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CHAPTER FIVE

INDUSTRIAL STRATEGIES AND THE NORTH: WILL A LOCAL INDUSTRIAL STRATEGY DELIVER SOMETHING NEW?

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Introduction

For many decades the North of England, and particularly the North East, has been lagging economically behind the South East, a key reason being a relatively low level of innovation and industrial dynamism. Despite a history of innovation in the 19th century, the North of England languished during most of the twentieth century, as old industries and clusters declined and the region saw limited growth of innovation-intensive sectors, and particularly weak investment in the more research and development intensive parts of those sectors. The low levels of R&D, low levels of new firm formation, and weaknesses in high technology sectors have been clear to see for many years, and public policy intervention has been urged for the last half century to address the problem, but with little real impact, as the gap with the south of England is getting worse. Back in the mid-1960s a report by the North of England Planning Council, 'The Challenge of the Changing North' called for greater investment in R&D and universities to stimulate innovative industries, and many other reports since then have made similar points, yet change, when it has come, has been insufficient to achieve convergence with the South.

The current position, facing the prospect of leaving the EU presents the region with considerable challenges. Despite the growth of new industries in recent years, the North East still lags behind other regions, and is more dependent on export-oriented manufacturing industries, such as the automotive sector which face decline post-Brexit. Yet at the same time government has rediscovered the need for an industrial policy and has asked regions to develop their own local industrial strategies. Does this present an opportunity for the North East, and if so what should the region do in that strategy.

Key weaknesses: urban strategic functions and R&D

The central challenge for the region has been to find ways of attracting and developing new industries to replace those that have declined, whilst national neoliberal-inspired policy has facilitated the loss of capabilities from the traditional industries and their more rapid decline whilst offering branch plant operations in both manufacturing and services to replace them. Thus, traditional engineering businesses with design capabilities vanished in the early 1980s to be replaced with assembly plants drawing on design and innovation capabilities from elsewhere, usually overseas. Both the traditional industries and the branch operations that

replaced them have not been ideal as sources of entrepreneurial talent and ideas, so the remedy for decline has further weakened the region, and left it with little response when more recent foreign direct investments were relocated from the North to other parts of Europe, or to Asia.

Related to the relative lack of innovation has been the weakness of the North's cities relative to similar sized cities elsewhere in Europe. Urban agglomeration is seen as beneficial in the development of knowledge-based industries and services (OECD, 2009, 2010), but the North's cities lack the kind of strategic high-level functions that are to be found in competitor cities: headquarters, international financial service firms, central or regional government. (Centre for Cities, 2016). In response to this, the Northern Powerhouse has sought to create scale by better connecting and integrating the North's cities, thereby stimulating demand for new services.

What has been needed to respond to these issues is a strategic approach that goes beyond regional aid but seeks to reinvigorate the industrial structure of the North, through a form of industrial policy: rebuilding new industries and finding ways of re-using the remaining skills of the old. But industrial policy went out of favour for several decades as neoliberalism became the dominant ideology. Indeed, governments have overseen a steady decline in R&D in the UK from a level of around 2.2% of GDP in the early 1980s to a current level of less than 1.7%, well below the EU average of 2.07% and below the current UK target of 2.4%. Part of this decline has been a reduction in government R&D performance through defence R&D cuts after the end of the Cold War, the privatisation of former public corporations such as in energy (where the new private owners reduced R&D expenditure) and the closure or privatisation of public research establishments (Jones, *The Second Coming of Industrial Strategy*, 2018). So, whilst university research expenditure has increased and government is now investing more in supporting research in the private sector, there has been a long period of under-investment within which the needs of the North have been further neglected.

The Industrial Strategy revival

Since the start of the current century, industrial policy has been on the return. Labour had a tacit industrial policy through its support for regional development agencies and their sectoral and cluster strategies, as well as through the Technology Strategy Board and support for nationally strategic sectors such as the auto industry post 2007. This was particularly important in the North where RDAs invested heavily in innovation projects targeted at developing new sectors, with some success. In the North East, the RDA identified key sectors and clusters such as energy, process industries and life sciences and used both RDA and ERDF support to develop new research and translational innovation activities, some of which has continued in the form of Catapult centres to support key technologies nationally. Nissan also benefited from RDA support for manufacturing, and from Gordon Brown's interventions to assist the car industry during the global financial crisis. Whilst the RDAs were abolished under the Coalition government, industrial strategy continued its re-emergence under Vince Cable as Business Secretary.

A key development was Michael Heseltine's 'No Stone Unturned' report (Heseltine, 2012), which focused on national growth and particularly sustainable growth in all regions. A central focus was localism and the devolution of power and funding to local leaders to develop tailored solutions building on existing local strengths, but Heseltine also called for a strong dialogue between government and key industrial sectors. The nascent industrial strategy which has emerged focused on key issues such as finance, sectoral partnerships, technology development, skills, and government procurement. George Osborne's Northern Powerhouse proposal followed in 2014.

Some initial investment followed, although the story as seen from the North East has been a little disappointing. Manchester has received a £235 million commitment for a new Royce Institute for Advanced Materials Research and Innovation – what might be considered the answer to his question in 2014 as to what will be the 'Crick' of the North (referring to the need for an equivalent to the London-based Francis Crick Institute, a new £700m building to house 1,250 life science researchers). The North East however has been less well supported. More recent investments in National Innovation Centres in Newcastle for data and for ageing have received around £35 million of government funding support.

At a local level the RDAs were replaced by the LEPs with the old North East region being split between two LEPs – Tees Valley and a remainder North East LEP area. Despite increased resources being made available for the LEPs following the Heseltine report, there is relatively limited strategic capacity in what remain quite small organisations, which are thus very dependent on the support of regional partners. Local authorities have however also lost strategic capacity as a result of austerity cuts. Universities remain important local players, especially in innovation policy, but have faced other challenges around their performance against national parameters in the Research Excellence Framework and Teaching Excellence Framework, and in many cases pulled back from ERDF projects in their local regions due to increased regulatory risk and the absence of matched funding. LEPs produced Strategic Economic Plans in partnership with their local stakeholders, but these often lacked detail and identified broad priority sectors which often reflected previous RDA clusters.

Following the referendum on EU membership, the context for industrial policy shifted. On the one hand there was an increased need for a more radical industrial policy to respond to the challenges (or opportunities if more optimistically inclined) that would face the UK in losing access to the Single Market. The appointment of Greg Clark as Theresa May's Secretary of State for Business, Energy and Industrial Strategy gave a boost to the industrial strategy concept after some indifference from his predecessor Sajid Javid. On the other hand, the resignation of Cameron led to the sacking of George Osborne and a reduced emphasis on the Northern Powerhouse.

All of this set the scene for the launch of a new UK industrial Strategy in November 2017 (Department for Business, Energy and Industrial Strategy, 2017). The national strategy draws together several aspects of policy to support UK-wide competitiveness. Much of this is generic such as skills, infrastructure and the business environment, but there is an identification of

place as an underpinning factor and an emphasis of delivery through sector deals. How then do we regionalise this industrial strategy in ways in which it helps to diversify and rebuild the economies of the North?

What will a Local Industrial Strategy Achieve for the North East Region?

The proposed solution is the development of Local Industrial Strategies (LIS) by LEPs in each part of England in partnership with their localities, universities and the private sector. A key question is how these local industrial strategies fit with the national strategy. As the national strategy was developed first as a top down approach, then local strategies are to some extent constrained by this. Local strategies must somehow capture opportunities based on local assets, but still connect with national priorities, so there is an implicit message that local priorities should reflect national priorities. A national strategy that sought to support the sum of local strategies would probably look quite different.

These local industrial strategies are emerging through a slow rolling process of commissioning across three tranches so far. An initial tranche of published reports includes the West the last two decades Midlands and Greater Manchester, but also three LISs related to the Oxford to Cambridge axis, and the West of England (focused on Bristol). These are quite boosterish documents identifying strengths and opportunities, listing recent investments, and pointing to positive developments for the future. What they do not do, although this may be in unpublished documents, is present a realistic analysis of the sources of weakness of the regional economy, the threats from Brexit and other challenges, and how the proposed actions will lead to a change in those underlying problems. These initial local strategies are also all in stronger regions with a well-developed research base, so it will be interesting to see what happens in some of the so-called left behind regions where there is less recent investment to shout about.

We need to build on previous European experience

These new local industrial strategies should be building on of innovation strategies at the regional level. The first of these strategies were developed in the mid-1990s with funding from the EU. Initially Regional Technology Plans were launched as pilot actions by DG XVI (now DG Regio), followed by mainstream programmes from the same DG as Regional Innovation Strategies, and by the then DG for innovation (DGXIII) which launched Regional Innovation and Technology Transfer Strategies (RITTS) (Charles et al, 2000). Not all UK regions (or sub-regions) took up this support, but those that did included Wales, North East, East Midlands, Dorset/Hampshire, Kent, North London, Oxfordshire, Highlands and Islands, West Midlands, Strathclyde and Yorkshire/Humberside. These strategy initiatives aimed to identify the strengths and weaknesses of regional innovation capacity, propose means to better match supply and demand for technology, and identify projects that could be supported by the Structural Funds.

These were followed by a UK requirement for English RDAs to have regional innovation strategies, building on a lead established initially by the three northern English regions in response to the low level of R&D, and the specific incidence of the proposed closure of the Daresbury Lab near Manchester (Charles, Perry, & Benneworth, 2004). Soon after, six science cities were also launched, the first three being in the three Northern regions – Newcastle, York and Manchester (Charles & Wray, 2015). Throughout there has been an ongoing requirement for regions to have programme strategies in place for the EU Structural Funds, with a gradual shift over time in emphasis towards innovation and enterprise actions. During the 2000s these were integrated with the RDA sectoral and innovation priorities. The European Commission’s encouragement of knowledge-based development through the Structural Funds culminated in the requirement for all 2014-20 programmes to incorporate a Regional Innovation Strategy for Smart Specialisation (RIS3)

Smart Specialisation

Smart specialisation is particularly relevant to discussions of an industrial policy and the need to rebuild sectors and clusters in the North, as the aim is to identify new investment projects have priorities that can form the basis of emerging industries, but which are rooted in the existing skills and knowledge base of the region. However, the UK does not seem to have taken smart specialisation very seriously in its current ESIF programmes, even though these were developed prior to the EU referendum. A national smart specialisation hub was created to share experience, but on the ground, projects have been drawn from local capabilities in regions that have been stripped of the strategic capacity embodied in the RDAs. The big problem for England was the decision of the Coalition government to shift away from regional ERDF programmes to a single programme for England (although Scotland, Wales and Northern Ireland have their own programmes). The English ESIF programme had to develop a uniform framework for a diverse set of regional circumstances, but then deliver support via the 38 LEPs, each of which was given a share of the English budget and expected to develop local programmes linking with their Strategic Economic Plans. This led to the rather clumsy structure of a smart specialisation strategy at English level which largely focused on identifying some science strengths and priorities at national level and key regional sectoral clusters, with diverse local level programmes which also sought to identify their own sectoral strengths and growth opportunities.

Consequently, local either tended to strongly connect with national priorities in order to obtain support from UK funds, or else develop on a generic non-specialised basis to meet the diverse needs of local firms. This does not seem to fit with the spirit of smart specialisation and since the referendum there has been little interest in such a European concept.

One attempt to try and identify local innovation strengths was the regional Science and Innovation Audits, launched by Jo Johnson in 2015 and undertaken between 2015 and 2018. These were intended to ‘help local organisations map their research and innovation strengths and identify areas of potential global competitive advantage’ (BEIS, 2015). The call for the audits recognised the need to make better use of existing data to be combined with local

knowledge in identifying opportunities (BEIS, 2016). Three 'waves' of audits were funded, with local research organisations leading on the audits around specific sectoral or scientific themes with varying geographies – some regional, some sub-regional, some pan-regional. Particularly in the case of the pan-regional examples the geographies sometimes only related to the specific technologies, such as the Offshore Renewables audit which covered the LEPs for Humber, Liverpool City Region, North-East and Tees Valley, plus Scottish Enterprise. The problem with this approach though is that the audits focused on the identification of local innovation and industrial strengths and offered very little for those regions whose problem was the absence of such strengths. Throughout, all the proposed policy solutions for the lagging regions have been to identify strengths that can be further developed, and the idea of seeding new activities in regions without such strengths has been anathema.

Post- Brexit Plans

With the proposed departure of the UK from the EU and the loss of the EU Structural Funds, the UK government has proposed a replacement fund called the Shared Prosperity Fund (SPF). However, now there are few details available, despite repeated government promises of a consultation process. The SPF is intended to replace the Structural Funds and address the disparities between regions in the UK and "help deliver sustainable, inclusive growth based on our modern industrial strategy" (Brien, 2019). Without clarification on the way the SPF will operate it is unclear how this funding will relate to the emerging local industrial strategies, although it may be assumed that the SPF could be the main vehicle for funding new priorities identified by the LIS.

The scale of investment required in regions such as the North East if they are to see convergence with national levels of economic performance is large. Over the years of Structural Funds support the gap has not narrowed significantly, although there was some slight convergence in the early 2000s with high levels of both ERDF and RDA spending (Charles and Michie, 2012). There must be concern then that the SPF will not provide the level of investment needed and indeed it may not even match the level of funding from the Structural Funds combined with national funding such as through the various Growth Funds distributed via LEPs in recent years.

Another major concern is whether funds will be allocated to regions according to need or whether there will be some form of competition in which the poorest regions (perhaps those left behind or which 'don't matter' (Rodriguez-Pose, 2019) will lose out to better organised regions with projects that offer better returns on investment.

Strength in Places?

In advance of the Shared Prosperity Fund government has also launched a programme called Strength in Places, which aims to support innovation-led regional growth through support for research-based activities involving universities and businesses around regional clusters. In a

sense this is much closer to smart specialisation than much of what has been supported through the ERDF.

There are currently 23 shortlisted projects from the first wave of applications.

TABLE 5.1 STRENGTH IN PLACES BIDS 2019

Region	Number of shortlisted projects	Sectoral focus
Wales	1	Semiconductors,
Northern Ireland	1	Maritime transportation
Scotland	4	Industrial biotechnology, Nanofabrication, Fintech, precision medicine
North East	3	Automotive, green hydrogen, ageing
North West	2	Materials chemistry, infectious disease prevention and treatment
Yorkshire and Humber	3	Renewable energy, glass, medical technologies
East Midlands	1	Rehabilitation medicine
West Midlands	1	Medical technologies
South West	3	Cyber business (with Wales), environmental intelligence, screen-based media
London	1	Performing arts
East of England	2	Agriculture, logistics/supply chain.
South East	1	Agri-food

Source: BEIS, 2019

The Strength in Places Fund builds also on the set of previous initiatives such as the science and innovation audits as some of the target sectors emerge from these. Again, the emphasis is on rewarding existing success, although there is a tacit acknowledgement that funding for the weaker regions should be a priority given the focus on narrowing regional disparities. Whether this is reflected in the final selection of projects is yet to be seen. With a likelihood of only six or so projects to be funded in the first tranche then it begs the question of why London and the South East were even allowed to bid if the aim was to help rebalance the regions.

So, what should the local innovation strategies do?

The emphasis of the local innovation strategies so far seems to be on identifying existing plans for innovation investment and aiming to increase regional productivity, but surely there should be more to these strategies than this? A key aim should be to rebuild the economic base of the disadvantaged regions- this might then facilitate higher levels of productivity, but a rebalanced economy needs to see dramatic changes to the spatial distribution of high value activities, rather than local tinkering. The What Works Centre for Local Economic Development has suggested that one thing LEPs shouldn't do is to set ambitious high-level targets for growth in GDP or increases in productivity (What Works Centre 2018). These tend not to be particularly effective, don't drive change, and are usually characterised mainly by the fact that they are wildly ambitious and never achieved. Almost thirty years of ERDF programmes in the North East have demonstrated the inability of the region to set meaningful achievable targets, and a tendency for such things to be derailed by external shocks (Charles & Michie, 2013). Similarly, the WWC suggests that benchmarking against national averages doesn't tell us much as any national figures are dominated by the effect of London and the South East. What is needed instead is a much more granular understanding of the effects and opportunities of new technologies and business model innovations on the specific mix of industries, firms and capabilities of the regions. In this sense the previous analysis of regional innovation systems and the science and innovation audits provide a foundation, as does the concept of smart specialisation with a focus on identifying entrepreneurial opportunities for regional firms and partners to develop new growing industries. These may fit within nationally identified grand challenges but may also diverge from national strategies if the region has a distinctive capability. After all innovation is about identifying something new, which may not have been identified in national top down strategies?

The focus for the North East LIS should be on the real problems and opportunities facing the North East. The problems of the region are largely the same problems faced over the past forty years – low levels of innovation and productivity and poor social conditions as a result. However, to achieve real change, relative to the national average, it is not sufficient for the region to identify targets or priorities; there needs to be a national commitment to kick-starting the development of the region with a clear objective to see the region grow faster than the more affluent regions of the South. Without that commitment it is unlikely that a region with fewer assets is going to be able to narrow the gap on the South East.