



Arbenigwyr mewn Busnes
Experts in Business

About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with business at a grassroots level. It undertakes regular online surveys of its members as well as a biennial membership survey on a wide range of issues and concerns facing small business.

Introduction

1.1 FSB Wales welcomes the opportunity to inform the Economy, Infrastructure and Skills Committee's work on selling Wales to the world. FSB Wales sees the international dimension of economic development policy as being vital to Wales' future prosperity.

Trade and Investment

Trade and Investment strategy

2.1. As a general point, Welsh Government does not currently have a publically available trade and investment strategy for Wales. Given the likely disturbance to export markets and potential for additional international trade barriers arising from Brexit, it is important that Welsh Government sees expanding and diversifying the Welsh export base as a priority. Such a strategy would guide the work of Welsh Government's overseas offices in terms of export support for firms and would also inform the Business Wales offering.

2.2. An explicit trade and investment strategy would also guide decision making on inward investment, ensuring that inward investment is driven by economic development priorities around developing Welsh supply chains. FSB Wales notes that the Scottish Government introduced a Trade and Investment Strategy last year covering similar themes.¹

Welsh Government should develop a Trade and Investment Strategy to sit under the forthcoming economic development strategy.

2.3. FSB Wales also believes that the strategy should consider whether an arm's length trade and investment body should be created, tasked with delivering a strong international Wales brand. For instance, the Scottish Government has Scottish Development International (SDI) whose task it is to deliver inward investment and ensure the overseas presence is delivering to the Scottish Government's strategy.

2.4. Perhaps more relevant is the example of Enterprise Ireland. Like SDI, Enterprise Ireland operates a number of overseas offices, including a large number within the European market. Enterprise Ireland also provides specific market strategies such as their 2017-20 Eurozone Market

¹ Scottish Government. 2016. *Global Scotland: Scottish Government's Trade and Investment Strategy 2016-20* [Online]. Available at: <http://www.gov.scot/Publicationsg/2016/03/7779> (accessed 22nd August 2017).

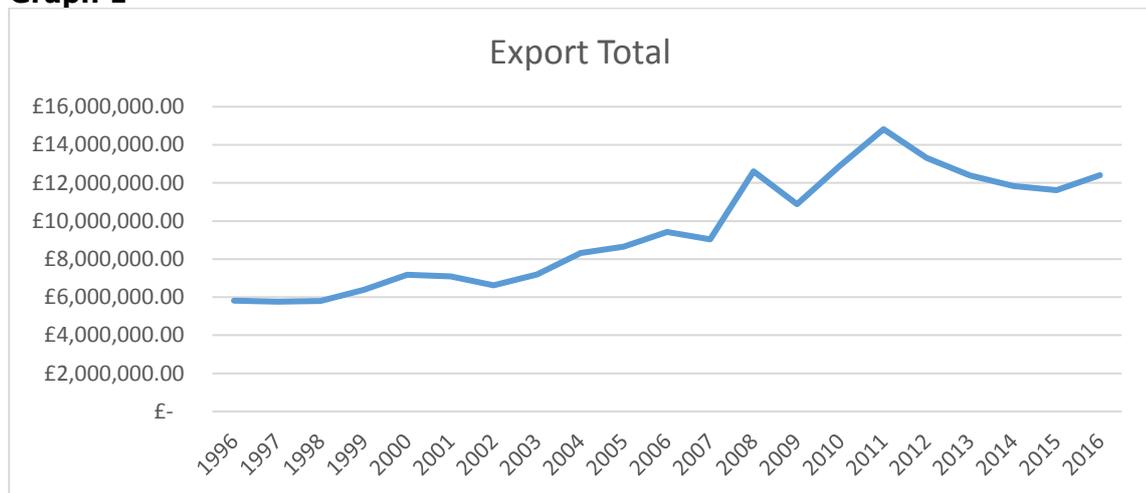
Strategy² and their international events programme³ which chimes well with some of the potential functions of Welsh Government’s existing overseas offices and appears to have a strong focus on internationalising the Irish economy, be they start ups or existing exporting businesses.

The potential for an arms-length trade and investment body along the lines of Enterprise Ireland or Scottish Development International should be considered for Wales.

Wales’ export performance

2.5. Wales’ export performance has historically been fairly strong, owing to a larger number of manufacturing firms compared to the rest of the UK. Data from HMRC’s Regional Trade Statistics suggest that the volume of trade doubled between 1996 and 2016 to around £12bn with a peak of near £15bn in 2011.

Graph 1



2.6. This headline figure is encouraging but only tells us half of the story. Data produced by the UK Government’s Department for International Trade suggests that there were around 3,800 firms actively exporting goods from Wales in 2016 which was around 2.5 per cent of the UK total. Furthermore, of those firms that do export goods the average value of goods exporter per exporter was £3,251,000 compared to £1,763,000 by the average exporter in England. This suggests that Wales’ has a smaller number of larger firms exporting compared to the situation in England.⁵

² Enterprise Ireland. 2017. *Eurozone Market Strategy 2017-20* [Online]. Available at: <https://www.enterprise-ireland.com/en/Publications/Reports-Published-Strategies/Eurozone-Strategy.pdf> (accessed 22nd August 2017).

³ Enterprise Ireland. 2017. *International Events Programme 2017* [Online]. Available at: <https://www.enterprise-ireland.com/en/Publications/Reports-Published-Strategies/International-Events-Programme-2017.pdf> (accessed 22nd August 2017).

⁴ HMRC Regional Trade Statistics

⁵ Department for International Trade. 2017. *Regional goods export data: January to March 2017* [Online]. Available at: <https://www.gov.uk/government/publications/regional-goods-export-data-january-to-march-2017> (accessed 22nd August 2017).

2.7. Whilst it is difficult to draw conclusions from this, one potential explanation could be that Wales has a less diverse stock of smaller exporting companies.

Wales' exports have grown significantly over previous years but appear to be less diverse and focused on a smaller number of firms exporting larger quantities than in England.

Small firms and exporting in Wales

2.8. Our research shows that one in five small firms currently export in Wales. Leaving the single market might allow UK firms to trade more easily with other global markets in the long term, markets such as the US, Australia and China.

2.9. However, it's evident from our survey work that the EU single market remains the top trade destination for both UK and Welsh small firms. Welsh SMEs that do export are four times more likely to export to an EU destination than a destination outside the EU. Around one fifth of FSB's membership in Wales exports, with around 13.5% of our members importing goods or services. Generally this is in line with the UK average.

2.10. The majority of our exporting members in Wales are exporting services and digital services. Significantly, Welsh business are more likely to be exporters of digital goods and/or services than they are to import these items, demonstrating a relative strength of the Welsh economy (though also in line with the relative strengths of the UK economy).

2.11. Where importing does occur, our members are generally importers of goods (68.8%) rather than services or digital services.

Around a fifth of Wales' SMEs are export orientated with the EU being the top destination for Welsh goods and services.

Welsh Government overseas offices

2.12. Since 2011 Welsh Government has reviewed its overseas presence and begun establishing a series of overseas offices, largely by locating staff in existing DIT or UKFCO office locations. The stated aim of the offices on the Welsh Government is as follows:

"The offices are multi-functional. They are responsible for trade and investment, government relations, tourism, culture and education. The primary focus of the Brussels office is on EU matters."⁶

2.13. Focusing specifically on their export role, it is difficult to ascertain what their priorities are or what function/service they provide for firms looking to export to each of the countries concerned. As table 1 demonstrates, export performance between 2013 (when the methodology for export data changed) and 2016 shows poor performance in all of the countries with a Welsh Government office presence. Moreover, two countries where exports rose significantly over the same period, France and Germany, have no Welsh Government presence.

⁶ Welsh Government.2014. *Overseas Offices* [Online]. Available at: <http://gov.wales/topics/international/international-relations/overseas-offices/?lang=en> (accessed 22nd August 2017).

Table 1 ⁷

| Wales Special Trade (£m) | 2013 | 2014 | 2015 | 2016 | % Change |
|--------------------------|-------|-------|-------|-------|----------|
| USA | 1,871 | 1,885 | 1,691 | 1,631 | -13 |
| Belgium | 551 | 529 | 441 | 432 | -22 |
| UAE | 86 | 77 | 83 | 76 | -12 |
| India | 120 | 103 | 98 | 94 | -22 |
| Japan | 205 | 134 | 93 | 93 | -55 |
| China | 264 | 212 | 209 | 255 | -3 |
| Germany | 2,079 | 2,329 | 2,885 | 2,909 | 40 |
| France | 1,544 | 1,530 | 1,594 | 2,047 | 33 |

2.14. The immediate conclusion we can draw from this is that Wales' export performance bears no resemblance to Welsh Government's overseas office locations. There may be two reasons for this. Firstly, the offices are under-resourced and unable to properly service this function. Alternatively, increasing export capacity may not be seen as a core function of Welsh Government's overseas presence. As mentioned above, Welsh Government does not have a trade and investment strategy, so it is likely both of these factors are relevant.

2.15. FSB Wales would suggest a trade and investment strategy would give purpose to the overseas office, ensure the office locations fit Wales' export potential and deliver seamless throughput from Business Wales to potential export destinations. It would also inform the work and purpose of websites such as tradeandinvest.wales. As part of this, consideration should be given to increasing Welsh Government's presence in core European markets such as France, Germany, Italy and Spain (as happens with Enterprise Ireland) in order to ensure opportunities are maintained and increased throughout the Brexit process.

Welsh Government's overseas offices do not seem to have a tangible effect on export performance. Their role should be clarified as part of a Trade and Investment Strategy.

2.16. Welsh and UK Government export support
Welsh Government currently provides most of its export support through Business Wales. This is split into three categories (first steps, finding opportunities and getting to market) and is supported by tapered match funding through Business Wales. On the whole, the guidance from the Business Wales website is well articulated.⁸ Furthermore, there appears to be good linkage through to the UK Government's Department for International Trade's support, such as their comprehensive country guides.⁹

⁷ Stats Wales. 2017. *Value of Welsh Exports by quarter and destination (£m)* [Online]. Available at: <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Exports/welshexports-by-quarter-destination> (accessed 22nd August 2017).

⁸ Business Wales. 2017. *Support to Export Guide* [Online]. Available at: [https://businesswales.gov.wales/zones/export/how-we-can-help/support-export-guide#Getting to market](https://businesswales.gov.wales/zones/export/how-we-can-help/support-export-guide#Getting%20to%20market) (accessed 22nd August 2017).

⁹ Business Wales. 2017. *Where to Export: Exporting Country Guides* [Online]. Available at: <https://businesswales.gov.wales/zones/export/where-export> (accessed 22nd August 2017).



Arbenigwyr mewn Busnes
Experts in Business

Welsh and UK Government appear to link their support services well through the Business Wales website.

2.17. In the future, Welsh Government may have a role to play in informing any future free-trade agreements the UK Government signs. We would expect the priorities for Welsh Government in this regard would emerge from its trade and investment strategy and would also include a commitment where possible to small business chapters in any free trade deal.

Welsh Government should examine the impact of future trade deals as part of its Trade and Investment Strategy.

2.18. Welsh Government also operates a series of sector specific trade missions. In the past, there has been limited engagement between SMEs and Welsh Government's trade missions and we would like to see a trade and investment strategy set out clear aims in terms of encouraging broader SME engagement with trade missions.

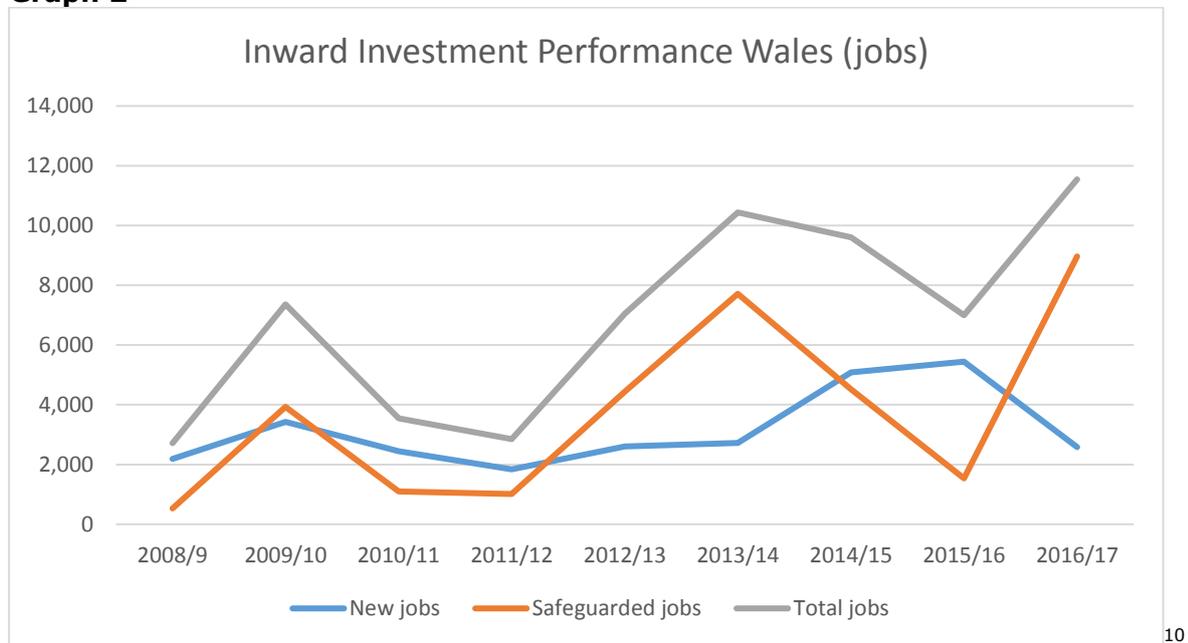
A future trade and investment strategy should set out clear aims around increasing the participation of SMEs with overseas trade missions.

Inward Investment

Inward Investment Performance

3.1. Since 2008 Wales has performed well in terms of inward investment, with peaks in terms of numbers of project in 2014/15 and 2015/16 years. It is important to note that the nature of this inward investment has changed with a larger part relating to 'safeguarded jobs' rather than the creation of 'new jobs' (see graph 2).

Graph 2

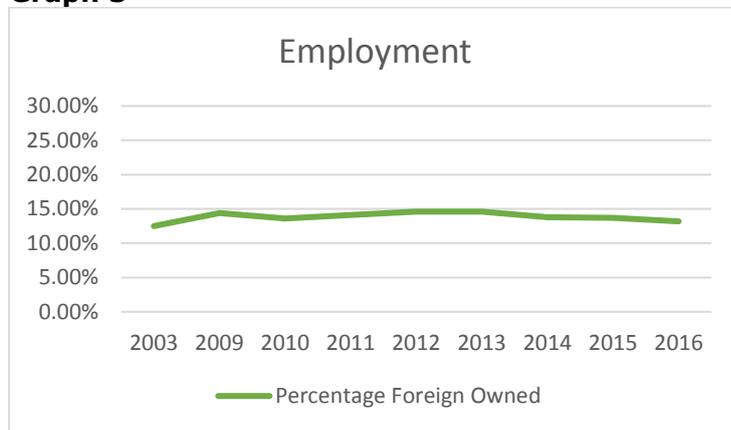


3.2. Despite this performance, its significance needs to be placed in a wider economic context. Taking into account foreign owned companies in Wales and their employment footprint, we can see that between 2003 and 2016 these companies accounted for a steady share of 15% of Wales’ total employment (see graph 3). This equates to a constant share of around 150,000 jobs over the entire period. This suggests that as many jobs leave Wales as investors relocate in search of other government sponsored locations, as are created by incoming firms. By contrast, over the same period domestic SMEs in Wales produced around 160,000 additional jobs, 10,000 more than the equivalent existing stock of inward investment jobs.¹¹

¹⁰ Various Department for International Trade Inward Investment Annual Reports.

¹¹ Statistics for Wales. 2016. *Size Analysis of Welsh Businesses* [Online]. Available at: <http://gov.wales/docs/statistics/2016/161129-size-analysis-welsh-business-2016-en.pdf> (accessed 22nd August 2017).

Graph 3¹²



3.3. This suggests two things. Firstly, that the overall impact of foreign direct investment on jobs growth is limited, particularly over a medium-term timeframe. Secondly, that the figures for those employed by foreign firms remains fairly static despite significant fluctuations in Wales’ inward investment performance over the period. In this respect, Welsh Government’s inward investment policy is effectively running to stand still.

Despite fluctuations in inward investment performance, foreign owned firms have consistently accounted for around 15 per cent or around 150,000 jobs in Wales since 2003 with a limited impact on jobs creation.

By contrast, SMEs have created around 160,000 new jobs, more than the stock of inward investment employment since 2003.

Purpose of Inward Investment

3.4. FSB Wales believes the introduction of a new economic development strategy for Wales provides an opportunity to critically evaluate the purpose of inward investment policy in Wales. It is our view that inward investment has been central tenet of Welsh economic development policy for decades without such a critical evaluation as to its purpose in economic development terms (excepting work undertaken by the Welsh Economy Research Unit).¹³ Whilst we see inward investment as vital for driving economic development, it has in the past been about providing new or safeguarding jobs at all costs.

3.5. Despite this focus, the evidence above suggests the impact of inward investment on job numbers in Wales over the past 15 years has at best been static. Moreover, Welsh Government’s approach focuses significantly on jobs created or safeguarded by new projects but does not take into account jobs lost as footloose investors relocate in search of government financial support elsewhere in the world.

¹² *IBID*

¹³ Munday, M. Roche, N & Roberts, A. 2009. *A review of the economic evidence on the determinants and effects of foreign direct investment* [Online]. Available at: <http://gov.wales/docs/caecd/research/090617-foreign-direct-investment-en.pdf> (accessed 22nd August 2017).

3.6. In its place, FSB Wales believes Welsh Government should adopt an approach to inward investment that prioritises the right kinds of projects to help build on Wales' assets and to grow our domestic capacity. This would mean supporting projects only where it is clear that there is development opportunities for the supply chain with domestic firms (or the potential to engender the emergence of domestic firms in such a sector).

3.7. Achieving such a policy would require two things. Firstly, Welsh Government would have to develop a broader set of metrics for assessing the impact of inward investment based on its economic development aspirations. Secondly, Welsh Government would have to develop its own inward investment offer towards conversations based on linking domestic firms with potential investors, rather than on number of jobs created. This would entail far greater linkages between attempts to develop SMEs in Wales with the aims of attracting inward investment.

Inward investment should be refocused towards broader economic development aims. This would mean focusing on inward investment projects that add value to Wales' domestic business stock rather than a pursuit of jobs alone.

Welsh Government overseas offices

3.8. Research undertaken by Professor Max Munday on behalf of the Public Policy Institute for Wales suggests that it is difficult to estimate the importance and efficacy of overseas offices in attracting foreign direct investment. Furthermore, Prof Munday states; "*where a trade office is located in a sphere allowing opportunities across exports, inward investment, education and tourism, its success will depend strongly on the experience of personnel, their background, and with this potentially impact the types of social and business networks which they are able to participate in*".¹⁴ This suggests that the level of resourcing and personnel is as important as location in determining efficacy.

3.9. Information published through a Freedom of Information request in 2015 by the Welsh Conservatives suggests the following budgets for Welsh Government's overseas offices:¹⁵

Delhi (£20,790)
Brussels (£936,555)
Bangalore (£25,308)
Beijing (£80,442)
Chicago (£38,361)
Chongqing (£175,079)
Dubai (£142,262)
Ireland (£56,201)
Mumbai (£70,009)
New York (£250,346)
San Francisco (£57,415)
Shanghai (£114,399)
Tokyo (£314,348)

¹⁴ Prof Max Munday/PPIW. 2014. *Decisions Decisions: How should the Welsh Government decide where to locate its overseas offices?* [Online]. Available at: <http://ppi.w.org.uk/files/2014/10/Decisions-Decisions-How-should-the-Welsh-Government-decide-where-to-locate-its-Overseas-Offices.pdf> (accessed 22nd August 2017). P.6

¹⁵ Welsh Conservatives. 2015. *Jump in Welsh Government's Overseas Office Costs*. [Online]. Available at: <https://www.welshconservatives.com/news/jump-welsh-governments-overseas-office-costs> (accessed 22nd August 2017).

Washington DC (£168,832)

3.10. The figures above suggest that the resourcing of the offices varies considerably with political offices (i.e. Brussels and Washington) having a stronger presence than for instance the Bangalore or Delhi offices. Given the overseas offices could potentially fulfil a number of roles such as promoting exports, political facilitation, attracting inward investment and marketing Wales as a tourism destination, FSB Wales believes an international trade and investment strategy would help clarify the role of each office and would resource them according to their purpose.

Welsh Government's overseas offices should be purposed by a trade and investment strategy. This should set out clearly the rationale for each overseas office and how its resourcing enables it to deliver its objectives.

Tourism

4.1. FSB Wales notes that the Enterprise and Business Committee in the previous National Assembly for Wales conducted an extensive inquiry into tourism in Wales during 2014. This inquiry covered tourism in its entirety and considered a number of issues around marketing and the Wales tourism brand, as well as the relationship between Visit Wales and Visit Britain.

4.2. We note Welsh Government's publication in 2016 of a progress review of the tourism strategy *Partnership for Growth*.¹⁶ This review suggests that significant progress is being made with respect to the 10 per cent growth target in earnings for the industry.¹⁷ It also highlights a growing proportion of overseas visitors coming to Wales (although these numbers are still below the peak of 1.1m in 2006) despite a declining market share in relation to inbound UK tourism.¹⁸

Wales' tourism performance has improved since the Enterprise and Business Committee's inquiry in 2014.

4.3. Despite this progress, a number of the recommendations of the previous committee's work remain pertinent. For instance, the budget for Visit Wales is still smaller than competitors across the UK, despite a recent budget rise of around £5m in the 2017/18 Welsh Government budget bringing it to a total of £15m. By comparison, Visit Scotland has around £45m in grant aid from the Scottish Government¹⁹ whilst Failte Ireland in the Republic of Ireland forms part of a tourism budget of around €121m.²⁰

4.4. The Enterprise and Business Committee's report recommended that the Welsh Government should review whether its funding for tourism was sufficient. We believe this needs to be

¹⁶ Welsh Government. 2016. *Partnership for Growth: Strategy for Tourism 2013-2020 – Strategy Progress Review* [Online]. Available at: <http://gov.wales/docs/drah/publications/161116-strategy-review-en.pdf> (accessed 22nd August 2017).

¹⁷ IBID p.6

¹⁸ IBID P.29

¹⁹ Visit Scotland. 2016. *Annual Report and Financial Statements for the Year Ended 31 March 2016*. [Online]. Available at: <http://www.visitscotland.org/pdf/VS%20Annual%20Accounts%202015-16.pdf> (accessed 22nd August 2017). P.19

²⁰ Irish Government. 2015. *Budget 2016 sees 8% increase for Dept of Transport, Tourism & Sport which will support the economy & secure the recovery* [Online]. Available at: <http://www.dttas.ie/press-releases/2015/budget-2016-sees-8-increase-dept-transport-tourism-sport-which-will-support> (accessed 22nd August 2017).



Arbenigwyr mewn Busnes
Experts in Business

undertaken, with a view to moving towards a similar funding settlement to those seen in other parts of the British Isles. This would allow Visit Wales to broaden its current target overseas markets from Ireland, Germany and the USA towards closer integration with Wales' presence through its overseas office footprint. This would also help to align the work with a potential trade and investment strategy.

Welsh Government should review its funding for Visit Wales with a view to meeting a similar funding commitment to other agencies in the British Isles.

4.5. The Enterprise and Business Committee report also identified significant issues around the way Visit Wales interacts with Visit Britain, and the importance Visit Britain gives to the Wales brand more generally. FSB Wales is not aware of any action taken by Visit Britain to remedy this situation since the previous inquiry. While the Visit Britain website appears to give more prominence to Wales as a destination than in a past, this is still patchy. For instance, the Sport section of their website includes no attractions in Wales and focuses largely on the south east of England.

FSB Wales suggests the committee further considers how Visit Britain contributes to brand Wales overseas.

BREXIT

5.1. The UK's exit from the European Union will lead to a redefinition of Wales' relationship with many of its key export and tourism markets. As such, Welsh Government policy needs to be highly responsive to these changes and focused on securing the best possible presence for Wales overseas in terms of exports, inward investment and tourism.

5.2. With regards to exports and inward investment, FSB Wales believes an arms-length trade and investment body could provide the capacity and strategic oversight needed to deliver good outcomes through this process. Likewise, a properly resourced Visit Wales should aim for similar goals in the context of overseas tourism in Wales.

FSB Wales believes Welsh Government should be proactive in defining Wales' international presence throughout the Brexit process.

Conclusion

FSB Wales welcomes the opportunity to inform the Economy, Infrastructure and Skills Committee's work on selling Wales to the world. This response sets out the position of FSB Wales on Welsh Government's policies and performance in relation to trade and investment, tourism and our international presence more generally. FSB Wales sees the international dimension of economic development policy as being vital to Wales' future prosperity.