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Beyond Brexit: we need an industrial strategy



In his monthly column, [Professor Frank Peck](#), of the University of Cumbria's Centre for Regional Economic Development, looks at how decisions by large multinational companies to reduce investment in the UK will effect supply chains across the country

March is upon us and, unless some dramatic political event occurs in the meantime, we will leave the European Union on the 29th.

In the last month, the UK has been the subject of disinvestment decisions that have considerable significance beyond their local and regional economic impacts.

These decisions have, if that

were possible, intensified the debate surrounding the impacts of Brexit. The disinvestment decisions have focused on the automotive sector.

First came the announcement by Nissan concerning its change of plan regarding the new X Trail SUV model that will not now be produced at the plant in Sunderland but relocated back to Japan.

This was followed by Honda announcing its intention to close the Swindon car plant in 2021 with

'We are witnessing disinvestment with consequences for supply chains across the UK'

the direct loss of 3,500 jobs.

Those whose memory extends that far will recall the significant flows of Japanese investment in greenfield developments in the 1980s that heralded significant reindustrialisation of the regions of the UK, with particular concentrations in Wales and North East England.

Much attention was given at the time to their impacts on regional economies, including their economic effects through supply



chains and the spread of various Japanese work practices that were believed to lie at the heart of their competitive advantage.

Some 30 years on, we are now witnessing significant disinvestment with consequences not only for the plant in Swindon but also for supply chains that extend across the UK.

Car industry experts had anticipated some bad news – in January, for instance, the Society of Motor Manufacturers noted the continued fall in new car registrations (-6.8 per cent in 2018) and significant sales volume decline in diesel cars (down 29.6 per cent). It has also been widely reported that investment in UK automotive industry fell by 46 per cent in 2018 compared to 2017, leading to considerable speculation about the “Brexit effect” on the industry.

The key factor that led investors to locate in the UK regions during the 1980s, of course, was the completion of the Single Market in 1992, which meant that Japanese producers that met EU-imposed targets for “per cent local content” in vehicles could compete in the European market and avoid tariffs imposed on imports from Japan. In this context, there has been inevitable speculation that these disinvestment decisions may have been influenced by the Brexit decision.

The uncertainties surrounding Brexit are clearly relevant but Honda and Nissan have been quick to point out that this is not the major influence on these decisions. Most analysts appear to agree that while Brexit is relevant, there are other industry-specific circumstances that have played a more significant part in these corporate decisions.

These factors include the downward pressure on the market created by the diesel scandal alongside changing mobility habits worldwide – it is reported, for instance, that in several key markets, shared use of vehicles in on the increase.

Markets are also becoming more demanding with regard to what is regarded as “standard” for smart technologies and software developments in vehicles.

Alongside the emerging

demand for electrification of cars and autonomous vehicles, the costs of research and development and “global” as opposed to “continental” product mandates are increasingly becoming the norm.

In these circumstances, access to the markets in China and the USA becomes paramount.

These commercial pressures inevitably have impacts on investment levels and the organisation of global supply chains.

This includes shifts in location as producers seek to operate close to capacity by eliminating duplication in order to get rapid returns on investment in markets that are experiencing shortening of replacement cycles.

Brexit may pose a significant challenge to car producers as they seek to find ways to survive in highly competitive markets but this is not the only regulatory change that is taking place.

New trade deals are evolving constantly and the decision by Japanese car firms to relocate production back to Japan may have more to do with a new EU trade deal, which involves reductions in tariffs on imports of cars from Japan tapering to zero over the next 10 years.

So how are these changes relevant to Cumbria?

The economic effects of reduced capacity in the car industry in the UK will clearly have effects across all regions via supply chains and Cumbria does host some firms that depend, at least in part, on vehicle components.

However, it is fair to say that, with the exception of Pirelli in Carlisle, the automotive components sector is not a prominent employer in the county.

These events taking place in Sunderland and Swindon, however,

hold significant lessons for all parts of the UK – how we understand the effects of Brexit.

In relation to vehicles, analysts have tried to tackle the question “is Brexit more or less important than other forces?” only to discover that it is not simple to disentangle Brexit from other changes taking place in the global economy. A better (though perhaps equally challenging) question might be: “How does Brexit either counteract or act as a catalyst for processes of change that simultaneously affect economies”?

What this question implies is that preoccupation with Brexit, important though this might be, can lead policymakers to overlook other vital factors that influence industry and employment change.

In the context of Cumbria, this clearly signals a need to give attention to many other issues that have been debated in the pages of in-Cumbria and are currently under discussion through Cumbria Local Enterprise Partnership in developing a Local Industrial Strategy for the county, including:

- The future of energy policy and investment in the nuclear industry
- Defence spending and the prospects for BAE Systems in Barrow
- Competitive pressures created by technological changes in the workplace
- The need for continued investment in public services
- The future of the rural economy and land-based activity
- How to develop tourism in a sustainable environment
- Addressing the skills needs of employers
- Continued decline in the size of the working-age population
- Meeting the challenge of ageing in the county.

These are just some of the issues currently facing Cumbria that pre-date Brexit.

Brexit will undoubtedly intensify some of these challenges, in particular the impacts on the land economy, industrial investment and labour supply, but a response to meet these local challenges remains paramount for the future.

Brexit is now a central element of the economic and political environment within which all businesses operate that will extend well beyond March 29

