

# Foreign Direct Investment in Wales: Past, Present and Future

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## Background

The attraction of foreign direct investment (FDI) and its impacts on the Welsh economy have been an integral part of the regional economic policy debate for many decades. The nature of the debate has changed dramatically in the last two decades. During the 1980s policy resources were strongly oriented towards the attraction of large internationally mobile projects. During the nineties policy documents steered towards an emphasis on endogenous growth and with greater resources focused on indigenous firm development, SMEs, knowledge and learning. FDI, however, continues to be an important part of the Welsh economy, in terms of employment and output contribution, its contribution to Welsh exports, and its potential spillovers impacts to other parts of the regional economy.

This short paper provides a brief data overview of FDI at a global, national and local level, and offers some insights into the possible future directions of FDI. There are a range of data sources used for the analysis of FDI in Wales, and these sources vary in terms of information provided and time period covered. Hence the Welsh analysis presented later contains a mix of data, often relating to different periods. The aim however is to paint a contemporary picture of the scale and scope of FDI in Wales and to comment on changes in FDI in the recent past.

## A global and national perspective

Table 1 shows the global profile of FDI for 1990 and 2007, and demonstrates the increasing significance of FDI to the world economy. Global FDI inflows were estimated to be \$202bn in 1990. The growth of FDI inflows reached a peak of \$1,411bn in 2000 and then fell back in the global slowdown period up until 2003. Global FDI inflows increased again from 2004 and reached a new high of \$1,833bn in 2007. UNCTAD estimated that foreign affiliates employed almost 82 million people in 2007, and that their activity accounted for around 11% of global GDP (*World Investment Report*, 2008, p.9).

Table 1 further shows the extent to which FDI inflows were dominated by cross-border merger and acquisition (M&A) activity. In 2007, the value of cross-border M&As grew to a record \$1,637bn, whilst the number of greenfield FDI projects fell between 2006 and 2007.

The UK remains the largest FDI recipient nation in Europe. In 2007, FDI inflows into the UK were almost \$224m, having increased sharply over the year. In 2007 inward FDI flows were equivalent to almost 45% of gross fixed capital formation, with the inward FDI stock representing almost 50% of UK GDP. The impacts of the global financial crises have yet to be reflected in the official statistics, and UNCTAD have commented on the difficulties of

making predications relating to future FDI flows at this time (see more on this later).

## FDI in Wales

The importance of FDI both globally and nationally has already been outlined. FDI has a long and varied history in Wales. The first comprehensive study of FDI in Wales was by Davies and Thomas (1976). According to this study, by 1974 there were 127 foreign-owned companies in Wales, employing almost 53,000 people. Around 90% of Welsh FDI employment at this time was in North American-owned companies. The region has, in general terms, performed well in terms of its share of UK FDI. The 1980s can perhaps be seen as the 'golden age' of FDI in Wales, it being the most popular UK location for foreign manufacturing investment (see Hill and Munday, 1992). During the latter part of the 1980s the increase in Asian investment was stimulated by European policy and various anti-dumping measures. At this time, the Welsh economy was growing at a relatively fast rate, and part of this success was linked to inward investment.

During the 1990s, there was a movement away from the inward investment model of regional development towards local industry development and the promotion of SMEs etc, with some major reversals in the Asian owned manufacturing sector in Wales. In 1996 Wales secured a £1.7bn

**Table 1: Selected indicators of global FDI and international production, 1990 and 2007 (Current prices)**

	Value in current prices (billions of US dollars)	
	1990	2007
FDI Inflows*	202	1,833
FDI Outflows*	230	1,997
Inward FDI stock*	1,779	15,211
Outward FDI stock*	1,815	15,602
Cross-border M&As	200	1,637
Sales of foreign affiliates	6,126	31,197
Gross product of foreign affiliates	1,501	6,029
Exports of foreign affiliates	1,523	5,174
Employment of foreign affiliates (in thousands)	25,103	81,615

\* Note: Whilst global FDI inflows (stocks, and income) should theoretically equal global FDI outflows (stocks, and income), differences arise due to recording and accounting variations between countries.

Source: UNCTAD (*World Investment Report*, 2008, table I.4. page 10)

investment by Korean owned LG Electronics and Semicon. This was to involve multiple phases of production in an electronics plant and in a semiconductor production facility. In total, this investment projected the creation of 6,000 in the period to 2001. LG however faced problems in the global semiconductor market as well as in the Korean economy, and many of these jobs never materialised whilst others were short lived. There was considerable debate about the levels of public funding offered or received by LG. This funding included Regional Selective Assistance, various infrastructure and property grants from the WDA, as well as local authority and other grants and support.

The 1990s were a period of growing globalisation, with increasing competition for FDI from Central and Eastern European States. During this decade the English Regional Development Agencies were also established, adding to the competitive pressures in relation to the attraction of FDI.

During the last ten years or so manufacturing in Wales has been under considerable pressure from cheaper factor cost locations, most notably from Central and Eastern European states. Sectors such as electronics, automotive components, textiles and clothing have been particularly vulnerable. There have been a number of foreign-owned firm exits in Wales. These have mostly, but

not exclusively, been in the manufacturing sector. Examples of recent FDI closures include Matsushita (Panasonic) in Cardiff (2000), Matsushita (Panasonic) in Neath Port Talbot (2006), Valeo Climate Control in Swansea (2001), Nippon Electric Glass Ltd in Cardiff (2005) and Sharp Precision Manufacturing (UK) Ltd in Wrexham (2005).

Despite the changing nature of the global and national competitive environment, and with more limited resources to actively market the region, Wales continues to attract relatively high levels of UK inward investment. Table 2 shows that the South East of England and London have dominated in terms of new projects during the period

**Table 2: Regional inward investment, 2001/2 to 2006/7 totals.**

	<b>No. of projects</b>	<b>No. of new jobs</b>	<b>No. of safeguarded jobs</b>	<b>Total no. of associated jobs</b>
East Midlands	331	8,283	11,100	19,383
East of England	404	8,555	11,175	19,730
London	1,492	23,868	6,766	30,634
North East	364	19,386	16,970	36,356
North West	460	23,192	14,285	37,477
Northern Ireland	178	13,297	19,618	32,915
Scotland	399	20,863	11,833	32,696
South East	1,014	24,464	14,143	38,607
South West	258	8,377	16,210	24,587
UK Wide	11	250	25,631	25,881
Wales	362	21,123	17,329	38,452
West Midlands	466	20,945	37,222	58,167
Yorkshire & Humber	262	11,538	8,259	19,797
<b>Total</b>	<b>6,001</b>	<b>204,141</b>	<b>210,541</b>	<b>414,682</b>

Source: Published figures from the UKTI Database

**Table 3: Overseas Inward investment in Wales, 1984 – 2007.**

<b>Project type</b>	<b>1984-1987</b>	<b>1988-1997</b>	<b>1998-2007</b>	<b>Total</b>
Acquisition	16	101	76	193
Expansion	92	384	282	758
Joint Venture	9	13	9	31
New	85	189	190	464
<i>Total number of projects</i>	<i>202</i>	<i>687</i>	<i>557</i>	<i>1446</i>
Jobs – new	14178	47879	37634	99691
Job – safeguarded	9664	35633	25630	70927

Source: IBW database (DE&T, Welsh Assembly Government)  
 Database was maintained by Welsh office from 1983 to 1995  
 Database maintained by WDA from 1996 to 2006  
 Database maintained by IBW (DE&T) since 2006

shown, but that the distribution is more equal between the regions in terms of jobs. However, relative to its size, Wales attracted a higher percentage of FDI projects and jobs. With just under 5% of the UK population, Wales attracted 6% of UK projects and over 9% of associated jobs during the period shown in Table 2.

Table 3 focuses on overseas FDI in Wales from 1984, and shows the composition of projects, the associated new and safeguarded jobs. The table shows stability in the number of FDI projects and jobs over the period, and that expansion and new projects far exceed the number of acquisitions and joint ventures in Wales.

Historically, the main interest in FDI in Wales and the UK has been in the manufacturing sector. Limited data was collected nationally or locally on FDI in the services sector in Wales until

comparatively recently.

Figure 1 shows employment in the foreign-owned manufacturing sector in Wales since 1980. This data shows that, despite a recent trend of closures and divestments in the foreign manufacturing sector in Wales, total employment does appear to have increased in the period to 2007. Examples of foreign-owned manufacturing companies operating in Wales at present include Ford in Bridgend, GE in Caerphilly, Dow Corning in Barry, International Rectifier in Swansea and Sony (which has scaled down production considerably in recent years) in Bridgend.

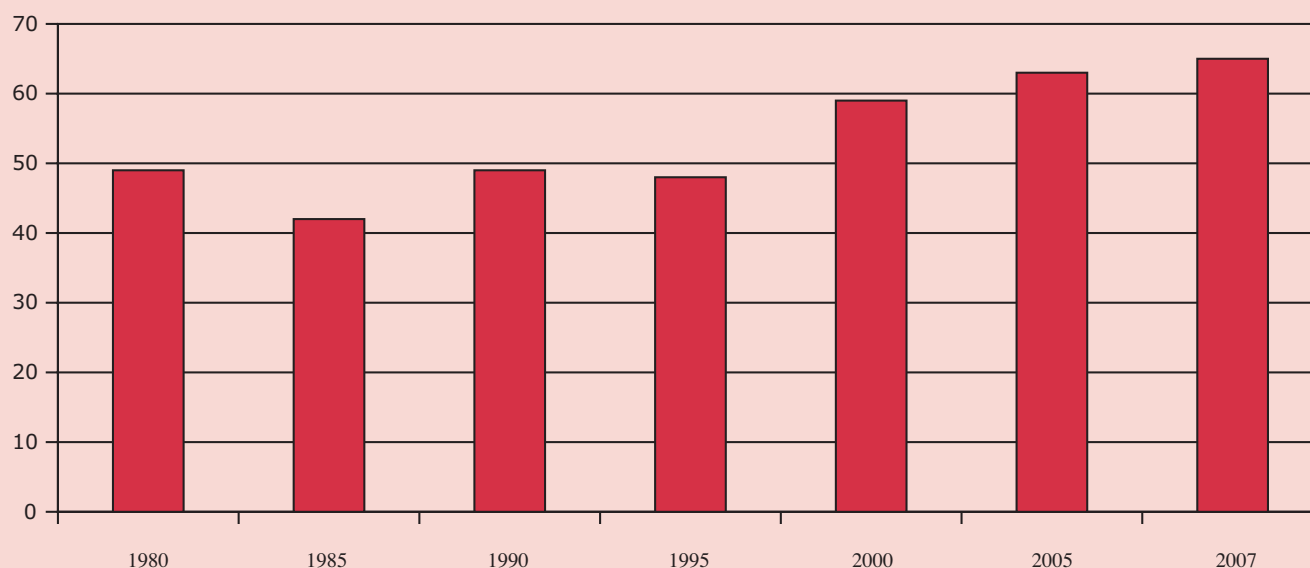
A more interesting development has been the significant growth in service sector FDI. Table 4 shows that FDI employment in the wholesale and retail industries increased from around 7,400 in 1998 to almost 24,700 in 2005. This

number will have grown again since then, particularly as a result of the recent arrival of Amazon. The location of Amazon in Neath Port Talbot was announced in 2007 and at that time 1,200 new jobs were expected to be generated by the US owned company. Employment in the foreign-owned hotel and restaurants sector was over 6,000 in 2005, growing from almost nothing in 1998. FDI employment in real estate, renting and business activities was over 9,000 by 2005.

Figure 2 shows the countries of origin of FDI in Wales. The US is still by far the main provider of FDI employment in Wales, accounting for around 36% of FDI employment in 2007. European countries now represent almost half of Welsh FDI employment, with Italy and Spain having the highest employment shares in 2007.

Figure 3 provides an analysis of the ABI

**Figure 1: Employment in Foreign-owned manufacturing companies in Wales, selected years, thousands.**



Sources: 1980-1995, ACOP, 2000 and 2005, ABI, 2007, IDBR, ONS. Figures for 1980 and 2007 are estimated.

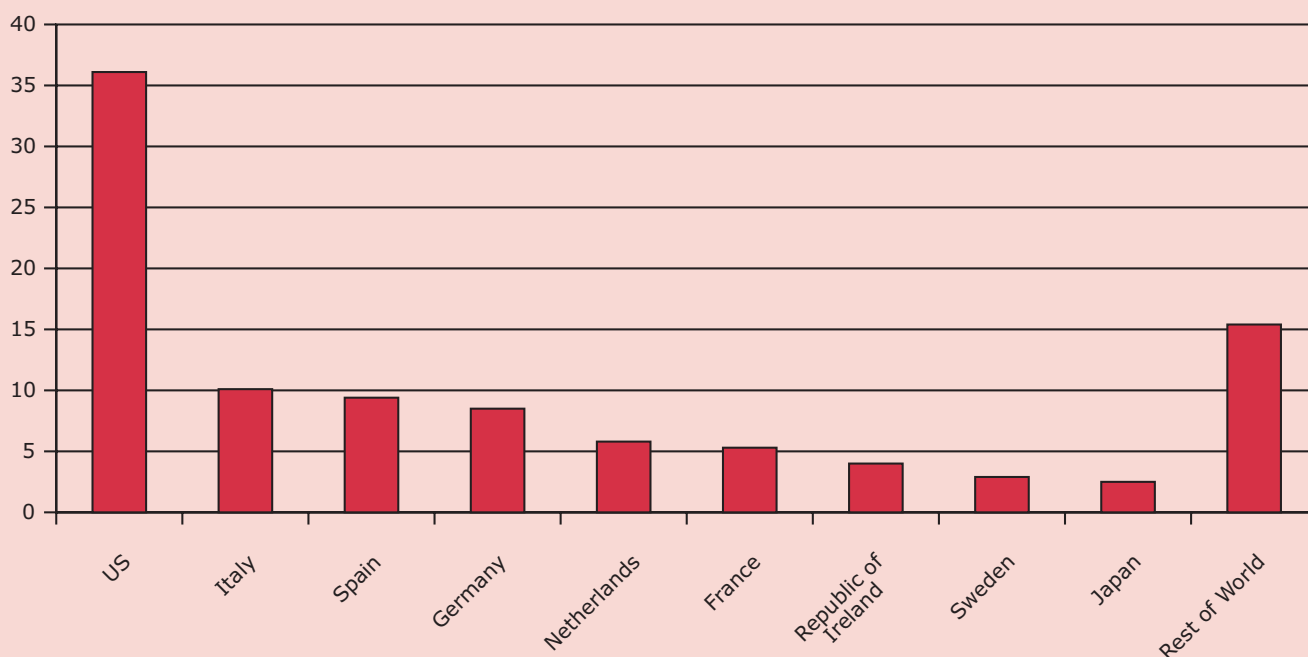
**Table 4: Foreign owned company employment in Wales, selected sectors, 1998 and 2005**

Total Number of Employees	1998	2005	Change %
Manufacturing	43,379	63,304	46
Construction	367	1,945	430
Wholesale and retail trade	7,373	24,693	235
Hotels and restaurants	162	6,032	3,623
Transport, storage and communication	2,175	7,613	250
Real estate, renting and business activities	4,936	9,168	86
Health and social work	*	2,802	-
Other services	577	1,422	146

\* data not reported due to disclosure problems

Source: ABI special analysis

**Figure 2: Employment in Foreign-owned enterprises in Wales by ultimate country of ownership, %, 2007.**



Source: Inter-departmental business register (IDBR), Office for National Statistics.

**Figure 3: Foreign-owned sector gross value added (GVA) as % of total, selected sectors, 2005.**



Source: ABI special analysis.

data where available to show the significance of the foreign sector in terms of gross value added share. The figure shows the significance of foreign-owned firms to manufacturing in Wales, accounting for half of all GVA in the Welsh manufacturing sector. In the transport and communications sector, just over 20% of GVA was in foreign-owned companies. Table 4 shows

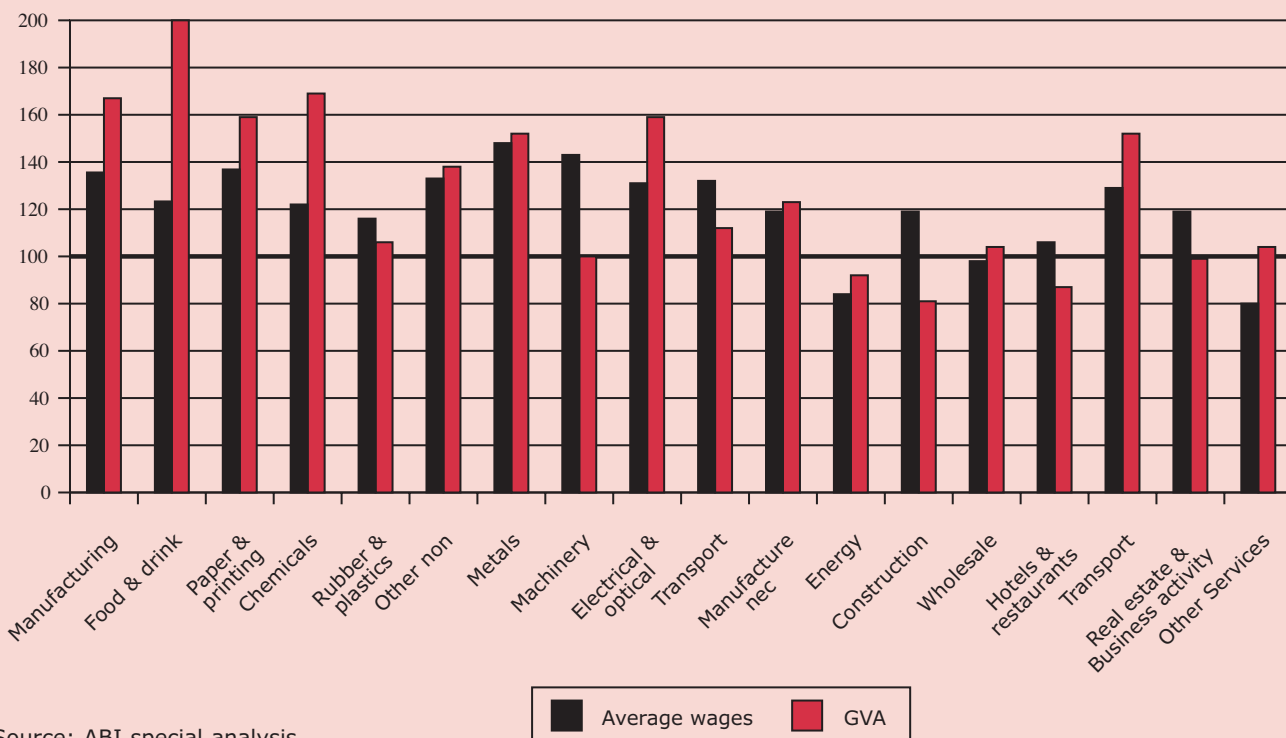
significant numbers employed in the foreign-owned wholesale and retail sector, and the strong growth profile of employment since 1998. However in the retail and wholesale sector only around 13% of total sector GVA was in foreign-owned firms.

One important rationale for attracting FDI has been that this investment has

different characteristics from domestic firms. These characteristics include the fact that on average, foreign-owned companies are larger, and have higher GVA and earnings per head compared with domestic firms in the same sector. To a large extent the ABI data shows this to be the case for FDI in Wales.

In most of the sectors shown in figure 4,

**Figure 4: Average wages and GVA per employee in foreign-owned companies as a % of the domestic sector, selected sectors, Wales, 2005.**



Source: ABI special analysis.

GVA per employee and average wages in the foreign-owned sector exceeded those of domestic firms in the same sector. For example, in manufacturing (the all manufacturing average is shown in the first 2 bars of figure 4), average wages were over 30% above the domestic sector, whilst GVA per employee was over 60% above. Those sectors where average wages or GDP per employee in the foreign-owned sectors were below the domestic sector were outside of manufacturing.

There are however some problems in comparing the foreign and domestic sectors in Wales. Due to the relatively aggregate nature of the data, there are not for example any controls for skills within defined sectors. Even if firm level data were available, within Wales there are very few domestic firms which could be usefully compared with similar foreign firms.

**The future**

As already noted, it is extremely difficult during this time of economic uncertainty to comment with any great confidence on likely trends in FDI flows in the near future. Usefully however the latest UNCTAD World Investment Report contains a chapter on the current

financial crisis and FDI flows, and the key points mentioned in that report are as follows:

- The problems relating to sub-prime mortgage lending crisis are also affecting FDI flows, mainly due to impacts on cross-border M&As.
- The scale of impact will depend on how the crisis affects lending to the corporate sector and other foreign investors.
- The crisis has led to a decline in the issuance of corporate bonds, while credit available for investment has fallen.
- The crisis has mainly affected North American and European commercial investment banks, whereas negative effects on the Asian financial system have been fairly limited.

UNCTAD also commented on the influence of the falling dollar on FDI decisions. Whilst the impacts of exchange rate changes on FDI flows are less than clear, UNCTAD note that 'there are some discernible cases of European firms that increased their FDI in the US in reaction to the appreciating euro' (p. 19).

In the longer term, and at a regional level, it is expected that manufacturing

FDI in Wales will shrink in terms of its employment and output contribution with FDI in services continuing to become more significant. What is clear is that Wales is battling far harder to win new inward investment, and in particular having to compete against the EU Accession states which have moved quickly to market themselves as potential FDI locations.

At the same time the real level of resources available to market Wales overseas is under considerable pressure. The strong track record of Wales in offering a competitive business climate for incoming foreign firms, providing appropriate physical infrastructure, together with a successful record of meeting inward investor needs is expected to mean that Wales continue to hit above its weight in attracting foreign capital for the future.

**References**

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Hill, S. and Munday, M. (1992) *The Regional Distribution of FDI in the UK*, *Regional Studies*, 26.6. pp.535-44