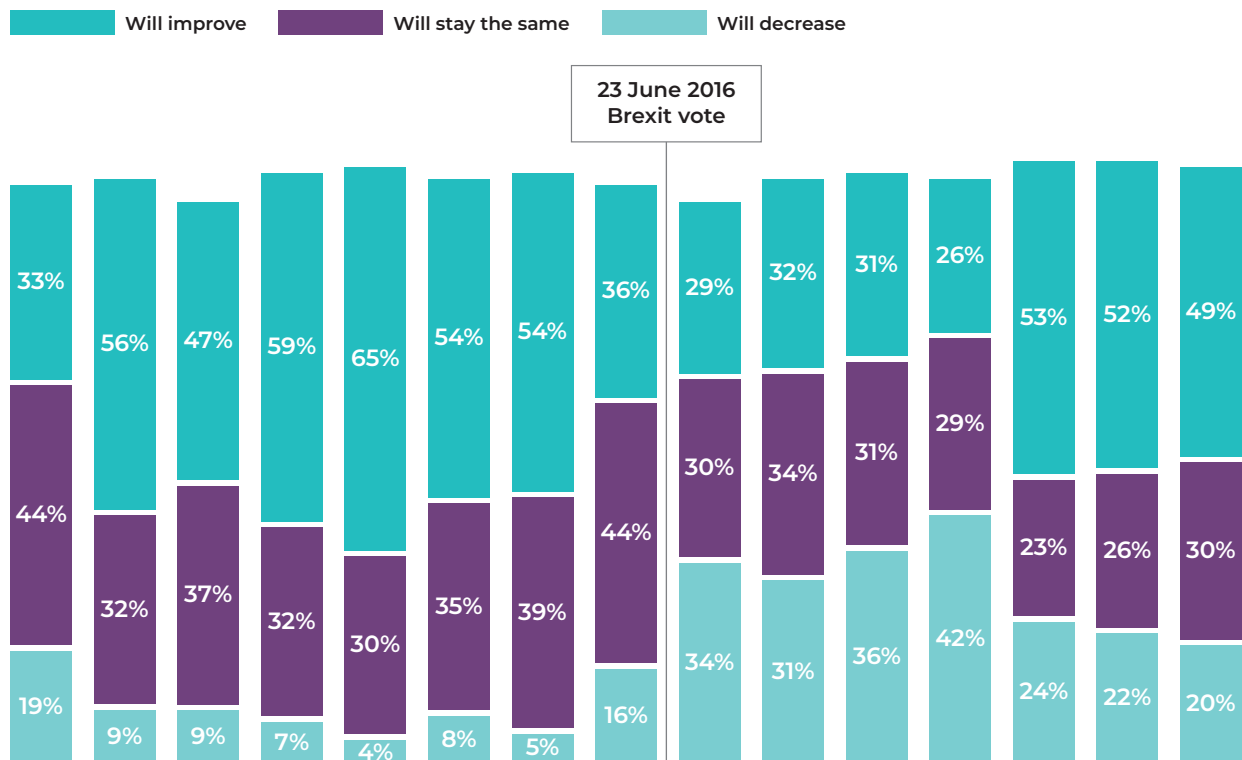
Drivers of inward investment

For over 20 years, EY’s UK Attractiveness Survey report has been the reference point for business leaders, investors and policymakers for understanding the drivers of inward investment, and the relative performance of the UK in an ever-changing landscape. Although the last few years have been turbulent - our analysis shows that the fundamentals of attracting investment; infrastructure, skills, incentives and support – remain as relevant as ever.

Long term perceptions of the UK are positive

Despite continued economic and political uncertainty, investors remain positive on the long-term attractiveness of the UK and have moved on from Brexit. The UK’s net approval rating – that looks at its attractiveness over a three year period – had been in decline since the 2016 Brexit referendum, but has improved markedly post-the EU-UK Trade and Cooperation Agreement (TCA) agreement, and stood at +29 in 2022.

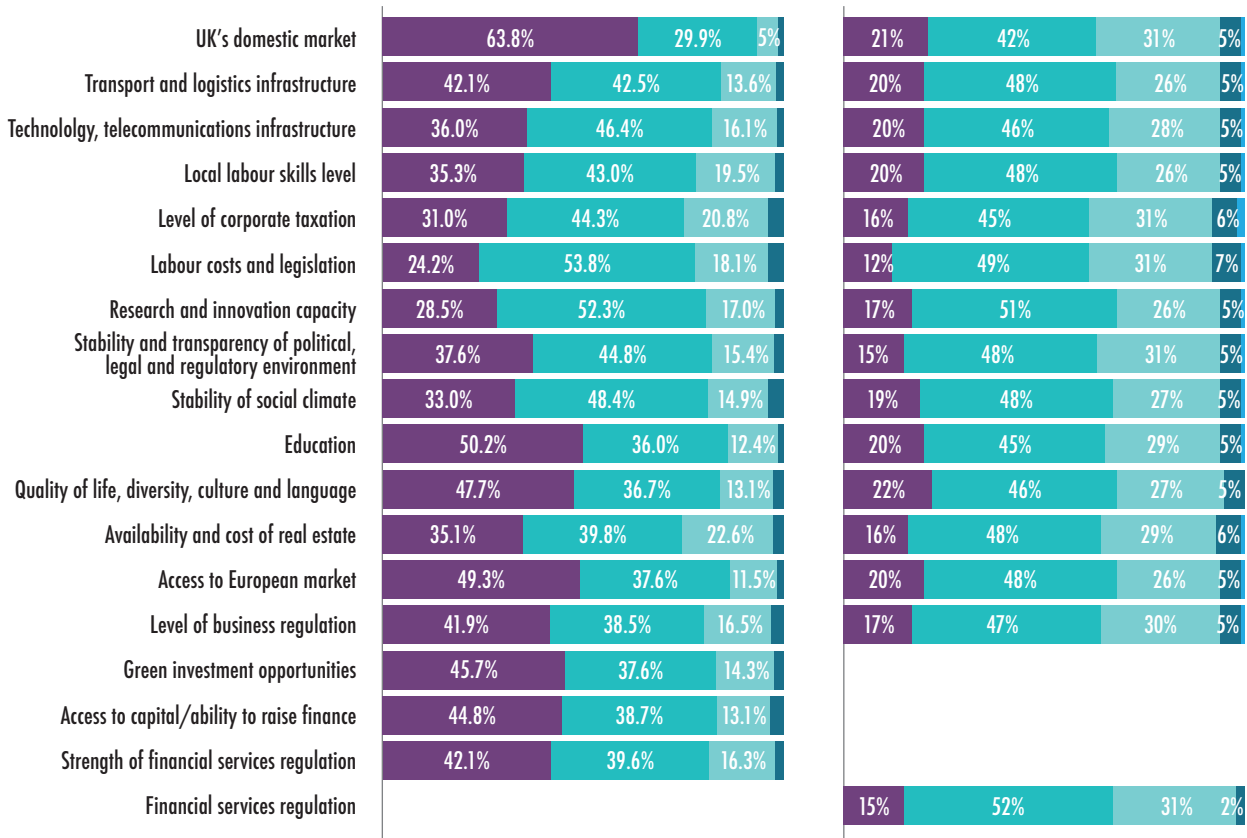
Figure 28: To what degree do you think the UK’s attractiveness will evolve over the next three years?



Source: EY Attractiveness Survey UK, April 2022 (total respondents: 442)

A deeper dive into the characteristics that investors regard as attractive provides further positive reinforcement of the UK's appeal. Our findings signal an improvement in how investors perceive the country largely across the board. The stronger ratings of the UK this year on infrastructure, its domestic market and labour costs are important, as these factors are high on the list of criteria that investors say drive their country location choices.

Figure 31: For each of the following criteria, from the point of view of your company, how attractive is the UK as a foreign direct investment destination?



Source: EY Attractiveness Survey UK, April 2022 (total respondents: 442)

Source: EY Attractiveness Survey UK, April 2021 (total respondents: 570)

Very attractive Fairly attractive Little attractive Not at all attractive Can't say

Growth opportunities built on UK competitive strengths

Investors are also clear on what the drivers of growth will be in the UK. Very much focusing on key areas of competitive strength in digital and tech, business and professional services, and life sciences and healthcare. There is also an opportunity around what we call "cleantech"; while cited by 19% of investors as a growth driver, when it is combined with energy, it gives a more accurate view of the opportunity that the drive to net zero represents.

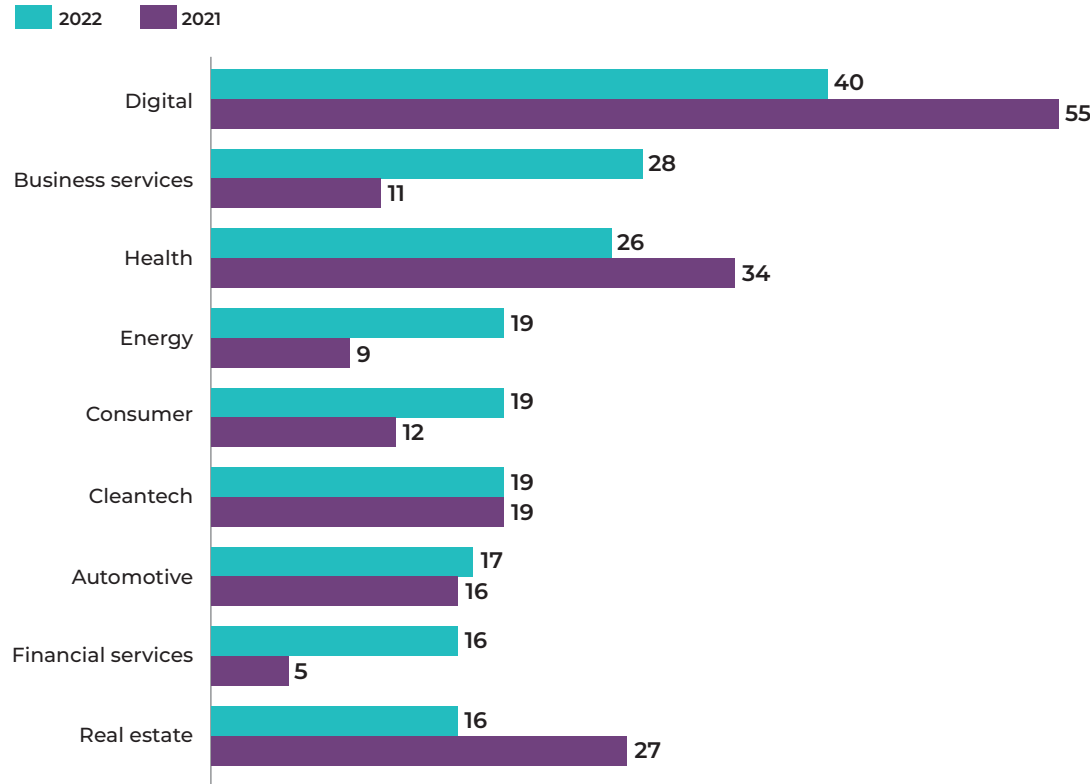
There is risk and opportunity here – it's important that the UK doesn't just become a deployer of overseas technology taking advantage of the strong geographic advantages the UK has in respect of energy generation, but also that it develops and builds these technologies to maximise the economic impact. As our Green UKAS survey from last October showed, Cleantech investments are weighted towards manufacturing projects, which represents an opportunity for levelling up the UK, as the regions of the UK in the North and Midlands with traditional strengths in manufacturing tend to be the areas where levelling up is most required. A stronger sectorial recovery in manufacturing across Europe also presents an opportunity.

DRIVERS OF INWARD INVESTMENT – PERSPECTIVES FROM PETER ARNOLD, EY’S CHIEF ECONOMIST continued

Figure 32: Which sectors will drive UK growth in future?

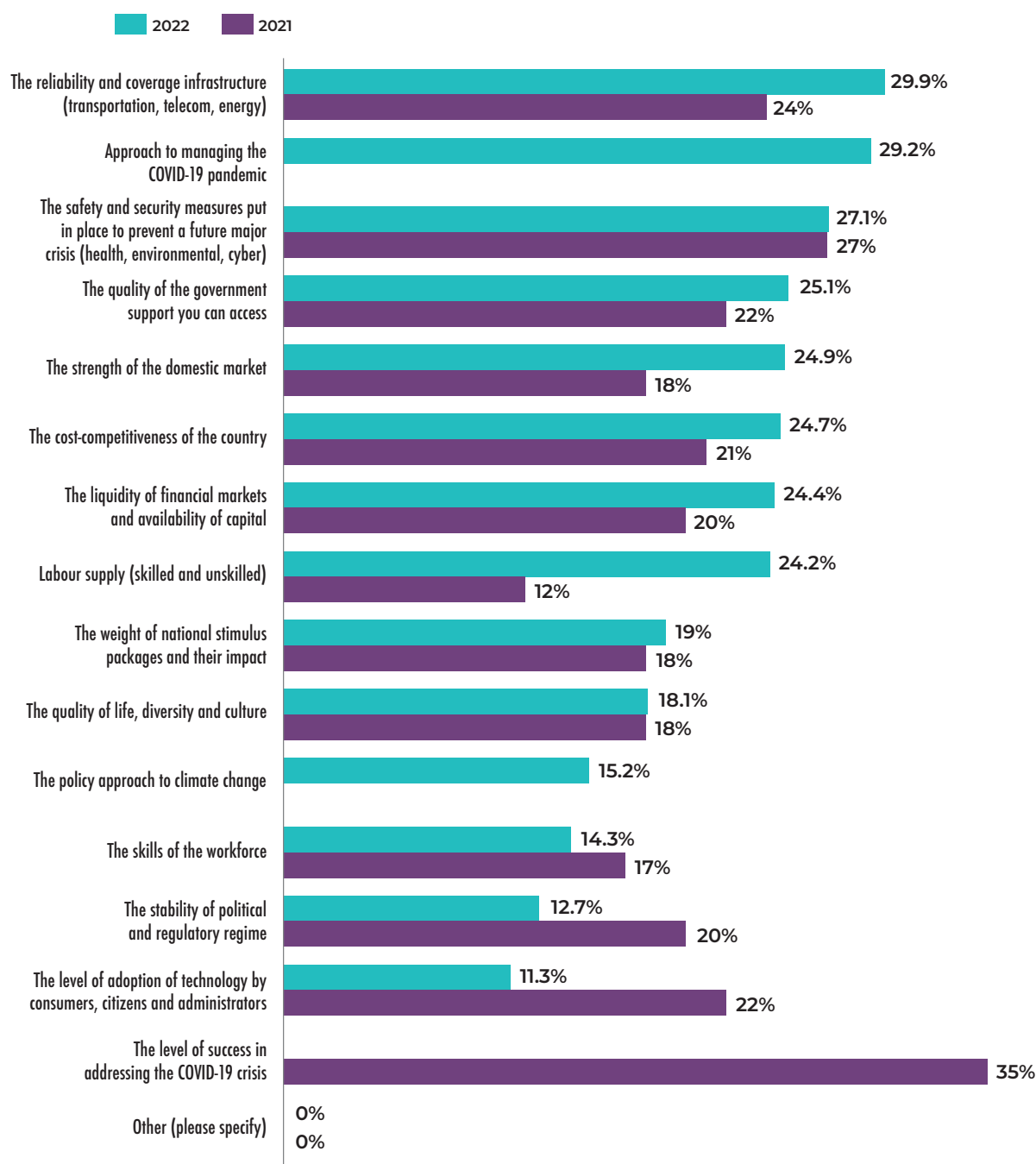
Investors looking for support from the public sector

The importance of Infrastructure, labour supply and skills came out strongly from our investor survey this year, both at a national and regional level. Some of this may reflect current challenges of a very tight labour market, particularly in key sectors, but just reiterates the importance of getting the fundamentals right. On top of this, investors do seem to be increasingly looking for support from the public sector, not just on incentives or taxation, but also on the practical challenges that a business faces when it enters a new location e.g. engaging with local suppliers and wider business networks, and navigating the operational challenges of site location and planning.



Source: EY Attractiveness Survey UK, April 2022 (total respondents: 442)

Figure 36: In your company's future location choices, what main factor will influence your decision to select a particular country?

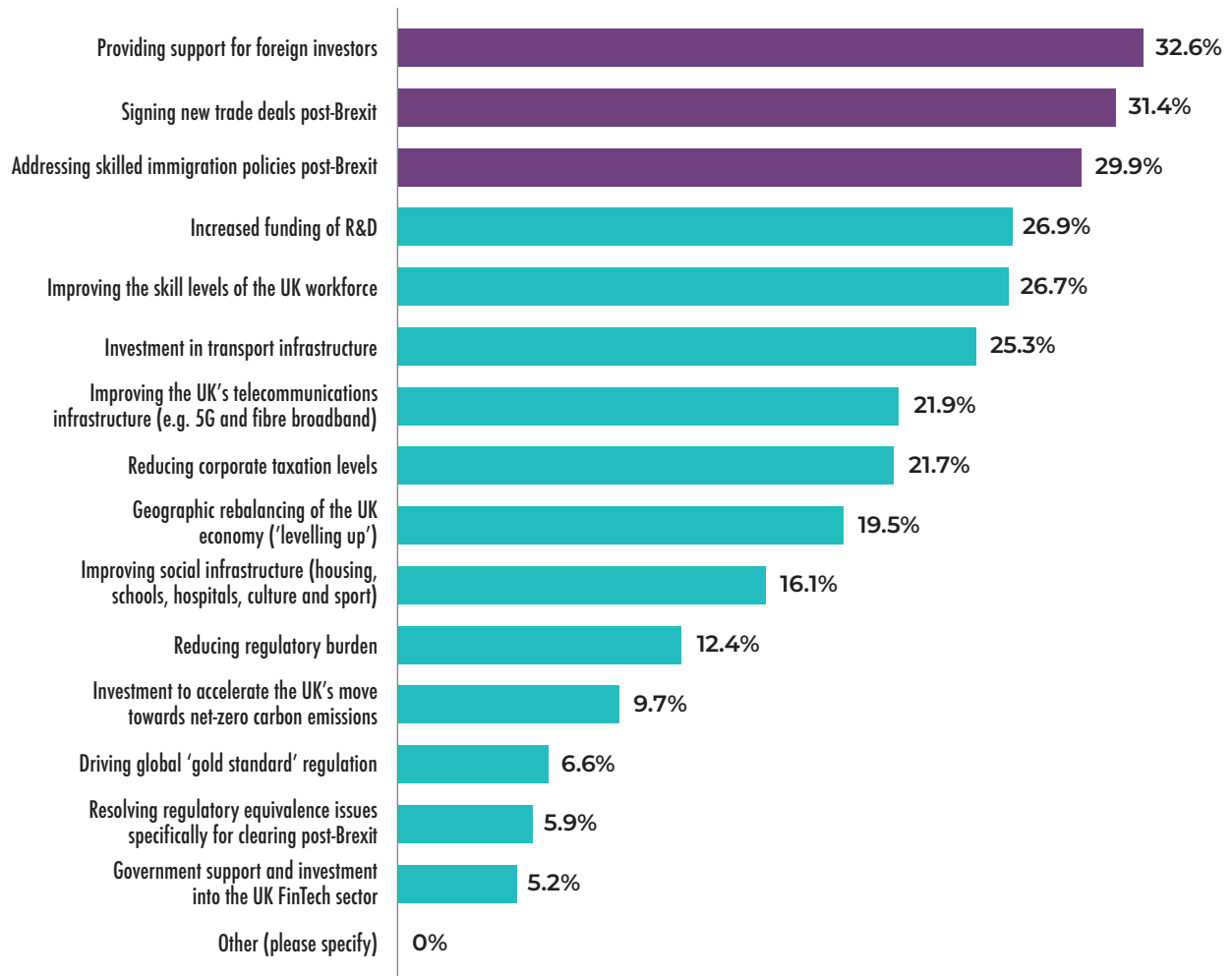


Focusing on the fundamentals of skills and infrastructure

In light of these evolving criteria for selecting an FDI location, what do investors want the UK Government to do? The answer is 'quite a lot'. When investors are asked to cite the domestic priorities they would like the UK Government to prioritise, we can see several common themes coming through strongly in their responses. Most strikingly, a total of 47% mention telecoms and transport and energy infrastructure, making this the top priority when choosing a country to invest in. Also, to maximise the opportunities available in a deglobalising and increasingly complex and risky world, investors want government support (33% versus 34% last year) as well as access to new international markets (32%, up sharply from 14% last year). This latter finding underlines the extent to which global trade challenges are weighing on investors' minds. There are several other significant changes in investors' wish-lists for UK policy. With 30% mentioning immigration and 27% skills improvement, up from 27% and 23% respectively in 2021, it's clear that they're concerned about the risks in the labour market.

DRIVERS OF INWARD INVESTMENT – PERSPECTIVES FROM PETER ARNOLD, EY’S CHIEF ECONOMIST continued

Figure 37: Which of the following areas should be domestic policy priorities for the UK Government to improve the UK’s attractiveness in the future?



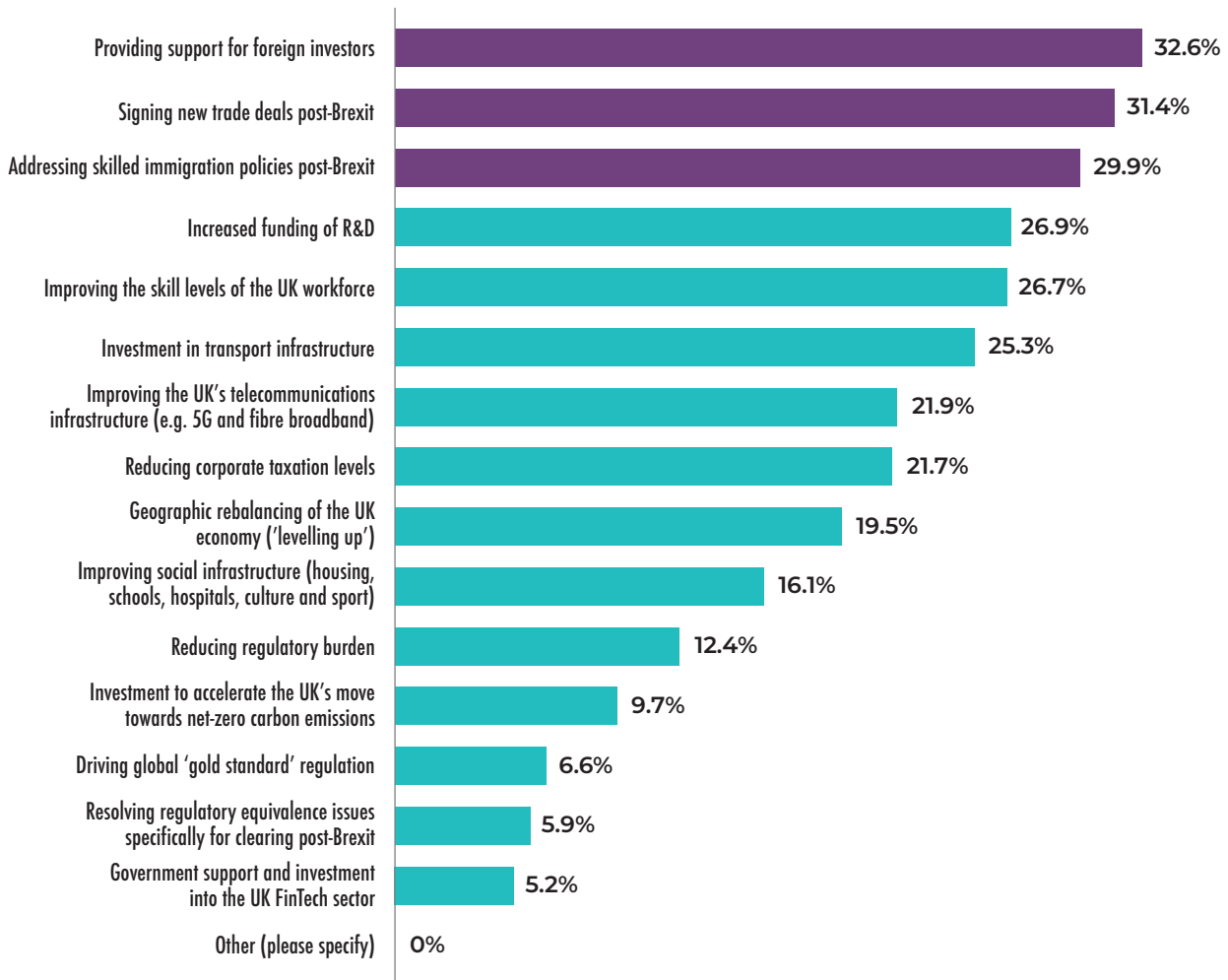
Source: EY Attractiveness Survey UK, April 2022 (total respondents: 442)

Success requires tailored policies

When investors are asked what drives their location decisions when considering investing in the UK’s regions outside of London, a somewhat different order of priorities emerges compared to those influencing their national decisions. At a regional level, skills and infrastructure (including both technology and telecoms) have been near the top of the priority list year after year. In 2022, skills are up from 21% to 27%: this increase, along with labour costs doubling in importance from 12% to 24%, demonstrates just how challenging and important the labour market is. By contrast, infrastructure is down from 40% to 32%, suggesting that concerns about this area may have eased.

Unsurprisingly, beneath the national level, the strength of business networks locally, support from regional economic development bodies, and access to regional grants make up the remainder of the top six factors. There is a very local flavour to the nature of support required to operate within a region of a country, as compared to some of the priorities applied when choosing the country itself. This layering of priorities requires devolved power and responsibility to encourage the growth of local ecosystems, rather than trying to shape and deliver everything from London. Policy design must embody a layered approach.

Figure 40: Which are your investment criteria when considering investing in the regional locations outside of London in the UK?



Source: EY Attractiveness Survey UK, April 2022 (total respondents: 442)

Plenty of opportunity

There is therefore real opportunity for regional bodies – particularly in the North – to increase inward investment, building on traditional sectorial strengths and taking advantage of the growth opportunities that the push to net zero, and ongoing technology innovation provide. However, investor expectations are always increasing, requiring a multi-layered approach to investment covering not just the fundamentals of resilient infrastructure and a highly skilled and motivated workforce, but also a more focused and holistic approach to investor relationships; landing new FDI should be seen as the start of a relationship, not the end of a transaction.

REPORT RECOMMENDATIONS

The Northern Powerhouse has had a strong focus on internationalisation since its inception, which is a key theme of the Northern Powerhouse Independent Economic Review. These recommendations are targeted at helping Northern business leaders, Metro Mayors, local and central government collaborate on rebalancing FDI so that we can close the North – South divide.

- 1** Free trade agreement (FTA) opportunities could be supported by member businesses of the Northern Powerhouse Partnership in sourcing overseas inward investors for northern projects (especially those promoted by Metro Mayors).

- 2** Trade showcases, such as the Global Investment Summit and this autumn's inaugural Green Trade and Investment Expo, should be developed by combined authorities and government then hosted jointly by the Prime Minister and Metro Mayors.

- 3** Introduce a new Northern Powerhouse Trade and Investment Leadership Board, co-chaired by the Levelling Up Secretary as Minister for the North and Secretary of State for International Trade

- 4** Build investment on promoting the Northern Powerhouse as an international brand and support export activity, by increasing the budget fivefold from central, metro region and private investment with all DIT officials promoting the Northern Powerhouse based overseas.

- 5** Build stronger links between FDI and innovation through the creation of world-class clusters in emerging innovation deals. Beginning with Greater Manchester, before securing at least two further such deals in the North East and Yorkshire, building on progress including clean growth clusters and accelerators like in Tees Valley.

- 6** Commit to giving each Metro Mayor the power to establish an FDI focused special economic zone with tax incentives by right, including up front funding to improve the readiness of strategic sites.

- 7** Influence over and devolution of all post-19 skills funding to Metro Mayors following the successful roll out in Greater Manchester and the West Midlands, as provided for in the Levelling Up White Paper.

LESSONS FOR THE WIDER UK

The place dimension to attracting FDI has been demonstrated by the success of the Northern Powerhouse in the last period, with unprecedented growth helping to maintain the UK's position despite retrenchment in London. However, the Northern Powerhouse was never based on the North of England being a replacement for London, it is as a counterweight that its role will maximise the benefits to UK plc of mutual success.

The following suggestions are offered to help frame discussion in the wider UK:

- 1** London is well-organised in FDI at a place level, and UK Government must develop a stronger, more constructive relationship with the London Mayoralty and the business community behind London & Partners. The recommendation for UK to co-host its major investment events with Metro Mayors will also increase the prominence of the London mayoralty as well; avoiding the risk of continued regional growth being not matched by more FDI into London also.
- 2** The decision by the areas of the country to collaborate more deeply has to be genuine and the brand has to have a significant economic relevance for it to have meaning in markets globally. Based on the work undertaken to date, the Western Gateway also has significant potential for FDI on that footprint, and with the leadership of civic leaders such as Bristol Mayor Marvin Rees as well as business leaders this would be a strong proposition. The benefits of this to addressing performance in many Welsh travel to work areas in this economic corridor should not be understated.
- 3** In Scotland, the creation of strong Mayoralties in city region such as Glasgow or Aberdeen could help create the same dynamic the North has; of places within a broader economy having autonomy within a wider geographic and political unit. There are many wider benefits of these governance changes, and their relevance to FDI attractiveness will only be one criteria for consideration by those there.

▼ *Bradford, West Yorkshire, has benefitted from higher FDI in recent years thanks to the Northern Powerhouse internationalisation strategy*



