Position Paper

BritishAmerican Business Response to Lord Harrington's Review into the Government's Approach to Attracting Foreign Direct Investment

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Introduction

In March 2023, the Chancellor and the Secretary of State for Business and Trade commissioned an independent review into the UK's attractiveness for Foreign Direct Investment (FDI). The aim of the Review was to look at how the UK can improve its overall attractiveness and experience for companies considering investing in the UK, particularly with a view to increased competition for FDI from overseas. A core element of the review was an in-depth consultation with business. The final report, as well as the UK Government's response to the recommendations, were published in November 2023.

BritishAmerican Business (BAB), as the leading transatlantic trade association, incorporating the British-American Chamber of Commerce in the US and the American Chamber of Commerce in the UK, welcomed the Review and its objectives.

FDI has historically been a large pillar of the UK's economic success, particularly as it relates to its relationship with the US. As a global centre for innovation and growth, the US is critical to the UK's economic success as both the UK's largest trading partner and foreign investor. In 2021, the inward stock of FDI from the US was £675.7 billion and accounted for 33.7% of the total UK inward FDI stock.[1] The importance of the US-UK relationship is further evidenced by the vast number of US companies with a presence in the UK.[2] Additionally, official data suggests that business units for US-owned multinational companies with presence in the UK are on average larger than domestic business units, have positive effects on local employment, and increase overall UK exports.[3]

Overall, both the current US-UK relationship as well as the UK's global standing as an attractive investment destination are strong, reflected in a continued stream of relevant investment announcements by US (and UK) companies in the UK, such as Microsoft's £2.5 billion investment over the next three years to expand its next generation AI datacentre infrastructure, or Google's £1 billion investment in a new data centre in the UK.[4]

Nevertheless, the BAB/Bain & Company Transatlantic Confidence Index for 2023, released in June 2023 (and referenced throughout the Harrington Review), demonstrated some concern among leading transatlantic firms about the UK's attractiveness as an investment destination in the future.[5] Indeed, the Index sent a warning signal, with confidence among US companies operating in the UK having dropped markedly, and for the third year in a row, citing anxieties over political stability, economic growth prospects and corporate tax, among others. The Harrington Review into the UK's approach to FDI is a welcome response to the Index's call for action.

This is BAB's response to the Harrington Review. The response re-emphasises the approach BAB has taken when feeding into the Review process. The response does not seek to comment on every single recommendation or UK Government responses, rather it will highlight some broader observations on the recommendations against BAB's own approach to FDI in the UK.

BAB's Approach to FDI in the UK

BAB has taken the view that the UK can achieve its economic potential in five ways:

- First, we encouraged the UK to use any opportunity that presents itself to set the global agenda in sectors where the UK is naturally strong. In that context, we very much welcome the successful work done around the AI Safety Summit, which reflected its world-leading position as an innovator in the tech sector.

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[1] Department for Business and Trade, Trade and Investment Fact Sheet: United States

[2] International Trade Administration, United Kingdom - Country Commercial Guide: Market Overview

[3] Department for International Trade, The role of United States-owned businesses in the United Kingdom

[4] HM Treasury, Boost for UK AI as Microsoft unveils £2.5 billion investment ; Google, Our $1 billion investment in a new UK data centre

[5] Bain & Company, US companies' confidence in UK drops for third year as anxieties over political stability, growth outlook and corporate tax aggravate Brexit concerns – Transatlantic Confidence Index | Bain & Company

- Second, we encouraged the UK to focus its resources on engaging and leading based on its existing strengths, which includes identifying industries with high growth potential, as well as leveraging UK influence on critical issues such as IP globally.
- Third, we encouraged the UK to be innovative yet prudent about how to reshape existing frameworks. In that regard, we acknowledge the solid work behind the Financial Services and Markets Act, and we also welcome the recent decision to not diverge from the EU regarding CE marking for most goods.
- Fourth, we encouraged the UK to be cautious about when to diverge and when to be aligned with EU norms. We agree that the UK's departure from the EU opened opportunities to create an even more innovative and business-friendly environment in the UK. However, with the EU being the largest market for UK-based companies, and a standard-setter in many areas, we cautioned against trying to overhaul everything at once, with potential unintended consequences for the UK's ability to trade and to attract investment.
- Fifth and finally, we encouraged the UK to tie the investment conversation into all policy making decisions. We acknowledge that investment decisions do not exist in a vacuum and encourage a cross-sectoral and cross-departmental approach to boosting attractiveness. For example, we welcome the Government's integrative approach to improving life sciences, to the Foreign Influence Registration Scheme, and to the ongoing Critical Minerals Agreement discussions.

BAB Response to the Review

A New Long-Term Investment Strategy and Vision Makes Sense

BAB welcomes the recommendation made by the Review for the UK to establish a clear strategy over the UK's long-term goals. This recommendation reflects that business decisions are usually made with a long-term perspective. Companies are often thinking decades into the future when making big investment decisions.

The Review cites policy conflicts, policy instability, and delays on systemically important policies as core findings behind the Review's recommendation. We were pleased that the Review included the UK Life Sciences Vision as an example that reflects the right vision, but where policy inconsistencies and a lack of implementation can risk achieving the opposite of the intended result.

Precisely because the UK has the opportunity to shape a new profile to investors as a place to do business after leaving the EU, there is a clear demand for a new business proposition that shows the UK's commitment, approach, and focus. As the Review suggests, this does not necessarily mean starting from scratch. Rather, the UK Government should have the strategy build on existing sector visions, define overall investment aims, and be clear how investment integrates into the wider UK proposition.

The latter should also include, as the findings suggest, clear guidance and visible action as to how the UK aims to encourage investment into specific areas and industries, as identified by the Government, including incentive schemes and tax breaks. Because the UK competes with larger markets, such as the US, EU, and China, a targeted approach with sensible measures will have the greatest impact.

These measures should include, as the Review suggests, strategic public procurement. Open procurement offers a huge potential and opportunity to attract inward investment. We welcome the consultation of investment-facing Director Generals in ensuring that investment is considered as the Procurement Bill progresses through the legislative process.

We agree with the recommendation that a focus on investment ought to be integrated into all relevant policy decisions across Government. The proposed research & development (R&D) reform regarding a single tax relief scheme in 2023, for example, shows how a well-intended policy goal—to simplify the R&D tax credit scheme—risked having a potential negative impact on businesses, and consequently, on the UK's ability to remain competitive and attract investment. We are grateful that industry feedback, including from BAB, has been taken on board.

Finally, an important part of the thinking behind the strategy should be how best to avoid unintended discrimination against foreign companies. For example, the Digital Services Tax (DST) and other policy measures taken in the digital space have been seen as direct and structured discrimination against some US companies where they are market leaders. Though the UK has the right to regulate in its own interest, we want to emphasise that US companies are often as much UK companies as they are US and global companies.

The Business Environment Matters

At its core, as the Review points out, the UK is in the fortunate position that it has a built-in attractiveness to US companies. Whether it be the rule of law, institutional strength and stability, language, or pro-business reputation, in the conversations about the latest BAB/Bain & Company Confidence Index, it was argued that the bottom line for the UK is likely to always remain high compared to other countries. The Review, however, also points out that recent developments, such as political instability and the repercussions from the UK's decision to leave the EU have complicated the picture.

The Review was therefore right to include the wider business environment as part of its final report. As much as the UK has a strong track record in attracting investors, it is also, in most cases, the broader business environment that defines when and how foreign (and homegrown) companies look at the UK as a place to invest.

Over the past few years, the positive perception among US companies of the UK as a place to do business has seen a few dents. For example, the increase of the UK's corporate taxation rate to 25% in April 2023 was perceived as a signal that the UK would move away from its traditional pro-business stance.[6] Rapid changes in government leadership, political tensions with the EU, and policy inconsistencies, barriers, and delays, for example in the approval of clinical trials or the fact that medical devices are currently not included in the CE marking recognition, further increased anxiety over the UK's future trajectory.

The Review rightly reflects that investment decisions are based on a set of criteria, which include its research infrastructure, regulatory frameworks, tax & policy environment, market demand, and access to skills, as well as the existence of a competitive manufacturing base, among others. As in other advanced economies, the UK therefore has to prove that it can embrace and master the challenges of the future, such as ensuring that there are sufficient skilled workers in areas such as nuclear, AI, and tech or having local and international supply chains that support local business and industry. This is in addition to the many other areas, such as access to finance, the protection of IP, planning permissions, or the seamless cooperation with regulatory agencies that create an overall image that will be considered in boardrooms.

With that, we welcome the measures announced in the 2023 Autumn Statement which seek to reform the tax system, including the tax incentive of making the 'full expensing' extension a permanent fixture as well as the Government's plans to implement proposals to accelerate the deployment of new energy infrastructure. We encourage the UK Government to continue assessing the overall tax burden on UK-based companies, and we want to be a partner to Government in ensuring that the UK economy has the workers it needs. We also welcomed the continuation of tax relief for creative industries.

A Structured Government Approach to Investment at All Levels

The Review puts a lot of emphasis on making engagement with the UK Government more proactive, its structures more competitive, and increasing the involvement of senior leaders.

Whether it be through the UK Investment Summits or at the working level in the UK or the US, our experience has overall been that the UK Government is very visible and active (in the US) when it comes to the promotion of investment. To note are, among others, leadership and teams in the FCDO & DBT teams across the USA, efforts by the UK Government to ensure US participation at the UK Investment Summit and Northern Ireland Investment Summit, ministerial availability to engage with business groups and individual businesses, and the recently created position of a US Country Director based in Washington DC.

We are aware of some of the issues cited in the Review, such as a perceived lack of investment-related skills

[6] BritishAmerican Business, BritishAmerican Business Statement in response to UK corporation tax decision

within the trade and investment teams, especially in the managing of large company accounts, turnover and inconsistency within the company account management, a lack of coordination within various trade and investment teams covering the US, as well as a demand for more top-level engagement from No10.
With that, we fully endorse the UK Government's response that it will establish a Ministerial Investment Group tasked to deliver the recommendations made in the Review to improve the account management within the respective teams, a review of skills levels and resource attribution, as well as efficient governance. We encourage the Government to prioritise the creation of this group in the coming months and that the Group considers the views of business, perhaps by establishing a forum for strategically significant investors to discuss Government plans and provide feedback. We also very much support the Review's findings that structures in the whole of Government must support a new approach to investment, which, in our view, must focus, among other things, on inter-agency coordination to ensure a joint approach when creating opportunities and deliveries of investment.

Implementation is Key

The most frequent response we received from our members following the release of the Review was that it is now crucial to see how Government plans to implement the recommendations. We have taken note of the HM Government response to the Review and we very much support in particular the proposed measures under Recommendation 2 ('Establishment of a Ministerial Investment Group', 5 ('Empowering the Office for Investment'), and 6 ('Speed of HMG's financial incentive offer and alignment with business cycles').

In addition, members have emphasised that the Government must pay attention to the recommendations made under 4.4 and 4.5 (Regulation), which ask that "regulators are instructed, via the use of Strategic Policy Statements, to provide more focus and weight on encouraging investment in the coming decade" as well as that the "government should commit to clear long-term staffing and skills plans for its economic regulators and examines the possibility of giving approval advantage for products researched, developed or manufactured in the UK, subject to restrictions imposed by international obligations."

We welcome the Review's focus on digital technologies and that the Review addresses how to balance innovation and consumer protection with the UK's regulatory approach. We welcome the acknowledgement that regulatory policy is intrinsically tied to economic growth, as well as the emphasis on keeping technological experts in the regulatory conversation to ensure that the UK's regulatory approach is not a deterrent to technology related FDI. We encourage the Government to be careful to analyse whether its regulatory divergence from peer countries can be a competitive advantage or whether it could lead to adverse consequences.

Members also re-emphasised the importance of fully implementing government policies that support the UK's ambition to be a 'modern, dynamic, thriving economy'. The annual BAB Policy Agenda is a useful reference for the issues that transatlantic companies see as a priority to stimulate growth, innovation and prosperity. With that, as much as BAB members and partners contributed to the Review, we stand ready to work with Government in its implementation.

Conclusion

More than ever, foreign direct investment has to be part of domestic growth in advanced economies, but global companies have choices about where they invest. The Harrington Review into FDI was born out of the belief that other economies outside the UK have increased their efforts in the race for FDI, encouraging policy and action in the UK to ensure it can keep pace.

The UK is coming from a strong starting place. Yet, it must not be complacent. In our response to the Review, we very much endorse the purpose and mission of the Review, and the recommendations made, many of which reflect BAB's work and thinking. We emphasise the need and usefulness of a new investment strategy; we echo the point that in addition to a strategy, the wider business environment, and policy decisions that affect it, matter; we support the establishment of a Ministerial Investment Group as part of a re-structured approach; and we emphasise that the proper implementation of a new strategy and approach will be crucial for the UK to be the modern, dynamic, and thriving economy that our members value so much. BritishAmerican Business, its members, and partners stand ready to support the UK Government in achieving this.

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BritishAmerican Business is the leading transatlantic trade association incorporating the British-American Chamber of Commerce in the US and the American Chamber of Commerce in the UK.

We are committed to strengthening the economic corridor between the United States and the United Kingdom by supporting policies and actions that protect and enhance the environment for transatlantic trade and investment on behalf of our members.

We convene and serve a growing network of companies and business leaders through networking opportunities, bespoke programming and marketing platforms.

We actively promote trade and investment and support those who make the transatlantic corridor part of their business growth ambition.

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