

Economic Development Committee Ref : EDC-16-00 (p2)

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Title:	National Economic Development Strategy – Vision Paper

Introduction

1. At the last EDC meeting on 18 October an economic analysis paper was presented. It was agreed that following on from this should be a vision paper outlining where Wales wants to be and how it intends to get there. The following paper entitled *Wales – where next* attempts to answer these questions.

Discussion

2. This vision paper will form the basis for more substantive work to follow. Comments will be sought from the informal consultative group and the virtual group.

Conclusion

3. The committee is encouraged to offer views on the main points running through this vision paper and so drive the National Economic Development Strategy (NEDS) process forward. A vision for Wales must be agreed before drafting can begin on other core chapters.

Gareth Edwards

Economic Policy Division

Economic Policy Division

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WALES – WHERE NEXT?

Introduction

1. The economy of Wales needs to undergo a significant step-change if we are to close the prosperity gap with the rest of the UK and to tackle related social challenges closer to home. A recent Cambridge Econometrics report stated that:

"... long term prospects [in Wales] are hindered by institutional failure to anticipate the industries of the future".

We therefore need to decide where we want to be; how to get there and the options for change taking account of the fact that many of the tools currently available are time limited e.g. Objective 1 funding and the current coverage afforded by the Assisted Areas Map.

Where do we want to be?

2. Our vision for ten to fifteen years might be:

"A Welsh economy that produces goods and services in sectors that will reflect global demand thus providing skilled and sustainable jobs, spreading opportunity and prosperity to all parts of Wales".

3. The current Assembly Strategic Plan contains a number of economic benchmarks for the Welsh economy in 2010. These include:

- GDP per head at 90% of the UK average (and an increase to over 80% in the Objective 1 area);
- an additional 35,000 new business starts;
- 135,000 additional jobs (110,000 of which should be in the Objective 1 area). NB this figure has now been revised to 150,000 following the outcome of the budget round; and
- the proportion of people inactive in their 50s to fall to less than 30%

How do we get there?

4. The key pillars for this might be:

- **Skills:** promoting life long learning to give people skills which are transferable, adaptable to changing circumstances and allow everyone to reach their full potential;
- **The Knowledge Economy:** ensuring that we have the infrastructure, skilled people and a culture of innovation to exploit developments in the "new economy";
- **Entrepreneurship:** promoting an entrepreneurial culture and business growth – see separate paper;
- **Internationalisation:** promoting Wales, it's products and it's people; and
- **Sustainability:** development that is sustainable on all levels - environmentally, socially and economically.

Options for Change

(i) Growth sectors and Industrial Support

5. In a fast changing world there is a real danger in extrapolating past trends. The better approach might be to look at what highly advanced economies believe the growth sectors to be. Our research indicates that demand for certain products and services (public and private) will increase far more rapidly than others: examples include, media, hospitality and high value tourism, health care services and products, life-long learning, ICT and leading edge goods in both the consumer and business markets.

6. If we are going to maximise the growth of key sectors then it may be necessary to take some radical decisions in terms of industrial support. The main form of industrial support at the moment is Regional Selective Assistance (RSA). This is primarily aimed at manufacturing and has a substantial element of job safeguarding. These two effects may reinforce the current industrial structure that is proving unsustainable:

7. Options for refocusing industrial support could include:

- reducing the safeguarding element over time;
- including "quality" criteria to improve the jobs/industry mix;
- spend more on innovation and start ups and less on basic manufacturing;
- a switch from manufacturing to service sector support; and
- moving away from traditional business support and focus resources on people and infrastructure.

(ii) Regional Focus

8. We will need a different focus in different parts of Wales based reflecting the needs of rural and urban Wales. Currently, there is a focus on spreading prosperity to West and North West of Wales. But is it realistic to expect the same level of growth in all parts of Wales, particularly in the "new economy"?

9. Options could include:

- a move away from mass agricultural production towards value-added agriculture (agri-food, organic, etc.) environmental management and niche tourism;
- a regional industrial focus which maximises impacts by attracting particular types of business to particular areas (based on labour availability, skills, infrastructure, etc.);

- more integrated policies on community regeneration to reduce cycle of decay covering investment, transport, retraining; and
- Regional clusters of industries that build on local strengths and maximise the value added to the local/regional economy.

As a sub-set of these issues should we actively discourage fast growth in the "hot spots" (SE and NE Wales) by offering fewer incentives in higher growth areas **or** maximise growth regardless of location and work to ensure that people have access to the jobs (transport links, skills, etc.).

(iii) Skills/Training/Education

10. The skills agenda is a broad one which impacts on all ages and across all areas of economic development. Key issues include life-long learning and which starts with basic numeracy and literacy and involves the continuous updating of relevant, transferable, adaptable skills throughout each individuals working life.

11. Options could include:

- the use of ICT to overcome training barriers and to exploit new methods of learning and of supporting trainees/pupils (an objective of the Partnership Agreement);
- a much greater involvement of the private sector in education both to help shape the curriculum and provide a bridge from education to work;
- support for private sector training to help overcome costs and risks, especially in smaller firms;
- a focus support on vocational skills rather than academic education;
- following the Nordic model of industrial high schools and a HE sector which is equally relevant to students and employers; and
- support for individual retraining and up-skilling.

(iv) Innovation

12. The ongoing development of new products and processes will be critical for the future of Wales and the prospects for growth in the Welsh economy. Wales is currently bottom of the UK league table by some distance and it is recognised that there is a need to do more to encourage innovation and commercial exploitation of science and technology at the regional level.

13. The links between business and our institutions of learning and the promotion of a greater entrepreneurial focus are therefore important. Wales suffers from a relatively weak university base compared to that in Scotland and a number of the English regions; there is low priority given to R & D generally and corporate spinouts from our universities are very low in number.

14. Policy options could include:

- the development of an overarching strategy for Welsh university developments which could play a key role in meeting the BetterWales.com economic development objectives;
- a comprehensive science strategy covering **all** of the Assembly's responsibilities; plus
- strengthening links between business and schools/universities, as proposed in the Entrepreneurship Action Plan

(v) Sustainable Development

15. This is fundamental to any successful economic regeneration programme. It needs to be part of mainstream thinking at all levels to ensure that gains are not transitory or dependent on further government action down the line.

Options could include:

- the development of sustainable technologies and products for both users and producers to ensure that opportunities are exploited;
- more focussed support for companies to adopt sustainable practices (energy efficiency, pollution control, waste management, etc.);
- more widespread dissemination best-practice in sustainable development ideas, production techniques and policies; and
- support for potential growth sectors such as renewable energy, eco-tourism, organic farming, etc.

(vi) Inactivity/Employment

16. A significant contributor to the low GDP/head in Wales is the relatively high level of

economic inactivity. Both male and female activity rates in Wales are significantly below the UK average though the trend is for male activity rates to fall and female rates to rise (both in UK and Wales). The two most common reasons for inactivity in Wales are long-term sickness followed by looking after the family home.

The implications for policy are:

- greater integration between health and economic policy making to ensure that fewer people become long-term sick;
- where sickness is less limiting it may be lack of skills or low wages that mean sickness is an alternative form of unemployment. This could be addressed via training and a general increase in wages that should be a feature of a successful economy;
- support such as childcare provision or long term care needs to be provided to assist those looking after dependants; and
- financial support may be necessary to assist those people losing benefits or paying for childcare, etc.

What are the overall implications?

17. A timid strategy is almost certainly doomed to fail. Equally, any approach that focuses resources is likely to involve risks and create both winners and losers. One approach would be to:

- adopt a focused approach based on *regularly updated* assessments of the future pattern of demand for *broad* sectors of goods and services, both public and private – to avoid the risks of over-specialisation.
- ensure that this focus is reflected in the targeting of our skills effort, but making a special effort to develop broad competencies in key areas whilst at the same time developing a rapid response capacity to equip people with more specialised skills as the demand for these becomes clearer.
- pursue a more selective approach to inward investment and SME development tailored not only to emerging market demands but also to the needs and circumstances of the main regions within Wales.
- be careful not to give the impression that we are giving up on other sectors – many of which provide good jobs in large numbers. The aim must be to encourage *all* sectors to modernise and make themselves competitive in the markets of the future.

CONCLUSION

18. The Committee is invited to:

- offer a view on how best to select and gain ownership for the high growth sectors;
- advise on the balance between focus and flexibility;
- advise on how best to secure genuine partnership working across not just the public sector but between public and private sectors;
- offer a view on how best to keep effectiveness of policy and implementation under review and to promote relevant research with no wasteful overlap; and
- consider what success should look like and offer suggestions for "big ideas".