

# 6

A WHITE PAPER ON ENTERPRISE, SKILLS AND INNOVATION

## *Global ambition*

### *Introduction*

**6.1** In the last two years economic interdependence among nations has grown closer – especially between the countries of Europe. Capital and people are even more mobile. New technology and ideas are spreading ever faster across borders. Goods are made wherever the conditions are best, marketed electronically and then transported worldwide. The international trade in services is growing.

**6.2** These changes will bring huge benefits to consumers, businesses and their employees in the UK, Europe and the rest of the world. They can also bring threats. Employees find their existing skills are no longer in demand. Businesses see their traditional markets threatened or taken away, as they struggle to compete with cheaper imports at home or new competition overseas. Many communities and regions are finding that the industries on which they built their economic success in the last century are no longer a secure basis for prosperity in the future.

**6.3** The previous chapters of this White Paper show how the Government is helping to sustain this prosperity by supporting individuals, businesses and communities in the UK as they respond to new challenges. We must create in the UK a climate for enterprise and growth which provides the best platform for business to compete in Europe and worldwide. But if we are to secure prosperity at home, we must also be active abroad in helping to create the conditions for British business to succeed. This chapter sets out the additional measures the Government will take in pursuit of this aim.

**6.4** We must move forward by engaging actively and constructively in Europe and the wider world to promote British interests. We must continue to work at the international level to open up markets and drive forward economic reform in Europe and across the world. By building links between people, partnerships between businesses, and harnessing the potential of all our regions to compete worldwide, we can strengthen our global connections and help build economic success at home.

## Pentwyn Splicers

Two years ago, Pentwyn Splicers was under severe pressure. This small Pontypool firm which manufactures splicers – machine tools used in the textile industry for joining yarns cleanly, without knots – was watching its business disappear with the migration of textile manufacture overseas. It became vital for the company to make good a decline in UK turnover by increasing the export sales of two highly competitive new splicers (subsequently Millennium Product Award winners). Lessons learned from a project on e-business, run by Cardiff University, were incorporated into customer support activities. Managing Director Graham Waters used information technology as a cost effective means of informing potential customers, around the world, of Pentwyn Splicers' new competitive products. Significant new business was secured in Poland, South Korea, Saudi Arabia, Turkey and Japan. As a result, exports now represent 70 per cent of total sales. Pentwyn Splicers continue to operate in an extremely competitive market but Graham Waters is optimistic about the future, 'We are seeing the stirring of sales in markets where we've never been before'.



**6.5** In pushing forward these changes, national governments must also be realistic about the limits of their power. In a global economy we benefit from investment by multinational companies which can go anywhere in the world. We cannot force companies to invest or re-invest in particular places. But we expect their decisions to be responsible ones. Government can help to lead people through change and it can help influence the wider international framework within which the decisions of businesses and individuals are made. We must also ensure that we harness the benefits for poorer countries. The Government's recent White Paper *Eliminating World Poverty: Making Globalisation Work for the Poor* (Cm 5006) set out our strategy for achieving this.

**6.6** This chapter shows how the Government will work to strengthen the UK's global links, and promote the best environment for British success in Europe and worldwide. To do this it is critical that we win the global battle for talent. Therefore we will:

- establish a new Enterprise Scholarship scheme for the brightest and best young graduates – particularly in high tech subjects – who want to come to the UK to develop their careers and start new businesses. We will also pilot a scheme to encourage British entrepreneurs abroad to establish companies in the UK to pursue innovative business ideas;
- strengthen our support for British business on the global stage by launching a global partnership programme to help our firms into international collaboration at home and overseas, with the world's best as their partners;
- work to improve the framework for closer global economic integration and ensure that it contributes to sustainable development for all, by preparing for a new round of comprehensive World Trade Organisation negotiations; and
- promote a better business environment in Europe by setting in hand, in consultation with our European partners, a major study of the benefits to our people and businesses of achieving European economic reform. Just as the Cecchini report in the 1980s was a powerful reminder of the need to press ahead to reap the economic benefits of the single market, so we will use this study to maintain pressure for progress towards the Lisbon goals.

## Our Goal

**6.7** Our goal is for the UK to be a global hub for the knowledge economy: attracting talent and investment from around the world and growing strong businesses which compete successfully in open, global markets. We want to see a business sector engaged with Europe and the world, and a diverse society open to new ideas and opportunities, talent and skills. We want to help build the ambitions of all regions for success not just at home, but internationally. In the same way that we have helped create the conditions for enterprise and growth in the UK, we must also pursue these same objectives in Europe and beyond for the benefit of all.

## Where the UK Stands

**6.8** The UK has a strong track record of building international links through inward investment. The stock of foreign direct investment in the UK has risen by almost £100 billion over the last year, consolidating our position last year as the leading location in Europe for inward investment.

**6.9** The UK is also the world's second largest exporter of services and the fifth largest exporter of products. We export more per head than the USA and Japan. Exports of goods and services accounted for 26 per cent of the UK's output in 1999. We also export more per head of knowledge based services and high tech manufacturing goods than any of the seven other major industrial nations. Nevertheless, many of our firms capable of exporting still do not take the leap. If we are to learn from the best and increase our ability to compete in world markets, more businesses must trade internationally.

## Attracting Entrepreneurs to the UK

**6.10** As well as helping existing entrepreneurs in the UK, we want to attract more skilled and talented entrepreneurs to this country. In a global economy, there is global competition for talent which we must win. By making the UK a better place to live and work, all the Government's priorities – health, education, transport, and tackling crime – are crucial to our ability to retain and attract the skilled and talented people we need to compete. We have already launched a pilot immigration entry route for entrepreneurs with innovative business proposals who want to start business in the UK. We have also made it easier for overseas students and others with skills that are in short supply to work here.

**6.11** These measures will create new jobs and prosperity in the UK and give employers access to the skills they need. They will also strengthen our international links by plugging the UK into new networks for trade, skills, technology, and knowledge. But we need to do more to help promote awareness of the opportunities now available, and to change old fashioned perceptions of the UK in the outside world.

*To encourage potential entrepreneurs to come to the UK, we will establish a new Enterprise Scholarship programme for the brightest and best young graduates from around the world – particularly in high tech subjects – who want to come to the UK to develop their careers and start new businesses.*

**6.12** The new Scholarships will complement the highly successful Chevening programme, offering a tailored package of measures including postgraduate study in a business-related subject, work experience and help in starting up a business. The new programme will be developed in partnership with the private sector and leading universities.

## TiE

International networks are increasingly significant as channels for new ideas, skills, and investment. The IndUS Entrepreneurs (TiE) is an outstanding example. TiE was started by people originating from the Indus region (Indian Subcontinent), but is open to all, regardless of origin, with an interest in nurturing entrepreneurship. Established in Silicon Valley, where its members have created software businesses with a value of about \$200 billion since 1992, TiE chose the UK for its first European base. TiE established a UK chapter in October 2000, adding to the 22 throughout the USA, Canada and India.

TiE's aim is to "foster entrepreneurship, act as a mentor, network, and offer access to professional advice on raising capital and running a business." The UK chapter will appeal to a diversity of entrepreneurs, not just in ICT but across the whole business spectrum.



**6.13** Established entrepreneurs who have left the UK to pursue opportunities overseas often have well developed global links and first hand knowledge of important markets and new technologies. We must encourage such people to take advantage of the economic stability, improved business environment and world class business support mechanisms in the UK.

*To attract experienced business talent to the UK, we will pilot a scheme to encourage British entrepreneurs abroad to set up companies in the UK to pursue innovative business proposals.*

**6.14** We will pilot a new approach to attracting business proposals in high tech areas, particularly from British expatriates, including support for the development of their business plans, access to finance and other sources of help to launch new businesses in the UK.

## Support for British Business Worldwide

**6.15** We have already linked up support for inward investors and exporters through the creation of British Trade International, the UK's national trade and investment organisation. Its two operational arms, Invest UK and Trade Partners UK, now work together at home and abroad to promote British business competitiveness. But with the increasing pace of global integration, we must do more to support British business in all regions and to promote international partnership at home and abroad.

**6.16** Traditional concepts of exporting and investment are changing. The process of innovation is accelerating and spreading across national boundaries. The development and application of new skills and the globalisation of technology are making international joint ventures and partnerships between businesses, education providers, and the science base ever more important. Best practice is disseminated more rapidly and more widely. Business is having to move faster and travel further to stay at the leading edge. And greater specialisation is requiring increasingly expert business support, delivered more rapidly.

### *Pan Global Solutions (PGS)*

PGS is an IT recruitment specialist and solutions provider that draws on a worldwide database of 25,000 consultants in e-commerce, programming and specialist IT fields to provide bespoke teams that deliver the complete team solution to client needs. PGS's primary product is people; people with the knowledge, skills and experience to meet client needs. The fact that PGS does not restrict its offering by location has helped it to achieve a rapidly growing database of clients and consultants. Clients include British American Tobacco, Cadbury Schweppes, Nokia, Sun Microsystems and Saudi Aramco amongst many others.

In the short term PGS have plans for a New York office. Longer term, there are plans for offices and consulting centres in South Africa, San Francisco, India and Australia.

[www.panglobal.co.uk](http://www.panglobal.co.uk)



**6.17** We must help British business respond to these challenges by ensuring that support for businesses operating in global markets is second to none. We will invest £20 million over the next three years to transform the online operations of Invest UK and Trade Partners UK to meet the changing needs of business.

*We will launch a new global partnership programme to help businesses build links with international partners, at home and abroad.*

**6.18** The programme will strengthen partnerships at home and overseas. Complementing the new approach to regional policy set out in Chapter 3, its key focus will be in the regions, with the objective of building global partnerships across the UK. Invest UK and Trade Partners UK will work with regional business and academic networks to strengthen existing links, matching regional business strengths to international markets. This will be taken forward with the Development Agencies in England, Scotland, Wales and Northern Ireland.

**6.19** To help more businesses exploit the advances in science and technology worldwide, we will also promote partnerships with leading overseas sources of technology, focusing on the areas identified by the Foresight Programme as critical to UK competitiveness. As well as strengthening the science and technology expertise available at key embassies abroad and doubling the number of International Technology Promoters who help British businesses access new technologies and develop partnerships in technology with their leading counterparts overseas, we will pilot a new inward secondments programme to bring overseas technology experts to work with British companies. We will also provide businesses with enhanced information on technology developments and opportunities overseas, through our online service [globalwatchonline.com](http://globalwatchonline.com).

### *Tyne Slipway*

Tyne Slipway and Engineering Company, a small family owned business, is to branch out into boatbuilding and foresees the creation of twenty jobs in two years.



Harry Wilson, managing director, sees the move as part of his vision to bring commercial boatbuilding back to the Tyne through the introduction of the concept of selling boats in 'flat packs'.

The knowledge gained from a DTI supported secondment to the Netherlands studying state-of-the-art computer modelling software will be used with traditional Tyneside shipbuilding skills as part of his vision. Harry Wilson is already in discussions with an American boat builder regarding possible sales. The company previously used the secondment service to study ship repair techniques in Norway. This was part of a process which resulted in them being appointed exclusive UK and Eire sales and service agents for a Norwegian company producing ship propulsion thrusters. They subsequently increased their staff from four to ten.

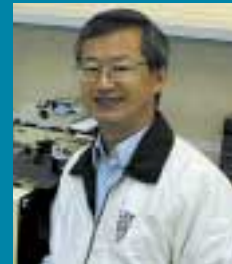
**6.20** Inward investment to the UK plays a key role in helping to strengthen international links. As part of the partnership programme, we will devote new resources to strengthen investment in the UK from existing and emerging high technology markets. We will also help to stimulate partnerships and links between foreign partners and the UK's best firms and centres of excellence, and encourage existing investors to expand their operations in the UK through an enhanced aftercare service.

**6.21** We will also help companies that have previously only traded in the UK to develop the skills and ambition to build international links, by rolling out a national programme to help new exporters. Its emphasis will be on training and skills for the new international business environment, including e-business. Services for new exporters will also be simplified in a single package.

### *Arima Optoelectronics Limited and the University of Bath*

Taiwanese owned Arima Optoelectronics (UK) Ltd has invested £850,000 in a semiconductor growth system in a new laboratory facility in the Physics Department of the University of Bath. This facility is the first of its kind in the UK, and Arima contributes £300,000 per year to sponsor the research chair of Professor W N Wang and four other researchers to develop cost effective approaches to manufacture

power efficient blue light emitting diodes (LEDs). The blue LEDs developed in Bath produce brightness compatible with the most efficient in the world and have the potential for a range of commercial applications.



## *Improving the Framework for Closer Global Integration*

**6.22** The integration of global markets means more opportunities for the UK, but we need agreed standards, clear rules and fair dispute mechanisms. This means working with others, including in Europe, the G8 and the Commonwealth, to improve the governance of the global economy. We must strengthen and reform global economic institutions such as the World Trade Organisation (WTO), the International Monetary Fund (IMF), the World Bank and United Nations (UN), so that they can better respond to the challenges ahead, and help ensure that globalisation brings benefits for developing countries as well as richer nations. We must also develop our co-operation in new areas such as the Internet and biotechnology.

**6.23** The WTO plays an important role in helping to establish the conditions in which businesses can strengthen their international links through trade. The case for continuing to push forward its development through a new round of comprehensive negotiations is clear. Halving barriers and improving procedures to facilitate trade in goods and services could boost world incomes by £270 billion per annum. In today's terms, that is equivalent to over £40 for every person on earth. To help us realise these potential benefits we need to work towards the removal of unnecessary barriers, and to seek to ensure that new barriers are not erected. We also have the opportunity to make a major contribution to sustainable economic development for all nations.

**6.24** The UK must exploit its international links – within the EU and the Commonwealth, and with other influential countries – to help start the new round of negotiations. We need to help build confidence in the WTO amongst all members, by providing practical assistance and ensuring that developing countries play a full part in its decision-making processes. We need to improve dispute settlement procedures, for example the way WTO decisions on disputes are implemented. And we must work with other countries to consider ways to reform the WTO itself and ensure greater openness in the way it operates.

**6.25** Comprehensive negotiations under the WTO also have the potential to help deliver wider benefits. We want the new round to deal not only with improving access to markets but also with the relationship between trade rules and environmental policies, and with rule-making on issues such as international investment and competition.

## Reform in Europe

**6.26** The EU is the UK's home market. Over three million jobs depend on trade in goods and services with EU countries worth over £300 million every day. Promoting the development of the single market and the creation within the EU of a dynamic, entrepreneurial economy are vital for sustaining British competitiveness. Economic reform in Europe will enable the UK, like all EU Member States, to take advantage of the changes in the global economy we are now seeing. We also need to ensure that within the UK, both nationally and regionally, European funds are used effectively to promote enterprise and growth.

**6.27** We want to work closely with business to identify the most important remaining barriers to completion of the single market and the most effective solutions in removing them. The Chancellor of the Exchequer and the Secretary of State for Trade and Industry will be holding a series of seminars with business leaders during February, covering key areas such as manufacturing, services, telecoms and utilities, to help shape the Government's approach in the run up to the Stockholm summit in March 2001 and beyond.

**6.28** The meeting of the leaders of EU Member States in Lisbon in March 2000 set the agenda for making Europe the most dynamic and knowledge based economy in the world by 2010. Its conclusions created a strategy for ten years of economic reform to achieve this goal. They represent a step-change in economic policy for the EU. The rewards are high – but so is the price of failure. We must continue to build momentum, and will work with all EU Member States to ensure delivery of the strategy for economic reform agreed at Lisbon. The first review of progress against the Lisbon objectives will take place at the Stockholm summit.

**6.29** The programme of economic reform in Europe agreed at Lisbon has the potential to bring higher growth, greater productivity, and more jobs.

*We will be setting in hand, in consultation with our EU partners, a major study to quantify the benefits of economic reform in Europe and make clear what the rewards are for continuing reform and the costs of failing to push forward. Just as the Cecchini report in the 1980s was a powerful reminder of the need to press ahead to reap the economic benefits of the single market, so we will use this study to maintain pressure for progress towards the Lisbon goals.*

**6.30** We will also work with our partners to drive forward the process of improving the climate for innovation by benchmarking Europe's position against its competitors through a major study on biotechnology.

**6.31** The UK now receives substantial funding from the EU. The Government will promote best use of this funding to ensure that it is invested in projects which bring long term benefits to our people and our economy.

## *A Strategy for European Economic Reform*

**Communications** For electronic commerce and the Internet to flourish we must complete the liberalisation of telecommunications markets by the end of 2001, combined with swift EU action to promote e-commerce and ensure a pre-competitive regulatory framework.

**Research & Development** at both national and EU level must be refocused towards the technologies of the future. We will be pressing for such a reprioritisation in the forthcoming negotiations on the new European Framework Programme. We must reward innovation and new ideas adequately, particularly through fast and efficient patent protection.

**Regulation** We are pushing forward the modernisation of Europe's approach to regulation so that the needs of small businesses are put first, through robust impact assessments, greater consultation, and examining alternatives to regulation. We also support the pilot project by the Commission looking at the impact of new regulations at the EU level. The Stockholm Council will need to give a further push to this programme for better European regulation.

**Finance for Growing Businesses** It is important that the EU establishes guidelines to allow rapid approval of national venture capital schemes to respond to the needs of growing businesses. We also need to see innovative use of European Investment Bank finance in order to redirect funding towards support for business start-ups, high tech firms and micro-enterprises, as well as other risk capital initiatives proposed by the Bank.

**Single Market Liberalisation** European leaders agreed in Lisbon to speed up liberalisation across a range of services such as energy and financial services. We want to see this accelerated through decisions this March at the Stockholm summit.

**Education and employment** We must promote opportunities for all European citizens to develop their skills, especially in information and communications technology (ICT), and the entrepreneurial skills needed to create a more dynamic enterprise culture. The Government will work towards agreement at Stockholm on new measures to enhance lifelong learning and foster ICT skills, involving business.

## European Funds

European structural funds support measures for regional economic development, employment and training, and for improving agriculture and fisheries. As a result of the Government's success in negotiations at the 1999 Berlin European Council, the UK is due to receive some £10.7 billion from European structural funds for 2000–06. Over £7 billion will go to programmes run by local partnerships in disadvantaged regions.

To date, much of the support from structural funds has contributed to infrastructure and regeneration in regions suffering from industrial decline. For example, the Lowry project in Salford received over £15 million from the **European Regional Development Fund**, which allowed the development of new public facilities such as theatres and art galleries. Transport infrastructure has also received European funding, such as Manchester's Metrolink and Inverness airport. The emphasis is now shifting towards enterprise, innovation and small businesses. For example, the Coventry TechnoCentre received a grant of over £5 million to develop premises for new business start-ups and development, technology transfer and training. **The European Social Fund** helps with training both for unemployed people and those in work. For example, a project at Bridgend College in Wales received £125,000 to provide training in electronics and engineering with the aim of promoting innovation in small businesses.

The **European Investment Bank** (EIB) provides finance to aid regional development and to help the achievement of other EU objectives. The EIB is owned by the 15 EU Member States and raises its funds on the capital markets. In the past it has typically lent for large construction projects in transport, telecommunications, energy and industry. At the Lisbon European Council, the UK successfully pressed for the EIB to expand into funding knowledge based industries, innovation and education. The EIB will lend up to £9 billion across the EU over the next three years to support these new areas. In recent years, EIB lending in the UK has averaged £1.8 billion per year. The EIB, together with its risk/venture capital arm, the **European Investment Fund**, also provides venture capital for high technology small and medium sized enterprises. The EIB was a launch investor in the UK High Technology Fund. Chapter 3 describes several new EIB initiatives in the UK which are underway or under consideration.