Brexit and the sad death of the UK's industrial strategy

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On 9 March 2021, Helen Thomas published an opinion piece in the Financial Times, entitled, "Wanted: a long-term strategy for UK business". Her piece began, "Does the UK still have an industrial strategy?". The 256-page white paper, to which she referred, entitled "Industrial Strategy, Building a Britain Fit for the Future", is a vast and ambitious array of concepts, ideas, themes and projects. It was a laudable endeavour, with both flaws and inevitable limitations. I have four main criticisms:

1. Political overlay. The first foreword from the then prime minister, Theresa May. sets a bombastic and boosterish tone for the whole document. It also establishes a most unfortunate boundary condition, that of treating Brexit as an objective in its own right. And here we have the fundamental failing undermining the whole exercice: it should have been conducted before any decision on leaving the EU but have included a critical assessment of the benefits and costs of membership upon each sector of the economy. The second foreword, from Greg Clark, Secretary of State for Business, Energy and Industrial Strategy, responsible for the report, in fact almost laments this: "To benefit from the opportunities before us, we need to prepare to seize them. This would be needed at any time, and Britain's decision to leave the European Union makes it even more important." The very last paragraph, at the end of the last section, "Conclusion – Britain and the World", presents a heroic assumption, that the UK would achieve a rational Brexit and a harmonious future relationship with the EU Alas, we now know the reality of the very poor deal that has been reached and of the antagonistic attitude being taken towards the EU.

2. Over-ambition. The attempt to examine the UK's situation and prospects sector by sector was meritorious. This approach surely reflects Greg Clark's early experience at Boston Consulting Group. Developing a strategy for a multi-business corporation is a big job, usually involving several states. Attempting this for a national

economy is hugely more complicated still. This white paper does identify some promising priority areas for development. But it is too much tinged with sloganeering in its Five Challenges: “the world’s most innovative economy”, “good jobs and greater earning power for all”, “a major upgrade to the UK’s infrastructure”, “the best place to start and grow a business”, and “prosperous communities across the UK”. The four Grand Challenges flag four braod areas of future opportunity: “Put the UK at the forefront of the AI and data revolution”, “Maximise the advantages for UK industry of the global shift to clean growth”, “Become a world leader in shaping the future of mobility”, and “Harness the power of innovation to help meet the needs of an ageing society”. It might have been better to stop there and seek consensus on the priorities before proceeding further.

3. The analysis. There are far too many words and far too few numbers. There is virtually no description of market structures and trends within specific sectors, or – most particularly – of the competitive positions of British and other enterprises within them. However, the need for this in proposals for government support to individual sectors is recognized – future work. The use of evidence is poor, as though the authors did not understand it, and sometimes seemingly tinged with propaganda. As an example of the former, the report gloats over an exhibit comparing the 14 largest recipients of Foreign Direct Investment in 2007 and 2017,

with the UK receiving the second largest amount after the US in both years. FDI largely reflects the sales of capital assets to foreigners to help compensate for those two countries’ huge trade deficits, and not necessarily investments in new production capacity. Hilariously, the seventh ranked country is the British Virgin Islands and the 10th ranked the Cayman Islands. Investment ? Of the latter, trotting out HS-2, regarded by many as a pure prestige project, with no attempt to address the admittedly very thorny issue of reducing the demand for physical mobility.The claim that “the UK is already a world leader in AI” may be valid but far more analysis of sub-sector structures and trends is needed to base a strategy for the UK in that sector. The report does address the UK’s long-standing disconnect – which is explicitly addressed elsewhere in the report – between scientific excellence and lack of commercial exploitation. The proposal to create more PhD and MSc candidacies is but a part solution. There is a general proposal for a vast increase in the UK’s lamentably low investment in R&D. But where are the businesses that are able and willing to invest in these new technologies ? Nothing is said about excessive attention paid to finance and financial results, or to the general unwillingness to invest. You can lead a horse to water … The compositional factor in low national productivity – the very long tail of underinvested medium and small businesses – is identified. Yet the high level of employment, facilitated by flexible (if not downright weak) social legislation is singled out for praise. This reflects a historical policy choice – conscious or unconscious – to prefer more jobs, even if low-paying. What the UK needs is a leavening of good-quality jobs in durably competitive firms, preferably with export potential. There is no examination of the Mittelstand, that powerhouse of the German economy, exports and regions. The balance of trade is nowhere mentioned. How is investment in AI or HS-2 going to lift Hartlepool ?

4. Brexit. I have previously discussed its likely impact upon the sector I know, the automotive industry. “The transition to ultra-low emission and CAV presents an opportunity to maximise the economic benefits to the UK supply chain.” This obviously needs far more development. Simply banning the sale of new ICE-powered vehicles from 2030 is no coherent policy. “The close partnership of the government and the industry has already led to significant improvements in the competitiveness of the UK supply chain in recent years, increasing the level of UK content in nationally produced vehicles from 36 per cent in 2011 to 44 per cent in 2016. Building on this, we are committing to rolling out an industry-led supplier improvement programme that will target areas where businesses need to improve to match the best in Europe. The programme …. will support the sectoral ambition to increase the level of UK content in nationally produced vehicles to 50 per cent by 2022.” This was one sector in which incoherent ad-hocery actually was replaced by a consistent and sustained policy, leading to the revival of the automotive industry in the UK, through the Japanese transplants and Tata’s investment in JLR. All that effort is now likely to be up-ended by the lamentable EU trade deal, and the completely unnecessary introduction of new barriers to trade in a trans-nationally tightly-integrated sector that runs on just-in-time.

The Industrial Strategy initiative has now been unceremoniously dumped. Pursuit of the romantic illusion of sovereignty has swept away a rare attempt at sectoral realism and rational long-term planning, in favour of short-term politicking. The heart has won over the head. This is tragic.