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JOB LOSS AND JOB CREATION: PITFALLS AND OPPORTUNITIES?

BREXIT, FOREIGN INVESTMENT AND EMPLOYMENT

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Recommendations for a post-Brexit inward investment strategy

- **A strategy should be UK-wide, based on understanding the benefits of particular forms of investment for particular regions and sectors.** It is important that the UK does not return to the days prior to the single market, when regions competed with each other for foreign investment.

- **When selecting key sectors for inward investment, focus on good-quality job creation.** For example, 'high value added' FDI adds significantly to the underlying technological base of the economy and typically creates fewer yet higher-skilled jobs. FDI that generates large scale employment is typically associated with less cutting edge technology and a lower skill base.

- **Maximise the returns on inward investment**, for example by capitalising on the benefits of inward investment to supply chains, and stimulating knowledge transfer from inward investors into local firms.

- **Focus inward investment efforts on sectors where free trade with the EU is less important.** For example, maximise the benefits of large scale investments in infrastructure (e.g. HS2) by building robust supply chains and supporting skills for jobs associated with infrastructure development such as project management.

About this briefing

This briefing outlines recent policy-orientated research from the University of Warwick on the impact of Brexit on inward foreign direct investment (FDI) and employment. It presents a number of policy recommendations based on this research, to mitigate the negative effects of Brexit on inward investment and job creation.

Above all, the Government needs to avoid a hard Brexit that sees tariff barriers returning, and secure a trade deal that prioritises access to the single market for as many sectors as possible, as soon as possible.

Context: Drivers of inward investment

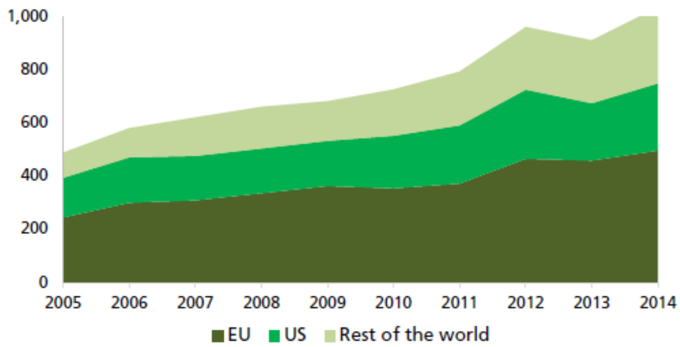
Most of the investment in the UK from abroad may be classified as either 'market seeking' (firms coming to the UK to serve customers across the single market or the UK) or 'efficiency seeking' (firms seeking the most efficient location to supply multiple markets and enable post-export activities). For efficiency seeking investment to take place, cross-border markets must be well developed and open.

Inward investment, productivity and jobs

Inward investment is of vital importance to the UK economy and creates significant job opportunities, often in areas of high unemployment, which are multiplied by supply chain activity.

Inward investors have some 40 per cent higher productivity and pay some 20 per cent higher wages than the average for UK firms - this difference has been stable for some thirty years. Compared to other G7 countries, the UK has had the highest percentage of inward FDI as a proportion of GDP, at 64 per cent in 2014 (ONS 2016). Much of this investment is from other EU member states, as the figure shows.

Inward investment to the UK by source (stock, £ billion)



Source: ONS 2015

How will Brexit affect inward investment?

There will be challenges for investors if they seek to operate supply chains that cross (sometimes several times) between the UK and EU. Japanese investors have been keen to stress that future investment in the UK depends on tariff free and barrier free trade with the EU that is as uncomplicated and predictable as possible. Nissan has commented that it will review its decision to build the next generation of one of its car models in the UK when the form of Brexit is clearer. Most recently, Honda has warned MPs of the consequences of leaving the customs union.

Devaluation in sterling is also likely to have a negative effect on FDI. A weaker currency will eventually lead to concerns over lower returns and inevitably drive investment elsewhere.

Post-Brexit investment and decent work

To mitigate the effects of Brexit on inward investment, it is reasonable to assume that the Government will drive increases in labour market flexibility (in line with the current trend towards temporary part-time and zero-hours contracts) to improve the UK's competitiveness in terms of labour cost. Such policies have proved popular with inward investors but this approach is often criticised: although job creation has been strong in the UK since the economic crisis, real wages have fallen. There is an emerging consensus among labour market and welfare state researchers that it is not enough to create jobs - rather, we need to ensure decent work and wages.

Following Theresa May's speech in July 2016 that announced the goal of making "the economy work for everyone" (Conservative Party 2016), the Government released the *Building our Industrial Strategy* (HM Government 2017) green paper with the aim of improving economic growth and living standards post-Brexit. Although this document acknowledges the problem of low wages, it is discussed primarily as a barrier to productivity rather than a problem in its own right.

There is a basic tension between offering inward investors access to a low cost, flexible workforce and ensuring decent work and wages to employees. It is vital that post-Brexit investment strategies do not overlook the creation of decent work.

Further information

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