Economic Development Committee **EDC-01-01(p2)**

DATE: 17 January 2001
VENUE: Committee Room 1, National Assembly Building
TITLE: Draft National Economic Development Strategy

NATIONAL ECONOMIC DEVELOPMENT STRATEGY (NEDS)

This paper will be supplemented shortly by a statistical annex (Annex 2), which provides set of comparatve indicators of economic performance across the UK.

Purpose

To provide Committee with a first draft National Economic Development Strategy consultation paper. The document is continually developing evolving in terms of both content and structure and any changes the Committee proposes will be considered before the document goes out to consultation. This is in no way intended to be a final document yet but a paper that will provoke views on the hard choices facing Wales, so further views are welcome at this stage.

Background

Prior to Christmas it was agreed that the Committee would discuss the first draft document with appendices (including a proposed timetable and the previously seen Economic Analysis) in the New Year.

It was agreed that the Committee would discuss a worked up version of the content summary as discussed in the informal EDC meeting before Christmas at which one member of each party was present.

Throughout the process of producing this draft document it has been subject to continuous consultation. This first draft has received consultation throughout the drafting process. It has received comments at various stages prior to this paper, from an informal consultative group, consisting of the major umbrella organisations like the CBI, FSB, WCVA and WLGA and a wider virtual group. These consist of over one hundred and thirty individuals and organisations. Officials have also met with various other individuals and organisations from many different sectors throughout the process thus far.

The NEDS team has met with the four economic fora to get a regional perspective on relevant issues.

The DFM has set up a Futurology task and finish group to introduce new thinking in order to influence the analysis and vision for the future. The brief of the group will be to look at internal and external factors affecting Wales' long term competitive advantage – in order to inform strategic planning and sectoral specificity over the short and medium term. This group will be meeting during the consultation period and any ideas will be fed in through the consultation process.

EDC has guided the process of writingNEDS with regular slots at EDC meetings. Papers that are relevant to NEDS have been presented to the committee from many outside organisations. There have also been discussions on papers presented by officials throughout the process. There has been a thorough discussion up to this point and we hope this latest paper will bring everything together to provide the basis for a consultation document.

Compliance

This paper raises no financial or compliance issues. It incorporates returns from across the Assembly and was cleared with the Policy Unit, Economic Advice Division and Finance Programmes Division at the very start of the process. **(Need to check)**

Timing

The consultation document is due to be launched in plenary on February 8. There are very tight time scales involved given the short time between now and plenary. Assuming necessary changes resulting from EDC-20-00, translation will not be completed until January 31. Only then can the document go to the printers, meaning a printed hard copy of the NEDS consultation paper may not be ready in time for plenary. As a result all AMs may have to make do with a paper copy at plenary. Officials will do all they can to get Desk Top Published documents ready in time for plenary but there is a possibility they may not be. A copy on the internet and intranet will be ready by February 8 however.

A consultation period of 12 weeks will begin after plenary. Officials are drawing up an extensive distribution list, in addition to the informal consultative group and our virtual group. Copies will be sent to all relevant parties on the Better Wales distribution list and anyone else who it is thought should receive one. Consultation is open to all however, through the web.

The final draft consultation paper will be subject to an active period of wide consultation. Officials will be available to discuss any issues throughout the twelve-week period and progress slots can be made available in EDC. There will be a further review in the summer before the final document is issued and approved by the Assembly.

Officials have been in contact with other committee clerks to raise awareness of the NEDS consultation document. Other committees are currently looking at schedules to try and fit in a discussion on NEDS some time during the twelve-week consultation period. Responses thus far suggest the way in for NEDS is via the fortnightly Ministers report. This could draw members' attention to the aspects of NEDS that concern them, rather than consideration of the whole strategy.

Conclusions

The Committee is invited to comment on the paper. It is proposed that the Committee approve the document as a consultation paper that provokes opinion on the hard choices facing Wales. The paper offers a vision for Wales and seeks to build on our successes and tackle our key challenges head on. Raising skill levels, generating a more enterprising economy that is capable of meeting global challenges and creating opportunity for all are just some of the challenges we face. We must continue to build on our successes in areas like Manufacturing and establish Wales as a world class centre for manufacturing using a highly skilled workforce, using the latest technology, providing high value added jobs.

Any changes that the Committee would like to make before the paper can go out as a draft consultation paper would need to be made almost immediately given the deadlines involved.

Economic Policy Division – Jan 2001

January 2001

NATIONAL ECONOMIC DEVELOPMENT STRATEGY

CONSULTATION DOCUMENT

1. Introduction

This consultation paper is designed to inform the development of a National Economic Development Strategy for Wales. The political and economic map of Wales is changing presenting us with an unprecedented opportunity - we have a democratically elected Assembly for the first time, the Welsh Development Agency has been enlarged to deal with economic development and entrepreneurship across Wales, and skills are the domain of the new Council for Education and Training in Wales. On top of this organisational change we have the opportunity presented by European Structural funds over the next six years.

Many of the pieces of the economic development puzzle are already in place and here our job is to ensure that existing policies are implemented effectively. The strategy must embrace these existing policies and provide a coherent picture. Other areas may require a change of direction or new policies altogether in which case we need to identify and implement those policies applicable to Wales.

The Welsh economy does not exist in a vacuum – it is an integral part of both the United Kingdom and Europe. Therefore, our policies must complement those elsewhere but on the basis of what works for Wales – identify and reinforce our strengths while overcoming our weaknesses.

2. Background

The starting point for this exercise was the draft NEDS which was published by the European Task Force to inform the Structural Funds process. The publication of the strategy was also trailed in betterwales.com last year.

The informal consultation period for NEDS started last September with the formation of a small consultative group. During the intervening period we have met with a range of individuals and organisations to discuss the framework and priorities. In addition to this there is a much wider network of individuals and organisations who have been invited to comment on working papers (the "virtual group"). To date, over 100 organisations and individuals have been contacted.

This document launches a 3 month formal consultation period during which time we invite and welcome comments on all aspects of the paper. A few key questions have been included at various stages though these should by no means be considered limiting. The final strategy will be published in the summer and will build on the proposed framework and contain more detail on implementation, responsibilities, processes, etc.

3. Our vision

Putting Wales First commits us to creating an enterprise economy. It recognises that this is the key to high employment, the generation of wealth and the provision of high quality public services. If we are to achieve the economic success that Wales deserves we must have a clear path to follow and clear objectives. Our vision for Wales in 10-15 years:

4. Key objectives

The key objectives of our economic strategy are to:

- Ensure that Wales has the skills and capacity to adapt to changing requirements and to improve productivity and wages.
- Generate a more enterprising economy where people are willing and able to exploit opportunities.
- Market Wales as a world-class location for business and as a destination for tourism, and to develop new markets for our products.
- Remove the barriers in the way of those who want to work.
- Overcome social or economic exclusion and peripherality through the provision of modern infrastructure.
- Promote individual and community empowerment, equality of opportunity, participation and sustainability.
- Ensure that relevant public services meet the needs of their customers.

There are three main priorities for action. These are to:

- ensure that more of the people of Wales are economically active
- improve the productivity and, hence, pay of those people already in jobs
- ensure that there are more jobs available in higher value-added services and manufacturing.

5. Key challenges

In developing our strategy, we need to meet a number of important challenges:

- **Sustainable Development** – can we meet the needs of the present without compromising the ability of future generations to meet their own?
- **Equal Opportunities** – are we getting the best out of the talents of all of the people of Wales and rewarding those talents fairly?
- **Tackling Social Disadvantage** – how will our proposals contribute to reducing deprivation, isolation and exclusion?

These are the cross-cutting themes to which the Assembly is committed in all it's policy making. These themes are both essential to and dependent on a prosperous future for Wales.

6. Focussing on strengths, tackling weaknesses

We must build on our strengths and address our weaknesses in the light of the economic changes and challenges we anticipate over the next 10 years. It would be a high risk strategy to try to predict in detail the social, economic and technological changes that will shape the decade ahead. But we can and must take a view on the way in which the world economy will develop and the implications of this development for Wales:

- location will become less of an issue as the world economy is likely to become more integrated through trade, investment and communications;
- investment in science and innovation will create ever more products and services, new skills demands, and entirely new industries;
- the Internet as a business and leisure tool will continue to spread around the world through continued steep falls in the cost of technology and communications, and the creation of both wireless and broadband infrastructures. Communications systems will change radically;
- all societies will need to invest more in education and training to increase the skills of their workforces. These skills will need to be continually updated; Demand for unskilled labour in advanced economies will continue to fall.
- very large multinational companies will be a key feature of the global economy. At the same time, self-employment and more flexible ways of working are likely to rise, and employment growth will be highest in small companies (particularly important in Wales);
- the exploitation of knowledge and technology along with high value-added services and manufacturing are likely to be the main economic drivers of the future.
- the share of manufacturing in total output will continue to decrease in advanced economies, though certain manufacturing sectors will grow and the boundaries between manufacturing and services will become increasingly blurred; despite this, manufacturing is likely to continue to be an essential part of the Welsh economy so it is essential that the sector is efficient and modern.

- pressures on resources and the environment will accelerate the trend towards more sustainable technologies, products and processes. The demands of resource productivity require far reaching changes to the way we manufacture and use basic products, such as cars and domestic appliances;
- the growing populations and wealth of emerging economies will create new markets and new sources of competition;
- every business in Wales will face new competitive challenges as well as, for many, opportunities to sell in far distant markets;

These trends provide huge challenges for Wales. We are starting from a relatively weak base in a number of these areas while in others we will need to ensure that we make full use of any advantages we may have.

7. Where we want to be

In planning for the future it is vital to have a clear vision to guide policy. This allows us to set targets and measure success. This may need to be reviewed as we progress to ensure that our objectives for, say 2010, are still relevant but this means corrections along a clear path rather than constant changes of direction. We are in the process of developing this vision for 2010, it is likely that it will build on the benchmarks outlined in betterwales.com. We are also looking to add a sectoral dimension to this so that we can identify key industries of the future. Some industries have been identified as being of global importance in the future:

There are a number of these sectors in which Wales has or can gain some form of competitive advantage and which we see as helping to drive future economic growth. These sectors include call centres, optronics, aerospace, medical & diagnostic equipment and products, biotechnology, renewables, environmental services, telecommunications, ICT/software, niche tourism and a range of media and culture related sectors. These sectors are important because they are high value-added and knowledge intensive. In addition, location is not an important factor for many of these industries.

A number of these sectors were also identified in Wales in a recent report for the DTI on clusters across the UK. The geographical spread of these industries is uneven. For example media & broadcasting was identified as a sector with potential especially in the Cardiff area where the industry is well networked it is also important in Caernarfon. Wales is also strong in a number of more established sectors such as metals, automotive components, electronics, plastics and agriculture/food. These are sectors where modernisation is particularly important – we should seek to establish Wales as a centre of excellence for manufacturing industries.

We are particularly well placed to exploit the excellent natural environment of Wales to attract visitors, as a resource or as a means to develop growth industries such as renewables, high value-added agriculture, sustainable processes, products and technology and a range of leisure and business activities related to the environment. These industries will be of particular significance to rural and mid Wales. The markets are potentially enormous:

We will establish industry led Cluster Groups to ensure dynamic policy making, project development and delivery for the key growth sectors of the Welsh economy.

Each group should inform Assembly policy and action from CETW, WTB,WDA and a developing armoury that will include the Structural Funds Programmes and "horizontal" actions such as the Entrepreneurship Action Plan.

We believe that a strategy that a strategy developing spatial clusters is important for the future of Wales. This will be linked closely to the planning framework and local circumstances.

8. Where are we now?

If we are to build policy on a firm foundation, we must have a clear picture of where we are now. Wales has already undergone a period of huge structural change – over the last 30 years the economy has absorbed between 150,000 and 200,000 jobs from the decline in manufacturing and deep coal mining. This is a phenomenal feat in a workforce of just over 1 million and demonstrates our ability to adapt. We are also in a period of sustained employment growth with the number of employee jobs in Wales increasing by around 32,000 in the two years to June 2000. However, the Welsh economy is still under-performing with GDP per head low in relation both to the UK and Europe. Some of the key features of the Welsh economy are:

- Low proportion of GDP in high growth, high value-added sectors.
- Low economic activity rates
- Inactivity in the working age population concentrated in particular groups
- Low pay and generally low productivity jobs
- Sharp variations in economic performance within Wales
- A relatively low number of businesses for the size of our population

Wales trails the UK and Europe in economic terms so naturally the most deprived areas in Wales are way behind the leaders – not only in the Objective 1 areas but also in pockets of the relatively prosperous areas of north- and south- east Wales. A fuller analysis of the economy is contained at Appendix 1.

For a limited period (2000-06) Wales has qualified for a number of European support packages which provide a unique opportunity to restructure the economy. Nearly two thirds of the Welsh population live in the Objective 1area which provides the highest level of support – around £1.2 billion of European money plus associated match funding will provide the impetus for change. The Single Programming Document provides us with a clear strategic framework within which we can develop NEDS. The European funding packages agreed for Wales address different issues:

- **Objective 1: areas where development lags behind**
- **Objective 2: industrial areas and regions in decline**
- **Objective 3: combats long term unemployment**
- **Rural Development Plan: tackling rural disadvantage**
- **Community Initiatives**: LEADER+, URBAN II, INTERREG IIIinterreg/index.htm

, and EQUAL

In addition, we also have the new regional state aid coverage following the publication last year of the Assisted Areas map. This map determines the areas of Great Britain eligible for regional investment grants for industry.

Total expenditure on regional industrial assistance in Wales over the map's seven year lifetime is expected to be up to £140 million per year, helping an area with a population of over 2 million out of the 3 million total population of Wales. West Wales and the Valleys will qualify for Tier 1 assistance. Investment projects in Tier 1 areas can qualify for the highest levels of assistance. This is in addition to the area's Objective One status for European Structural Funds and provides the possibility of operating aid and other fiscal variations, subject to European Commission approval.

9. What the Assembly can do

The power of the public sector in economic development is real but limited as much economic activity takes place in the private or social sectors. The main role of the government is to set right framework for economic development and overcome barriers to development – in other words, focus on the supply side rather than demand side of the economy.

Also, the economy is in a constant state of flux so that jobs are constantly being created and lost and new companies are formed while others cease trading. This churning is an essential part of a healthy economy which is continually adapting and modernising. This process takes place regardless of government intervention and should be encouraged while recognising that there may be short term difficulties caused by major shocks which require specific assistance. The Assembly needs to ensure that the people and communities affected by such changes are supported.

There are three other key challenges which must be addressed by the Assembly:

- Ensure that resources follow the priorities and policies.
- Ensure a good fit between our planning and economic development policies to provide a spatial framework for our efforts.
- Manage economic change to ease the transition from declining industries to growth industries.

Many of the factors that influence economic development take place outside Wales and are decided at UK or European level. Issues such as interest rates, exchange rates, social security and taxation are all decided elsewhere. Other issues are decided at a local level where it would be difficult for a national organisation such as the Assembly to intervene. It is important, therefore, that the Assembly works effectively with these organisations.

This highlights the need for partnership between the public, private and voluntary sectors, all of whom have a part to play in the future development of the Welsh economy.

10. Pillars

The pillars and policies outlined below are the main areas where the Assembly and its partners can have an impact on the economy of Wales. These pillars are important to all. But the priority they are accorded may vary from place to place according to the structure and needs of the local economy. Also, the relative importance of each of the pillars is likely to change over time as particular needs become more pressing or are addressed.

The measures outlined below are a mixture of existing policies, current proposals and options for new policies or refocusing of existing ones. The implementation of these policies will fall to a range of organisations including the Assembly, ASPBs and local government.

The two main reasons for low GDP per head in Wales are low activity rates and low productivity. The pillars below each address at least one of these issues though the boundary is often blurred. Those factors which primarily affect productivity are upskilling, entrepreneurship, growth sectors, R&D, internationalisation, agricultural diversification and certain infrastructure developments. Activity rates can be improved by removing barriers to work, employment incentives, community regeneration, and the provision of basic and vocational skills.

10.1 Education & Skills

Objective: Ensure that Wales has the skills and capacity to adapt to changing requirements and to improve productivity and wages.

The foundations for future employability are laid in schools which provide pupils with the basic work and life skills. Much of the adult skills agenda will be driven forward by CETW within a policy framework set by the Assembly with an essential contribution from the higher and further education sectors. The example of the Republic of Ireland is particularly relevant as they invested in skills, particularly of young people, over a prolonged period and are now reaping the rewards.

Training is not only important for the young and those in work but higher skill levels will also assist the unemployed and the inactive to get back into the labour market. Mechanisms should be created to ensure that investment in education produces spin-off economic benefits. Priority will be given to:

- **Raising basic and generic skills** - issues include the relatively high proportion of people with little or no qualifications and a lack of basic employment skills such as literacy, numeracy and ICT. Links between industry and schools, possibly adopting the Scandinavian model or through a new scheme to encourage firms to sponsor schools are options for change.

Also relevant here is the introduction of a Welsh Baccalaureate which will broaden the skills of school leavers. Adult numeracy, literacy and basic skills programmes can be delivered online and via employers. The Skills Task Force recommends free tuition to level 3 for all.

- **Boosting vocational skills** - ensuring that employees (and future employees) are equipped with the key skills that business requires is essential (such skills include management, communication, IT, problem-solving and languages). Addressing skill shortages e.g. management skills, technicians, etc. is also important. Expanding modern apprenticeships and providing vocational GCSEs would provide a link into the world of work. The Skills Task Force recommends a centre of excellence for management training to develop current and future managers.
- **Promoting lifelong learning** - 80% of our 2010 workforce are already in jobs. We need to ensure that their skills and knowledge are regularly updated. This may require a culture change and is a long term objective.
- **Increasing adaptability** - skill requirements change over time as a result of changing technology, new ways of doing business, new opportunities and new products. Part of the lifelong learning agenda needs to ensure that people are adaptable and enterprising. Entrepreneurship needs to be introduced to mainstream activity in schools and colleges (EAPIP).

- **Promoting innovation in further and higher education and exploiting their knowledge base more effectively**: these sectors play a central role in producing highly qualified people; provide a significant part of the advanced technology base of a region; attract research and development and inward investment and are a key source of technology and advice for indigenous companies. They also have the potential to act as a significant source of new companies with growth capability (this links to the EAPIP). Scope for fund to back innovation projects with private sector?
- **Strengthening the science and technology base in Wales**: links to industry and higher education. Need to develop the research capability in education – potential for new clusters, attract new firms, provide well-qualified researchers and scientists. Funding can be targeted accordingly. Business support measures can be used to attract commercial R&D operations. Introducing technology schools to improve workforce skills where there are skills gaps (e.g. technician, intermediate skills, etc.). Technology centres in universities.

10.2 Enterprising Economy

Objective: Generate a more enterprising economy where people are willing and able to exploit opportunities.

The Welsh Development Agency will have a major role to play in the drive to create an economy and society that attaches real value to entrepreneurship. Important strands to this programme of action will include:

- **Transforming attitudes** - EAPIP recommends a national awareness campaign to generate more positive attitudes and perceptions towards entrepreneurship within Wales leading to development of new entrepreneurial activity. It recommends promoting entrepreneurship as part of careers guidance and providing potential entrepreneurs with a taste of enterprise in a safe environment.
- **Sharpening business support** - EDC's review of business support will rationalise the existing network of services and provide enterprises with easy to reach and use services which are largely demand-led. We need to continue to support those existing businesses and sectors with a future in Wales to help them innovate, modernise and stay competitive (for example, the steel, electronics and automotive sectors). Fiscal variation [not sure if this is the right place for this], business rates, grant aid (especially RSA).

- **Promoting growth firms** – Wales tends to create fewer firms than other regions of the UK and fewer firms grow into medium or large enterprises. Putting Wales First commits us to implement a birth rate strategy for new businesses as recommended in the Entrepreneurship Action Plan to increase the rate of new firm formation in Wales to a level closer to the UK average.

Research, especially from the USA, has shown that much of recent employment growth is generated by small businesses. Therefore, it is essential that enterprising small firms with growth potential are allowed and encouraged to grow. Estimates suggest that up to 15% of small Welsh businesses have the potential to grow and develop. Barriers to growth include finance (currently being addressed by Finance Wales), marketing information and skills (WDA, Business Connect and the private sector) and the ability to recruit and retain skilled people (support for graduate recruits, help with recruitment costs, job subsidies).

Incubator units and funding for small and micro businesses would help overcome start-up costs. Projects such as Fast Growth 50 could be used to identify growth firms. Singapore, for example, identifies and supports "Promising Local Enterprises".

- **Promoting growth sectors and clusters** – we need to encourage the private sector to identify and develop the growth areas while actively supporting (and removing barriers) to those industries, clusters and sectors which have growth potential and the capacity to more skilled and better paid jobs and in those sectors where Wales has some form of current or potential competitive advantage. These sectors could include call centres, optronics, medical & diagnostic equipment and products, biotechnology, renewables, environmental services, telecommunications, ICT/software, aerospace, niche tourism and a range of media and culture related sectors.

The WDA cluster strategy is main policy tool at the moment. Clusters need not be confined to Wales – we should also look across our borders to see if Welsh firms can join clusters or supply chains in England or even Ireland.

- **Supporting new products and new ideas** – The Wales innovation fund is a venture capital fund providing investments up to $500k. The WDA is introducing a programme to create innovation centres across Wales (technium centres) to encourage research, innovation and business development. They are also working to promote commercial research and development which may have links with Assembly schemes and HE/FE spinouts.
- **Reducing barriers to trade** – measures include reducing unnecessary regulations and restrictions to business activity and encouraging competition and competitiveness in Welsh firms. The impact of planning policy, the environment, business rates, taxes, red tape, paperwork, etc. on business must be considered. Much of this agenda is not devolved but we must speak on behalf of Welsh companies in Westminster.

10.3 Internationalisation

Objective: Market Wales as a world-class location for business and as a destination for tourism, and develop new markets for our products.

The Welsh economy is heavily influenced by trends elsewhere, particularly Europe and the rest of the UK but also throughout the world. We are affected by economic and industrial trends, changing tastes and government policy. Wales will not prosper by serving the domestic market alone in a world served by global companies producing products and services for the global consumer.

Internationalisation of our business sector will be encouraged by:

- **Branding** – of Wales as a location for both business and tourism. This requires two different strategies firstly to market Wales as a dynamic economy and ideal business location and secondly to market our environment, attractions and leisure facilities to tourists. WTI, WTB and WDA are the main organisations in this area dealing with either the business side or tourism side.
- **Internationalisation of companies** – this can be achieved through promoting sector "cluster" groups of companies which exchange information, bid together for contracts, share experiences, etc.; seminars and workshop programmes; one-to-one meetings with experts trading in overseas markets; Offset Business Opportunities – a requirement of some national governments that offshore defence contractors reciprocate business awarded by making investments and/or purchases of an equal value; Welsh Export Awards can help to raise the profile of exporting and provide marketing incentives.
- **An export strategy** – this is a framework within which Team Wales' efforts can be focused to best effect through a variety of activities including seminars, workplace visits, identifying opportunities, trade missions, joint ventures, market intelligence, publicity, etc.
- **Inward investment** – led by WDA but involving a range of economic organisations including training organisations, local government and the Assembly. Key activities include: targeting inward investment in tradable goods and services and encouraging Welsh suppliers to meet global standards, including meeting the needs of inward investors in Wales, ensuring adequate infrastructure and business premises to meet their needs, developing bespoke packages of support relevant to business needs (such as recruitment, training, supply chains) and local opportunities.

- **Networking, links, etc**. – there are a range of networking issues from technical/ICT to human contact. Activities include accelerating the use of electronic commerce throughout Wales to access and serve external markets, supporting the export potential of companies through benchmarking and by demonstrating opportunities to non-exporting companies in exporting sectors, utilising representatives overseas and in Wales to help Welsh companies to identify and exploit new opportunities for collaboration and commercial development.

Wales Trade International has responsibility for the running of a series of subsidised trade missions designed to assist our small and medium enterprises explore the sales opportunities for their goods and services in selected overseas markets. Active networks of company managers are the best way possible of spreading best practice and persuading people to think strategically. Our experience with the various technology fora and supplier development chains etc bears this out.

- **Reducing barriers to trade** - measures include assisting companies to develop the marketing skills to identify and exploit new business opportunities; encouraging younger people in Wales to become more outward looking and to develop tradable skills (actions might include working with appropriate organisations to provide bursaries for study abroad, after-school language clubs and enterprise training for language students); establishing links with and publicising globally successful Welsh individuals as role models and supporting the creation of Welsh alumni groups abroad.
- **Tourism** – new, more focussed tourism strategy based on top quality market research and new media promotion. Image of Wales based on culture, heritage, leisure facilities and environment. Tourism has been set challenging targets for future growth in Putting Wales First. The Wales Tourist Board are already in the process of implementing "*Achieving Our Potential - A Tourism Strategy for Wales*' which covers the period 2000 to 2010. There may be scope to review that and, perhaps, accelerate certain aspects.
- **Niche markets/clusters -** linked to networking activities to encourage internationalisation through the creation of Welsh cluster groups in particular industries to share knowledge and experience and, where feasible, collaborate in bidding for overseas contracts.

10.4 Employment and economic activity

Objective: *Remove the barriers in the way of those who want to work*

Increasing the economic activity rate to a level similar to the UK (without a fall in productivity) would cut somewhere between a third and a half of the GDP per head gap between Wales and the UK. (Note: many of the measures below are not devolved)

Even though many of the measures are not devolved there are still ways in which we can focus or enhance policies. We can financially assist specific groups or specific areas but not a general scheme; we can use IT as an information source (e.g. vacancies, standard letters/ CVs), training tool or communications link (mentors, careers guidance). There is scope for specific action such as improving childcare (especially using European funding) and introducing/enhancing support structures. The aim is to break the cycle and culture of worklessness.

- **Stemming the flow of people into inactivity** – prevention is better than cure so we need to take early action to stop young people becoming inactive. This starts in schools with reducing truancy and careers advice then assisting the transition to work by helping young people into training or jobs, reducing risk of moving onto long term sickness benefits and job retention schemes. Job matching to help unemployed back into work (Job Transition Service in KEWP).
- **Breaking down the barriers to work** – we need to ensure that there are no barriers preventing those who want to work doing so. These barriers are likely to consist of a range of personal and financial circumstances which limit an individual's ability to work. Issues include childcare, access for the disabled, overcoming exclusion, assistance with job search and credit unions.
- **Making work pay** – low wages and loss of benefits on returning to work form a substantial disincentive to re-entering the labour market for many people. The National Minimum wage, tax credits, increased wages through economic growth are key factors in affecting this. The long term solution to this is likely to be greater economic prosperity but we may be able to introduce schemes to ease the transition from benefits to work for particular groups of individuals.

10.5 Infrastructure

Objective: *Overcome social or economic exclusion and peripherality through the provision of modern infrastructure.*

While developing the skills and talents of the people of Wales is at the top of the agenda, it is also essential to create the right conditions for sustainable development by ensuring that businesses operating in Wales have access to the most modern physical infrastructure available:

- **ICT broadband, fibre optics, etc**. – A scheme currently supported by WDA with BT [check details] aims to provide Welsh villages, towns and cities with broadband linkages to allow greater access to the internet and facilities such as digital TV, online banking and shopping. In a wider context the UK is aiming for a higher proportion of businesses and homes linked to broadband than any other G7 country. Research from US suggests take-up of broadband is, as yet, relatively low – what is Welsh experience and how do other technologies compare?

- **ICT infrastructure** – issues include improving PC and internet access (provision to small businesses or schools/organisations e.g. libraries), mobile phone coverage, internet hotels to serve growing demand for storage space (these hotels are also linked to energy policy as they are major energy consumers). These factors are essential to attract forward-looking businesses and to reduce the effects of peripherality in parts of Wales. The Wales Tourist Board are in the process of developing a `Destination Management System' which is an ICT based tourism information, marketing and booking service for Wales. This is an example that could be employed elsewhere both to demonstrate public sector commitment to ICT and to encourage it's use.
- **Public transport** – There are several schemes in operation to assist bus use and rural transport, and there is Freight Facilities Grant and Track Access Grant to help shift goods from road to rail. This will link to spatial planning strategy in terms of linking public transport with economic development in order to maximise access and minimise environmental impacts.
- **Transport links and accessibility** – More broad than just public transport we need to consider a range of issues, many of which are long term. Key issues include reducing congestion, removing bottlenecks and upgrading sub-standard routes. There are other obvious issues such as air/road/rail links but there are also less obvious issues such as flooding, distribution centres, etc which may impact on both economic development and the ability of people to work. The Assembly is currently developing a transport framework to deal with many of these issues in more detail.
- **Energy** - Supply to industry is important but there are broader issues such as using cleaner fuels, renewable energy, energy efficiency, energy parks, etc. There may also be scope to use our energy know-how as an export if we are advanced in terms of renewables, efficiency or technology. This is a key area for sustainable development policy – minimising energy consumption from non-renewable sources while maximising economic growth.
- **Sites and premises** – Policies on sites and premises will need to be location specific and linked to the spatial planning framework – the needs of rural areas different to those of urban and there will be different priorities in heavily industrialised areas as opposed to areas with less infrastructure development. Issues will include bespoke factories, strategic sites, brownfield/greenfield sites incubator units, techniums. There are important linkages here with sustainability issues and spatial planning.
- **Spatial planning** – Research work is underpinning preparation of an outline spatial planning framework by Autumn 2001, with target completion of the full National Spatial Planning Framework by Spring 2003.

There is a strong and developing relationship between the Assembly's commitment to sustainable development, this strategy and work on the emerging National Spatial Planning and Transport Frameworks. Joint working has already informed the drafting of these documents, and this work will be carried forward to support implementation, monitoring and review.

Spatial Planning has emerged strongly at European level with the European Spatial Development Perspective (ESDP) which has policy themes relevant to Wales:

- supporting polycentric and balanced spatial development;
- promoting dynamic, attractive and competitive cities and urbanised areas;
- encouraging indigenous development, supporting diverse and productive rural areas; and
- strengthening urban-rural partnerships.

The ESDP achieves impacts through mechanisms such as Interreg IIIa which covers links between border areas. It also affects current and future disposition of Structural Funds and will be a factor in identifying where residual aid is spent in Western Europe after new entrants in the East.

Explicit mechanisms such as LANDMAP can help to establish priorities between environment and economy – to tackle a recurring problem of proposals for locating new employment on sites of high landscape or conservation value – and promote understanding of the issues involved. Ultimately, however, such decisions may require tough choices based on political priorities.

10.6 Community Regeneration

Objective: *Promote individual and community empowerment, equality of opportunity, participation and sustainability*

We need to widen the circle of winners at both individual and community level. The key public sector organisation in community regeneration is local government and it's umbrella organisation, the WLGA. The unitary authorities compile community action plans for their relevant areas to deal with local economic, social and environmental issues. The UAs are in the best position to set priorities for action at a local level within the overall framework set by the Assembly. Another key player in this is the Welsh Council for Voluntary action whose members co-ordinate a wide range of voluntary activities at the community level.

- **Communities First** – economic activity benchmarks:
- a full range of services exists to enable all those of working age to achieve their potential in the labour market
- local economic activity is promoted to secure local trading, exchange and circulation of wealth
- support for local business and commerce exists to encourage growth in private, community and social enterprise

- accessible and affordable transport links exist to widen employment and commercial activities
- community-driven processes exist to provide links with the mainstream economy for those who have difficulties with the school to work transition and those who experience later-life disconnection from economic activity.
- **Community enterprise** – this is addressed in part in the EAPIP which wants to train "social entrepreneurs" to generate community businesses. In addition we can implement the Community Investment Authority to channel funding to community and voluntary enterprises.
- **Capacity building** – this means ensuring that community and voluntary organisations have the people and resources to undertake their business.
- **Social infrastructure –** this includes local services, leisure, housing (& related issues e. g. energy efficiency)
- **Health –** we need to clearly identify the links between health, economic activity and prosperity. Health & safety at work is important issue – estimates suggest annual cost to Wales of £1bn in lost time, healthcare, benefits, etc. Also linked to occupational health policy to aid recovery and enable the sick to work. This is of particular importance in Wales where we have a relatively high proportion of the population out of work and claiming some form of incapacity benefit.

10.7 Better Government

Objective: *Ensure that relevant public services meet the needs of their customers.*

From Assembly programmes to local government activity we are committed to deliver Best Value: the main emphasis is on eliminating waste, focussing services on those that work and improving responsiveness and efficiency; The Assembly has a key role as a facilitator to co-ordinate economic development activity and liaise with the relevant stakeholders. The Assembly can also use it's procurement policies to lead on issues such as e-commerce and can also act as an exemplar organisation for other issues such as training, equal opportunities, sustainability, etc.

The main role of the public sector is to do government well – in other words, concentrate on the things we are best placed to do such as setting the overall framework for growth, overcoming market failures, reducing bureaucracy and other barriers to trade, providing education, building appropriate infrastructure such as transport and communication links, and helping to ease the impacts of major economic change.

This contrasts with the role of the private sector which is concerned largely with wealth creation, entrepreneurial activity and the generation of new jobs while the strength of the voluntary sector is to act where there are gaps in provision or where flexible, prompt, local action is required.

11. Action

If the strategy is to be effective then we must either refocus or find new solutions. We will also have to face a number of hard choices in order to prioritise and focus resources on those areas that will make the biggest difference. We believe that the highest priority should be given to raising skills to ensure that school leavers and adults alike are employable and capable of working in the future growth industries.

Beyond skills and education our priorities are:

- ensure that barriers to participation are removed and that people are able to work if they wish.
- supporting growth clusters/sectors and refocusing business support and FDI policy to underpin this. An effective spatial planning framework and transport strategy will be essential components.
- developing industries of the future by upgrading our technology infrastructure and introducing a business birth-rate strategy.
- modernising existing industries to help growth and transition – agricultural diversification, tourism, manufacturing, etc.
- linking of educational establishments to business and the uprating of research and development capabilities.
- building strong communities and community enterprise via Communities First.

12. Targets

The current targets for economic development are laid out in betterwales.com. Some of the main quantifiable targets include GDP per head in Wales should reach 90% of the UK average by 2010 (over 80% in Objective 1 area), 35,000 new businesses and 150,000 new jobs to be created (115,000 in Objective 1), increase the employment rate to close the gap with the UK, maintain inward investment levels, business R&D to grow faster than the UK average.

Since the GDP target was set for the SPD, the basis of calculating GDP has changed and the data has been revised leading to a downward revision of Welsh GDP per head compared to the UK. The fall in the revised figures is due partly to methodological changes and partly to revised data. A major factor was the profits data in Wales compared with the UK. This led to Welsh GDP/Head falling below 80% of the UK level for the first time in post-war history. This does not change the assumptions about the Welsh economy but does mean that the statistical gap is bigger. If we are to achieve the 90% target we need the Welsh economy to grow faster than the UK over the period. The latest available GDP/head data are for 1998 (provisional) and show that the Welsh figure is 79.4% of the UK level. To close this gap by 2010 would require Welsh GDP per head to grow on average by just over 1% per year faster than the UK.

GDP as a high level indicator has certain flaws in that it fails to capture new economy, quality and sustainability changes. We need to develop a set of targets which capture those variables that we wish to see improve – incomes, employment, job quality, technological progress, use of ICT, skills, etc. Some alternative high-level indicators include the Index of Sustainable Economic Welfare and the Index of Multiple Deprivation though both of these have problems either due to subjective weighting, data availability, time series or comparison with other regions.

There is also the issue of geographical targeting. The role of the national strategy should be to set national targets so we need to decide at what level sub-national targets should be set – too detailed makes it impossible to gather data, is too prescriptive and may create false competition and perverse incentives. It could also lead to every sub-region wanting their own mini-economy which could lead to scarce resources becoming diluted. Therefore, we should set the overall framework without imposing a straightjacket on those organisations charged with economic development.

Finally, targets must be internally consistent. There is a wide range of policy targets in use elsewhere - the European programmes and sustainable development are probably the two most relevant to NEDS. For example, targets are included for CO_2 emissions (fall 20% by 2010) and traffic growth (zero growth by end of Objective 1). A table outlining the main economic development benchmarks for 2010 (and any subsequent revisions) is attached at Appendix 2.

13. Taking the Strategy Forward

13.1 *Economic Policy Board* – if NEDS is successful it will be a "live" process which will require fine-tuning and adaptation to changing circumstances. Also, a number of the policy areas will need to be worked through in more detail. In addition to a policy board they may be scope for a "think-tank" to explore future trends and novel or more radical policy solutions and how they might (or might not) be applied in Wales (Futurology group or Foresight Wales?).

13.2 *Evaluation* - a rigorous programme of policy evaluation will be needed to ensure that policies are meeting their objectives and to enable more effective decision-making for the allocation of resources.

13.3 *Research* - there are a number of areas where more research is going to be needed. Examples include policies that work elsewhere, economic impacts of policy changes, future industrial trends, impact of "new" technologies and industries. This area of work will need to be linked closely to evaluation to create a feedback mechanism for policy development.

13.4 *Statistics* - if we are to plot improvements we will need a suitable statistical base to measure the key baselines and trends. The Assembly's Statistical Directorate is currently reviewing the requirements for economic statistics in Wales and this will need to be closely linked to the NEDS strategy. Issues being considered include improving the quality and timeliness of existing statistics e.g. an enhancement to the annual Labour Force Survey in Wales is already agreed; and expanding the statistical base. Possible additions are new indexes to measure trends in the service and distribution sectors to add to the index of production, and in the longer term quarterly (as well as annual) GDP figures. These would eventually allow more detailed monitoring of recent economic trends.

In terms of forecasting, the Assembly currently has no in-house capability for forecasting economic trends. This information is purchased from commercial suppliers. Economic forecasts are subject to periodic revisions as economic conditions change and there can be significant disparities between the different forecasters estimates (for example, for 2001 forecasts for Welsh GDP growth vary from 2.0 to 2.4%). This makes it difficult to map the future with any degree of certainty.

13.5 *Implementation* – in order to implement the strategy the Assembly will need to work in partnership with a wide range of public, private and social sector organisations. Many of the required actions will take place in areas beyond the Assembly's control or at a local level where the Assembly is not best placed to implement policy. To what extent will local actors be responsible for implementing what will be Assembly policy? Is there a role for the regional economic fora in deciding policy and expenditure priorities?

14. Next Steps

This paper marks the beginning of a 3 month consultation process on the National Economic Development Strategy. During this period we will be actively engaging with relevant stakeholders via further meetings of the informal consultative group, communication with the wider "virtual group", discussion with appropriate Assembly committees and continuous updates from emerging consultation processes such as sustainable development, spatial planning and information & communication technology. In addition, it is planned to establish a "Futurology" group of academics and public sector representatives to examine the vision for the future. We intend to hold a major conference to link the NEDS agenda to sustainable development. We also intend to actively seek peer review from other regions where economic development policies have been successful.

Appendix 1

Analysis of Welsh Economic Problems

Introduction

1. The economy of Wales is made up of a number of both highs and lows. The performance in attracting inward investment has been excellent and the eastern half of Wales has economic output not dissimilar to the UK. Welsh manufacturing productivity is undoubtedly good and the workforce is flexible. Wales has a number of fledgling industries with great potential for the future, there are areas with good transport and other linkages, and natural features which make Wales an attractive place to be and do business.
2. Despite this, the performance of the Welsh economy has been poor relative to other UK regions on most objective indicators. We have fewer people employed and our skewed economic and occupational structure means that average productivity is lower than in other regions. Wales is still overly dependent on declining or low value-adding industries and there is a lack of head offices, R&D laboratories and local decision-makers. Certain skills are in short supply and a relatively high proportion of people are effectively excluded from the workforce. Economic disadvantage tends to be heavily concentrated in particular communities within Wales.
3. The Assembly's strategy to improve the performance of the Welsh economy stems from the existence of a set of problems that are both long-standing and difficult to remedy. This section provides a résumé of key difficulties and opportunities based on the latest available statistical information.

Welsh economic performance

4. GDP/head is the standard summary measure of economic performance. GDP/head in Wales, expressed as percentage of the figure for the UK as whole, has been in the low- to mid- 80s since at least the 1960s (diagram 1 shows the position over the last decade).
5. Whilst over the last five years the rate of growth of Welsh economic output per person has been below that for the UK as a whole, over the longer term the issue is more one of a long-established gap than of a differential rate of growth.

Diagram 1

Source

Regional Trends and National Assembly calculations

6. Wales' performance can - perhaps more usefully - be compared to those regions that have inherited a similar industrial structure. On the basis of contribution of industrial sectors to GDP in the mid to late 70s, the regions "North East" (at that time part of the "North" region for statistical purposes) and "Yorkshire and Humberside" are the obvious comparators. Figures for these regions (along with results for Scotland) are also shown in diagram 1.
7. Whilst some comparator regions have also performed poorly, the record of Wales relative to the UK is clearly unsatisfactory. This poor performance has multiple manifestations, as illustrated by the data shown in tables 1 and 2.
8. **Table 1: The economy of Wales – a profile**

	Period	West Wales & Valleys (OBJ 1)	East Wales (OBJ 3)	Wales	UK
					UK =100
GDP per head# (1)	1996				
	1998 (11)				
		73			
		100			
		84			
		79.4			
		100			

100

GDP per workforce job# (2)

1996

89

101

94

100 Household disposable income per head (3)

1998

N/A

N/A

85

100 Average hourly earnings** (4)

1999

86

90

88

100

rate Economic inactivity

(working age) (5)

1999/2000

28%

20%

25%

21% Employment rate (6)

(working age)

1999/2000

67%

74%

69%

74% Claimant unemployment

Rate (7)

Oct

2000

5.1%

3.3%

4.3%

3.5% Change in workforce jobs

(FTEs) ~ (8)

1981 –

1995

-6%

+12%

+3%

N/A Working age population with no qualifications (9)

Spring 2000

22%

16%

20%

16% Business density^ (10)

1999

230

277

247

318

Sources

(1), (2) and (3) ONS Regional accounts and National Assembly calculations. (4) New Earnings Survey (5), (6) Labour Force Survey (LFS) (7) Benefits Agency administrative system (8) Annual Employment Survey, Agricultural Census and National Assembly calculations (9) LFS (10) DTI and National Assembly calculations. (11) GDP data for Welsh regions is not yet available for 1998.

Notes

Most recent available figures for the sub-Wales areas. [See also note 1 on page 1?].

*Average hourly earnings for all full-time employees. GB = 100.

~Results on the basis of the NUTS boundaries are not available. Figures given are for "best-match" old counties.

^Businesses registered for VAT per 10,000 adult population, excluding agriculture.

"West Wales" comprises the unitary authorities of Anglesey, Gwynedd, Conwy, Denbighshire, Ceredigion, Pembrokeshire and Carmarthenshire. "The Valleys" comprises the authorities of Swansea, Neath Port Talbot, Bridgend, Rhondda Cynon Taff, Merthyr, Caerphilly, Blaenau Gwent and Torfaen. Together, "West Wales and the Valleys" makes up the Objective 1 area. "East Wales" comprises all the remaining unitary authorities in Wales.

Table 2: Contribution of sectors to GDP 1997

	Wales	UK
	%	%
Agriculture etc	1.8	1.5
Mining and quarrying	0.6	0.6
Manufacturing	27.3	20.5
Electricity, gas & water supply	2.2	2.2
Construction	5.3	5.1
Wholesale and retail	10.2	11.8
Hotels and restaurants	3.4	3.1
Transport, storage and communication	6.0	8.0
Financial intermediation	3.5	6.1
Real estate, renting & business activities	14.2	19.4
Public administration and defence	6.2	5.3
Education	6.0	5.4
Health and social work	8.6	6.4
Other services	4.7	4.8
Total	100.0	100.0

Source

ONS Regional Accounts

Notes

Contributions are shown including certain subsidies. Agriculture is the sector most affected. It is estimated that removing the value of direct subsidies would reduce the contribution of agriculture by about 1% at both Welsh and UK levels. Removing the value of indirect support would further reduce the contribution by between 0.5 and 1.0% to effectively zero.

Excludes adjustment for Financial Services Indirectly Measured.

The main features highlighted by tables 1 and 2 include:

9. *Low activity rates.* **In recent times between one-third and one-half of the overall discrepancy in GDP per head has been a consequence of lower activity rates in Wales**. Much the largest part of this discrepancy is accounted for by differences in activity of the working age population, with differences in the proportion of pensioners making only a small contribution.
10. *Inactivity amongst the working age population concentrated in particular groups.* **Compared with the UK as a whole, Wales has high rates of inactivity for both men and women.** However, over a long period, activity rates have been rising for women. The Labour Force Survey (LFS) shows that high Welsh inactivity is largely attributable to high reported levels of long-term sickness, typically amongst the middle aged (45 plus) with few qualifications and from manual backgrounds. This problem is concentrated geographically, particularly in the ex-mining communities in the Valleys.
11. *Low pay and low productivity jobs.* **Wales' poor relative performance in terms of output per job (except in manufacturing and certain other key sectors) results more from industrial structure and occupational mix (which tend to be related), than from lower productivity in equivalent jobs.** These same factors are reflected in relatively low wage levels. Average earnings in Wales are currently over 10% adrift of the UK average – and 4% short of the average for the UK excluding the South-East. (An example of the adverse industrial and job mix is provided by the low representation in financial and business services.)
12. *Variation within Wales.* **The variation in economic performance within Wales is significant. Two-thirds of the population of Wales lies within the Objective One region, "West Wales and the Valleys", with an average GDP per capita just 73% of the UK average** (Table 2). In the Valleys area, activity rates, output per head, and average wage levels are all low compared both to Wales and the UK as a whole. In more rural parts of West Wales, activity and employment levels are generally higher than in Wales as whole (except in some of the coastal resort towns), but output per head and average wages remain low. This indicates that any job losses in agriculture may have been at least offset by gains in other sectors. Even within the more prosperous parts of Wales such as Cardiff and Newport, there are substantial concentrations of, low incomes, low economic activity and social exclusion.
13. *Low business density.* **Compared with the UK, Wales has low business density and low rates of business formation.** There is also some evidence of low levels of

innovation. It is not clear whether these factors are simply a consequence of the economic and occupational structure or whether "enterprise culture" factors are affecting the Welsh economy even after allowing for structure.

Determinants of economic performance

14. It is important but difficult to distinguish the causes of poor economic performance from the symptoms. For instance, whilst the industrial structure is a proximate cause of low productivity, it is in turn shaped by factors such as the pattern of natural resources, the location of markets, and the skills of the workforce. However, analysis is complicated by feedback effects (so that, for example, low business density may itself contribute to a climate unfavourable to business formation) and the importance of inheritance (so that industrial structure can reflect accidents of history as well as more fundamental factors).
15. In addition to a stable macroeconomic environment, which is a prerequisite, there is a consensus that the ultimate determinants of economic performance include:
16. *Human capital.* Education and training, together with motivation, culture and natural abilities, shape the productive capacity of the population. For various reasons, the market system is not always well-suited to the role of supplying education and training. Many economists therefore regard human capital as the most important single variable affecting economic performance that is amenable to government intervention.
17. *Competition & Market Failure.* The general view is that the degree of competition and the openness of an economy to the rest of the world are critical factors in economic success. Despite the fact that competition and the operation of free markets are good for economic development, the free market can fail to operate properly for a range of well-known reasons, and well-targeted remedial action by governments can improve outcomes. The persistence of regional disparities is itself a demonstration of the failure of markets. In competitive markets price adjustments and factor mobility would ensure regional convergence.
18. *Natural resources and geography.* Features such as the attractiveness of an area as a place to live and work and proximity to markets play an important role, and are probably now much more significant than factors such as mineral reserves and the fertility of the land. The perceived peripheral location of much, if not all, of Wales is likely to be an important factor in a firm's location decision, although improving transport links together with electronic communications are reducing actual peripherality (both Ireland and Scotland appear to have overcome their peripheral locations).
19. *Financial capital.* Investment is needed for economic growth to take place. In developed economies, the availability of capital is not usually a constraint on development, although it is sometimes argued that market failures affect particular sectors.
20. *Social capital.* The social context is a crucial influence on a region's capacity for

economic development. The existence of a reliable legal framework is important as are attitudes, for example to labour market participation, innovation and enterprise. These attitudes can be affected by inherited economic and cultural factors leading to either a virtuous or vicious circle of growth or decline. The systems for the creation and transmission of knowledge, in which the public sector inevitably plays a major role, are vital. These intangible inputs of culture, knowledge, trust and enterprise are where the public sector can begin to have an impact on growth.

Rationale for government action

21. Government has an important role to play in ensuring that the preconditions for economic growth are in place. These include a reliable legal system, a stable macro-economic environment, the promotion of competition and competitiveness, and the development of an effective and inclusive education system. In most of these areas, prime responsibility rests with either the UK or European government, but in others, particularly education and training, the National Assembly plays the key role.
22. Beyond this, the scope for governments to make specific interventions to improve economic performance is real, but limited. The opportunity arises mainly from situations where markets are missing or are not competitive for a variety of reasons including lack of information, uncertainty, wider social effects and lack of mobility
23. Governments can also act to correct perceived unfairness in the distribution of incomes or wealth and to help the economy adjust to structural changes. Both of these situations can occur even when markets are operating efficiently.
24. There is also a rationale for intervening to correct regional imbalances in economic activity. Evidence suggest that regional imbalances may negatively affect national economic growth and impose significant social costs thus justifying regional intervention to improve growth and competitiveness.
25. The National Assembly has an important role in initiating actions to promote economic development which:

- respond to identified market failings;
- are cost-effective;
- are evidence-based;
- aim to be self limiting and sustainable – i.e. put in place structures that are not dependent on further government action down the line;
- are rigorously evaluated, with lessons learned, used to modify future programmes and develop the evidence base.

1. It may be unwise to seek to attempt simply to replicate features of more successful economies, unless there was evidence that (a) those features play a causal role in success, (b) market failures inhibit the generation of those features in Wales, and (c) government intervention can make things better. It does *not* follow that simply because successful economies have - for example - clusters of a certain kind,

industrial structures that exhibit particular features, a high rate of small business formation, or a high usage of certain items of high-technology equipment, that policy should necessarily attempt to promote these characteristics.

2. Technological changes, and other factors that produce changes in the economic structure, do not alter these basis principles, but can affect the appropriate balance between policies of different kinds.
3. Developments in IT provide the most obvious current example of technological step change. Such developments have direct implications for skills development and might be expected to shift the balance of policy on access towards the provision of electronic data transmission infrastructure (perhaps at the expense of conventional transport infrastructure).
4. These developments could, in the future, render policies focused on supporting employment through subsidising property or capital equipment less relevant. In so far as "new economy" companies are more geographically mobile, then the case for enhancing the attractiveness of particular locations (perhaps involving environmental improvements and other regeneration activities) could acquire additional weight. In addition, policies to encourage the development and application of knowledge will become key to economic development in the knowledge-based economy of the future.

Policy Response

5. This analysis points to a number of policy areas where the Assembly and its partners can intervene and make a positive impact. The nature of the types of intervention available to governments in a market economy means that the policy emphasis is (inevitably) on the supply-side. This means ensuring that we have the people, infrastructure and knowledge to ensure we have competitive firms who can exploit markets both nationally and internationally.
6. It may no longer be sufficient to wait for markets to begin to work. There is an urgent need for forward thinking and analysis that can identify the broad markets and technologies from which future value can be derived. This is much less about picking winners than about predicting social and market conditions of the future and then ensuring that Wales has the infrastructure (including social and human capital) to be able to make the most of these opportunities.
7. Skills, training and education – the Assembly can act to fill gaps in provision, influence content and conduct research. This can be targeted not only on the employed to increase productivity (and wages) but also on the unemployed/inactive to reduce barriers to entering the labour market. Two key issues are reducing the proportion of the population with no formal skills/qualifications and ensuring that people acquire skills or are provided with training to enable them to adapt to changing requirements in the workplace. The education system should instil and nurture work-based skills to ensure that young people are suitably equipped to become good employees or entrepreneurs.
8. Knowledge economy/ICT – policy intervention may be necessary to assist start-up and

growth firms in emerging markets with advice, finance, etc. where traditional support is lacking (often due to poor information about new products and markets). Infrastructure is another area which may require Assembly support, for example science parks, digital networks, incubator units. This could help in the creation of clusters of "new economy" industries.

9. Innovation/Entrepreneurship – Wales does not have a good record in these areas and assistance could be aimed at encouraging innovation (by providing training, advice, reducing costs of entry/exit), existing firms to grow (identifying markets, reducing recruitment & training costs) and encouraging inward investors. We need to back talent and those people with ideas by providing the support structure. Ideally this support would be focused on those businesses with growth potential in high value-added industries.
10. The severe shortage of commercial and industrial property at competitive rents in parts of Wales can inhibit economic development, for example by restricting the speed of response to inward investment opportunities.
11. There are also a number of more general areas where policy could be targeted to encourage economic activity. Policies to improve the environment (to make Wales a desirable place to live), to offer incentives to locate business in Wales, and to ensure that the spatial planning framework is business-friendly could all play a part.

Summary

12. The role of government in promoting economic development lies mainly in creating and sustaining the preconditions for such development, and taking specific action to correct identifiable market failures. Responsibility in many of these areas lies with the National Assembly and it's agencies.
13. We need to ensure that Wales has the proper conditions to gain it's share of new, high growth industries and services. This will involve a whole range of social and physical infrastructure, education and business support.
14. The main implications of the analysis in this chapter are summarised in the form of a SWOT table (see Table 3).

Table 3: SWOT Summary

STRENGTHS	**WEAKNESSES**

Record of growth in east Wales	low levels of basic skills and returns to those skills
Growth poles in Cardiff and some other centres	low levels of qualification attainment, both pre and post 16
High quality natural environment, particularly landscape	skills gaps affecting one-fifth of employers
Good accessibility and linkages to/from parts of Wales	limited tradition of entrepreneurship, reflected in low business density, business start-ups, and self employment
English language makes Wales an attractive EU business location	poor record on innovation
Record of high productivity in manufacturing	variable performance across Wales, with 2/3 of the population in the Objective 1 region
Flexible labour force	high levels of inactivity have led to de-skilling and discouragement
Distinctive culture	
Range of FE and HE institutions	inactivity has also contributed to a destructive cycle of low expectations, disaffection, and social problems
In rural areas, loss of jobs in agriculture has been more than offset by gains in other sectors	locally concentrated areas of deprivation, even in generally affluent areas
New institutions allow Welsh decision-making	peripherality of parts of the region
	labour immobility
	incomplete transport links between places of residence and employment opportunities
	lack of suitable employment sites in parts of the region
	long-run decline of agriculture
OPPORTUNITIES	**THREATS**

Improve and extend education and training

Increase active labour market policies to help reduce inactivity and social exclusion

Support innovation by building better links between academic institutions and business

Improve transport links between home and employment opportunities

Build on growth poles

Create "gateway" towns in rural areas

Use inward investors to achieve skills transfer and development of local supply chains

Increase support for business creation

Enhance environmental quality and remove blight to strengthen appeal of region

Selectively improve infrastructure to combat peripherality

Exploit "Welshness" as a marketing tool

"Green" consumerism

Increased leisure/tourism time and expenditure

ICT to overcome peripherality

Increase in cultural awareness

New media applications

Globalisation introduces new markets

increasing skills bottlenecks impact on business growth/survival

inactivity, low expectations and poor skills become the norm

restrictions on growth poles reduce overall prosperity

pressures towards agglomeration further undermine more peripheral areas

the "weightless" economy makes it harder to provide incentives for firms to relocate

attempts to protect sectors in decline inhibits adjustment

increasing competition from other countries (enlarged EU and global) erodes the attractions of a low cost base

development is associated with environmental degradation

Appendix 2

2010 BENCHMARKS:

CURRENT 2010 BENCHMARK	REVISION
Output per head must have risen from around 83% of the UK average in the mid-1990s to at least 90%, generating an additional £5 billion at 1997 prices. With the assistance of Objective 1 resources, output per head in the Valleys and the west of Wales should have increased from about 73% of the UK average during the mid-1990s to over 80%. Our energy sector must have been encouraged to make greater use of clean energy production technology and our businesses' environmental management performance must be second to none.	Proposed revision to benchmark to have achieved annual GDP growth in Wales of 1% more than in the UK each year on average. Otherwise no change.
The total number of new businesses should have risen by 35,000 and the number of jobs should have grown by 135,000. 110,000 of these additional jobs should be located in the Valleys and West Wales. The percentage of people of working age in employment must have increased, reducing the gap between Wales and the UK; and in the west of Wales and the Valleys the percentage should have caught up with the rate in the rest of Wales and the UK as a whole. The proportion of the population aged 50 to 59 (in the case of women) and 50 to 64 (in the case of men) who are economically inactive should have fallen from around 40% in 1999 to less than 30%.	Proposed revision to include "Business Birth Rate matches that for UK" and increase job targets to 150,000 more people in employment; 115,000 more in Objective 1. Other measures unchanged.

CURRENT 2010 BENCHMARK	REVISION

Inward investment should have been maintained at late 1990 levels. Welsh companies must make full use of a world class telecommunications infrastructure. Welsh representation in the knowledge-based sectors must be far higher. Business R&D should have grown faster than in the UK as a whole over the decade. The level of innovation throughout the diversified Welsh economy must be amongst the best in the UK. We must be far more international in outlook. Wales must have a higher profile, clearer national identity and greater influence than today. The tourist industry must attract a much higher share of overseas visitors and more students coming to the UK should attend our higher education institutions. The number of Welsh companies exporting and having links with businesses worldwide must have grown. EU and UK policies must be better tuned to our needs and surveys of opinion makers and the business community abroad must show that our market profile is higher. Made in Wales branded products must be associated in the international marketplace with high quality, advanced technology, reliability and good design.	Replace inward investment benchmark with "A significant increase in inward investment over late 1990 levels, with a higher share of added value jobs". Other measures unchanged. On benchmark for tourism, NEDS should include a figure related to GDP growth. Proposed revision to exports benchmark to achieve increase of 25%, with extra orders secured by Welsh businesses of £500m. Other measures unchanged.

APPENDIX 3

NATIONAL ECONOMIC DEVELOPMENT STRATEGY (NEDS): PROPOSED TIMETABLE

17 January 2001	First draft Neds to Economic Development Committee. This draft is being updated continuously and any comments arising from EDC will be considered before being included in the draft that goes to consultation.
18 January	Any changes to be incorporated into the document. Send to translation unit.
31 January	EDC meeting. Discussion on latest version of draft Neds and the next steps, critical dates etc. Translation completed.

1 February	Document goes to plenary clerk.
8 February	Launch of Neds Consultation document at Plenary.
9 February	Twelve week consultation period begins.
9 Feb – 4 May	Active period of consultation where officials will be available to discuss any issues. Meetings of the informal consultative group and the DFMs Futurology task and finish group to drive the process forward. Neds to be discussed in other committees. EDC meetings to report on consultation process.
First week of May	Consultation period ends.
First week of June	Summary of responses complete.
First/second week June	EDC meeting to discuss latest draft.
Fourth week of June	Final draft of Neds.
First week of July	Cabinet for final approval.
Second week of July	Plenary for final send off.
Second week of July	Launch of Neds.

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