



**Welsh Liberal Democrats**  
**Democratiaid Rhyddfrydol Cymru**

**Consultation:**

**Modernising our Economy**

**Autumn Conference 2012**

Resident's Lounge,  
10.20 a.m.

This paper has been published for a Consultative Paper for debate at the Welsh Liberal Democrats' Autumn Conference.

Not all of the questions asked by the consultation will become party policy and no question or statement should be taken as being Welsh Liberal Democrat policy unless it has been approved by Conference.

October 2012.

Published and promoted by R Thomas on behalf of Welsh Lib Dems, both at Blake Court, CF10 4DW.

## **Introduction from Eluned Parrott AM**



Dear friend,

A prosperous economy is essential for a liberal society. For people to enjoy the benefits of a liberal society, they must first feel secure that they can provide a safe and comfortable home for themselves and their family. Welsh Liberal Democrats have always believed that freedom also means breaking down barriers to opportunity and it is difficult to imagine many greater barriers than poverty or unemployment.

As well as this, a strong economy allows us to create stronger public services. Higher levels of employment and more productive businesses pay tax which increases the money available to government to invest in public services. If we support investment in public services then we must also support economic development to help generate the revenue to pay for these services.

This document asks twelve questions, which are designed to form the start of an alternative economic plan from the Welsh Liberal Democrats. It would be impossible to ask every question we need about the economy in the time allocated to discuss this paper, so I am interested to hear from party members and people with experience in business about two main questions today – how we strike the balance between attracting foreign investment and promoting local business and how we better promote a Welsh ‘brand’ abroad.

I intend this to be the first part of a discussion with the party, and with people outside of it, about how to boost the economy and I intend to continue to work with the party on other areas that we feel are essential to promoting economic growth in the future. This paper represents a start on updating the Welsh Liberal Democrats’ policy on economic development. I look forward to your responses.

Yours sincerely,



**Eluned Parrott AM**  
Shadow Minister for the Economy and Business

## **Background**

The Welsh economy has suffered badly in recent years. Our GVA has consistently fallen compared to the UK average<sup>1</sup> meaning that we are falling further and further behind. Likewise; unemployment is higher than in the rest of the UK, our skills are often lower than elsewhere and the percentage of inward investment into the UK that goes to Wales has fallen in the last few decades.

The Welsh economy is in need of a serious overhaul. However, we have been critical of the Labour (and previous Labour-Plaid) government's handling of the economic portfolio over the previous few Assembly terms. We have argued that they have been ineffective in pushing through new solutions and that they have not placed enough emphasis on equipping Wales with the infrastructure and skills that will be needed to compete globally.

The economy has some serious structural problems and our approach to this is the most important political issue of the day and it is essential that the Welsh Liberal Democrat's economic plan has credibility and offers both a detailed alternative to the government's plans and a attractive alternative to voters. This is the first in a series of consultations on our economic policy that Eluned Parrott is developing.

## **Deciding on the nature of the Welsh economy**

In recent years, there has been an ongoing debate on the nature of government support for the Welsh economy, on the basis of how we believe the Welsh economy should be structured.

For the early part of the post-war period, the Welsh economy was sustained by attracting inward investment from foreign companies. Wales was attractive to foreign companies on the basis of comparatively low labour costs and low land costs but a reasonable level of connectivity to Western Europe.

However, in recent years, this model had become unsustainable. As soon as the Eastern Bloc countries joined the EU, this was no longer the case. In fact, no part of the UK should be attempting to compete for jobs on price—as a developed economy we cannot compete with countries outside the EU where wages are a fraction of what they are here. Wales needs a new strategy that identifies its key selling points to potential investors, targets new entrants to the European market effectively, and demonstrates to them that Wales is an attractive location to invest.

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<sup>1</sup> GVA was 85% of the UK average in 1989, but has fallen, almost every year, and in 2010 it was around 74%.

In response, recent government strategies, often drawn from the same school of thought as Welsh Liberal Democrat policy, have stressed the need to invest more in smaller, homegrown businesses who are more likely to retain profits in Wales and will remain here despite rising prices. As a result, we have seen the beginning of a shift away from investing in foreign businesses and towards loans for business development, infrastructure investment and prioritising key hi-tech sectors for the future. Recently, the Labour government has seemed to backpedal slightly on this.

We should consider which model we believe is best for the future. The homegrown businesses model offers a situation where a greater number of businesses are based in Wales and where we are less reliant on global economic trends. However, the foreign investment model offers a situation where we can create large numbers of jobs more quickly. Realistically, we will need to find a balance between the two, especially in the short- and medium-term.

### **Questions to consider:**

1. What sort of balance do we want to strike between inward investment and promoting homegrown businesses?
2. Roughly, what levels of investment should we put into attracting inward investment compared to investing in small businesses in Wales?
3. What is the most effective or the most sustainable way to attract foreign investment into Wales? For example, do we think that direct grants (either in cash terms or through subsidised rent, energy etc.) to companies or through investing into infrastructure and skills so that, in the long-term, Wales can compete on those grounds?

### **Selling Wales to the world**

For several decades, the Welsh economy was represented abroad by the Welsh Development Agency, which represented Welsh businesses abroad and worked to bring investment to Wales. This was abolished as part of the “Bonfire of the Quangos” during the second Assembly term. Since then, Wales has mostly been represented abroad by International Business Wales, a body that was subsequently wound up after Kirsty Williams exposed serious problems with its expenses procedures. Wales has consistently had trouble marketing Wales abroad effectively since the WDA was abolished. The Conservatives are in favour of re-establishing the WDA.

We should consider how best to improve Wales’ visibility and branding abroad. Does this mean re-establishing the Welsh Development Agency (and therefore transferring back some powers from a democratically-accountable government to an

unaccountable quango) or should any new WDA have a re-defined role, possibly restricted to promoting Wales and Welsh businesses abroad. The total cost of the Welsh government's economic department's "Marketing" activities in 2012/3 was £2.7m per annum and will rise in line with inflation in the next few years.

Likewise, we also need to consider where our likely trading partners will be in the medium- and long-term. Currently, the top five countries to which we export are: the US, Ireland, Germany, the Netherlands and the United Arab Emirates. These represent more than a quarter of Welsh exports (26.4%). There has been in the past a mismatch between overseas personnel and the relative importance of an economy to Wales. For example, International Business Wales had thirteen members of staff in New York and just one in Germany; despite the fact both countries have a similar level of trade with Wales.

We also need to consider how best to link up the work that the British government and that the Welsh government do to promote our economy overseas in order to best ensure that Welsh branding is consistently and appropriately portrayed.

### **Questions to consider**

4. Should the Welsh Development Agency be re-established, either as an independent agency as it previously existed or simply as a brand to better promote the Welsh economy overseas?
5. If not, what sort of approach to overseas branding should the Welsh government pursue?
6. Should we continue to promote Wales to those countries where we already have a significant export presence, or should we try to predict potential new markets, such as Brazil, India and China?
7. What is Wales' unique-selling proposition (USP) and what characteristics of the Welsh economy and Welsh businesses best re-enforce this?
8. What investment is needed to improve this USP? For example, which infrastructure or skills investments would amplify this image? Likewise, are there any types of business that we should especially support to promote this USP?
9. What is the best model to raise the profile of Welsh products abroad, and therefore increase our exports? Are there examples from abroad of effective campaigns by other autonomous governments who market themselves well, or from local government in the UK?
10. Do we want to see additional resources allocated to promoting Wales to overseas investors and if so, from where in the economic development budget can we find the money to do so?

11. Is it a worthwhile investment for the Welsh government to pay for individual companies (or groups of companies) to promote their products abroad and how do we best equip Welsh companies in order to do this?

### **Next steps**

Tackling the economic problems of Wales is, of course, much more complex than merely improving the way that Wales is seen abroad. There are a number of improvements that need to be made across the economic development portfolio. We have regularly cited examples such as:

- Improving infrastructure, including transport, energy and digital infrastructure
- Raising skills levels so that we can compete globally
- Supporting entrepreneurs to establish successful businesses and helping these business to grow
- Ensuring businesses have easy access to finance and advice when needed
- Developing specific high-tech sectors so that Wales can become a world-leader in highly-skilled modern jobs and ensuring we are prepared for innovation in the future

Any future work on a wider economic strategy for the party must look at these issues, as well as others that it considers will be important to building a more modern and prosperous economy.

### **Questions to consider:**

12. What factors are the priority for the party consider in the next part of its review to help create a wider economic strategy?

# Appendix 1: Welsh Government revenue budget for Business, Enterprise, Technology and skills

Final Budget  
November 2011

BUSINESS, ENTERPRISE, TECHNOLOGY AND SCIENCE MAIN EXPENDITURE GROUP (MEG)										
REVENUE BUDGET - Departmental Expenditure Limit										
		2012-13 New Plans Draft Budget October 2011	2012-13 Changes	2012-13 Final Budget	2013-14 Indicative Plans Draft Budget October 2011	2013-14 Changes	2013-14 Indicative Plans Final Budget	2014-15 Indicative Plans Draft Budget October 2011	2014-15 Changes	2014-15 Indicative Plans Final Budget
SPA	Actions									£000's
	Sectors and Business	4,300		4,300	2,300		2,300	2,300		2,300
	Legacy SIF	25,037		25,037	26,973		26,973	26,973		26,973
	Sectors	14,429		14,429	14,523		14,523	14,523		14,523
	Entrepreneurship & Business Information	43,856	0	43,856	43,856	0	43,856	43,856	0	43,856
	Total Sectors and Business	5,785		5,785	5,800		5,800	5,800		5,800
	Encouraging Innovation	5,785		5,785	5,800		5,800	5,800		5,800
	Total Encouraging Innovation	2,005		2,005	2,005		2,005	2,005		2,005
	Regional Funding	2,005		2,005	2,005		2,005	2,005		2,005
	Total Regional Funding	4,802		4,802	4,102		4,102	4,102		4,102
	Finance Wales	4,802		4,802	4,102		4,102	4,102		4,102
	Total Finance Wales	3,870		3,870	3,897		3,897	3,897		3,897
	Major Events	3,870		3,870	3,897		3,897	3,897		3,897
	Total Major Events	2,796		2,796	2,815		2,815	2,815		2,815
	Marketing	2,796		2,796	2,815		2,815	2,815		2,815
	Total Marketing	10,174		10,174	11,255		11,255	11,255		11,255
	Deliver ICT Infrastructure	1,309		1,309	1,309		1,309	1,309		1,309
	Deliver Property Related Infrastructure	10,832		10,832	11,007		11,007	11,007		11,007
	Infrastructure	22,415	0	22,415	23,571	0	23,571	23,571	0	23,571
	Total Infrastructure	3,433		3,433	3,458		3,458	3,458		3,458
	Corporate Programmes	1,447		1,447	1,460		1,460	1,460		1,460
	Strategy Programmes	4,880		4,880	4,918		4,918	4,918		4,918
	Total Strategy & Corporate Programmes	1,522		1,522	1,522		1,522	1,522		1,522
	Manage Delivery of Structural Fund Programmes in Wales	1,522		1,522	1,522		1,522	1,522		1,522
	WEFO	20		20	20		20	20		20
	Total WEFO	7,355		7,355	7,350		7,350	7,350		7,350
	Cost Sharing and Responsibility	61,818		61,818	62,963		62,963	62,963		62,963
	Making Payments in accordance with EU and WAG rules	806		806	806		806	806		806
	Delivering the programmes within the Rural Development Plan	1,300		1,300	1,200		1,200	1,200		1,200
	Evidence based development for Rural Affairs	242		242	242		242	242		242
	Developing, managing and enforcing Welsh Fisheries and Aquaculture	5,000		5,000	5,000		5,000	5,000		5,000
	Developing, managing and enforcing Welsh Fisheries and Aquaculture - Non Cash	1,705		1,705	1,705		1,705	1,705		1,705
	Developing and marketing Welsh food and drink sector	78,246	0	78,246	79,316	0	79,316	79,316	0	79,316
	Meeting the needs of rural communities and rural proofing WAG actions	8,587		8,587	8,701		8,701	8,701		8,701
	Total Rural Affairs	4,136		4,136	3,925		3,925	3,925		3,925
	Increase visitor demand and conversion	12,723		12,723	12,626		12,626	12,626		12,626
	Developing the Visitor Experience	182,870	0	182,870	184,428	0	184,428	184,428	0	184,428
	Total Tourism									
	Total Revenue - Business, Enterprise, Technology and Science									