

Globalisation Discussion Document

This is part of the SW Big Debate and will feed into the rewrite of the SW Regional Economic Strategy.

One of the external changes affecting the South West Economy which the next Regional Economic Strategy will have to respond to is that of Globalisation. Having this debate within the FSB will help us make sure members' views are properly represented.

At the end of the document is a description of 'Globalisation' and possible difference policy options.

1. To work through this idea, it might be helpful to start by thinking how 'globalisation' affects your business.....do you
 - a) Buy goods or services from abroad?
 - b) Sell goods or services from abroad?
 - c) Is your business affected by goods or services originating abroad?
2. What is the effect on your business?
3. What would improve your profitability?
4. What would help you compete more effectively?

How does 'globalisation' affect your local business community?

5. Are there 1 or 2 large local firms that are foreign owned?
6. How do they impact on the local economy and on the local jobs market?
7. Do they do more than the average to help the local community?
8. Are they and the way they run the business 'good customers' for local small businesses?
9. What would happen if they closed?
10. Are there 1 or 2 large local firms that export a significant proportion of their output?
11. How do they impact on the local economy and on the local jobs market?
12. Do they do more than the average to help the local community?
13. Are they and the way they run the business 'good customers' for local small businesses?
14. What would happen if they closed?
15. Are you aware of local firms losing business to abroad? What happened?
16. What would have helped them compete better?

To give you an idea of how the SW FSB has worked up policies on such matters before, this is a summary of the policy on Inward Investment

Inward Investment problems

1. Damages local businesses by poaching staff

2. Easy come, easy go - Companies that are easily attracted to one area are likely to be easily attracted elsewhere.
3. Fair weather friends – when recession hits, the order book (and the jobs) go back to Head Office.
4. Are they a bad employer/customer hoping their reputation will not follow them?

Inward Investment is inappropriate when

1. The local labour market is tight.
2. The raw materials have to be brought in to the area.
3. Parts or semi finished goods have to be brought in to be finished.

To attract Inward Investment, companies are offered a wide range of assistance, typically including privileged access to land, buildings, planning permission, training and recruitment via the Jobcentres. It is the view of the FSB that were such assistance to be offered to local small businesses, more jobs would be created. And those jobs would be much more stable.

Therefore the SW FSB's Policy is:-

- 1) Inward Investment should only be considered as an option, when there is a strategic need to introduce new skills or new markets to an area.
- 2) Inward Investment must include a programme of local supply chain development, so that over time, at least 80% of inputs, by value, are of local origin.
- 3) Inward Investment must include a programme of training and preparation to ensure
 - a) New firms recruit from the unemployed
 - b) SMEs are assisted to recruit and train replacement staff

'Globalisation' is understood to cover the offshoring of work, services as well as manufacturing, and all that implies. It also includes inward investment and the purchase of UK firms by foreign based organisations.

It is done because the savings of having the work done elsewhere are greater than the shipping and other costs of changing location. New technology has now made the offshoring of services possible. Examples are call centres and data input.

Economic theory also states that it is not just lower wages that provide the benefit but specialisation. In the UK we have already seen how specialisation was the original driver for production lines with people performing the same task over and over again. And specialisation has led to certain parts of the country being good at undertaking certain work – like Sheffield for cutlery or Leicester for hosiery.

Evidence shows that foreign owned firms are more productive, as are UK firms that export. The SW has a low proportion of firms exporting compared with the rest of the UK and a low proportion of exports. As the RDA's brief from Government is to drive up productivity, it sees increasing the number of foreign owned firms and the proportion of firms exporting as one way of doing this.

Should the SW resist, encourage or 'go with the flow'?

'Resist' is not an option unless we put walls round the SW and the RDA declares UDI from central government. The only development likely to reduce 'globalisation' and then only part of its influence, is the likely increase in cost of transport. This would reduce savings to be generated by offshoring physical activities. Conversely, 'climate change' could be used to campaign for help for local businesses to better compete with imports.

'Encourage' in this context would mean putting a lot more of the RDA budget into making SW businesses export ready than previously. It would also mean putting extra resources into activities intended to attract foreign companies to the SW and attracting investment to the SW.

'Encourage' could also mean helping SW businesses and other organisations get better value by importing more goods, or offshoring more services. Historically this has not happened, but recent developments such as the purchase by Cornwall County Council of its stationery from a firm in France could well be an indication of future developments.

'Go with the flow' – realistically this is most likely to be what happens. The SW RDA does not have the budget to be able to make major changes. It can focus work in an area likely to have an impact, or it can provide soft measures for those have problems competing. It can also provide short term support for local firms and their staff who are casualties of globalisation. The work by West Midlands RDA with Rover and the contingency plans SWRDA has (I hope) for changes in the aerospace industry are examples of this.

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Revised 8th May following comments at the SWAPU meeting and from Angela Ladd.