

Theme:

Productivity is an economic and social challenge

Area of Focus:

Productivity can be improved by Foreign Direct Investment (FDI)

Key Findings:

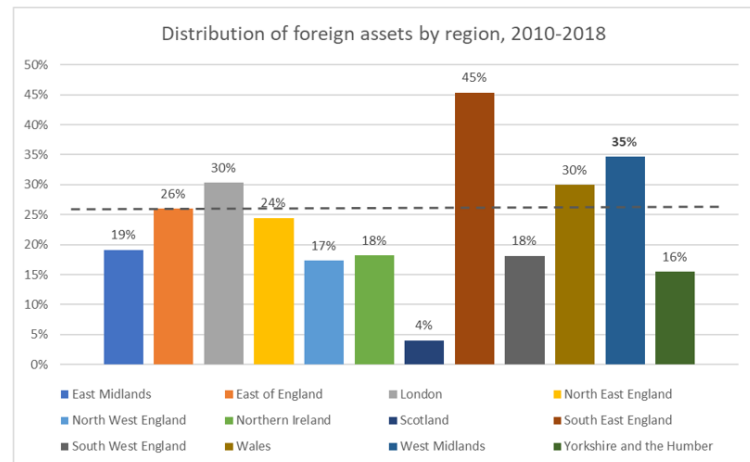
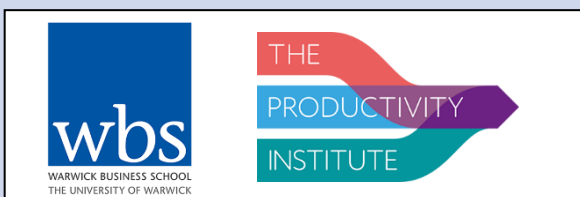
It is recognised that FDI can have positive impacts on local and smaller firms through 'FDI spillovers'. This occurs through knowledge transfer, staff movement and training, and competition. It improves the use of technology, and therefore productivity.

The UK has the highest percentage of FDI as a proportion of GDP of any of the G7 countries. In 2018-2019, the Midlands had 13% of all FDI projects. However, productivity remains low across the UK, partly because of the 'tail' – low productivity firms who do not have the ability to utilise FDI spillover or other opportunities to increase productivity. For spillover to be effective, firms must have the capacity to grow.

Research shows that a doubling of FDI would increase the UK average firm productivity by 1.1%, which is significant given that year on year productivity growth in the UK is well under 2%.

In the Midlands, some firms will benefit more from FDI than others. This is because only some firms have the capacity (funding, skills) to use the positive effects. For other firms, new firms using the latest technology are competition against which they struggle to compete as they do not have the resources to learn and upgrade their processes. The sectors that could benefit the most are:

- Aerospace
- Life Sciences
- Metals
- Beverage and Tobacco
- Chemicals and Pharmaceuticals



Distribution of foreign assets (% of total assets) by region

Midlands Engine Impact:

- Midlands firms should be supported to increase their capabilities and productivity through investment and training. This will enable them to utilise FDI spillovers.
- FDI should be explored and encouraged as a way of increasing regional productivity. However, this should be approached with caution as FDI can be damaging to firms and localities if foreign investors experience difficulties.
- Encourage best practice sharing and knowledge transfer with FDI firms so that international technologies can be distributed across the region as part of the spillover effect.
- Analysis is needed to compare the effect of FDI on productivity to other interventions such as skills or innovation.

For Further Information Contact:

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