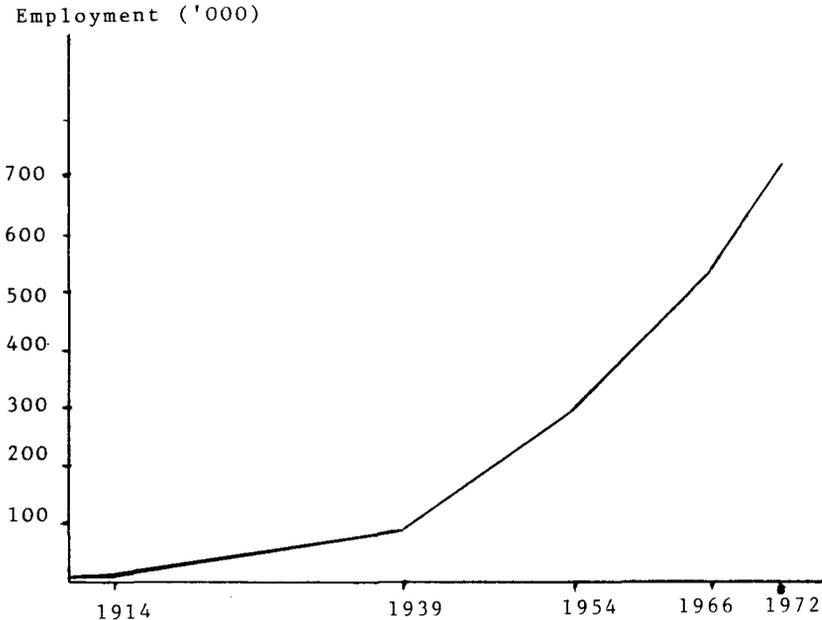


STUDENTS BRIEF

FOREIGN INVESTMENT IN SCOTLAND

A significant feature of the UK economy throughout the post-war period has been the growth in direct foreign investment in manufacturing industries. For the host nation the main benefits are employment creation, income generation and import reduction or export expansion. As far as the UK is concerned, US companies are the major source of this investment. Fig 1 illustrates the growth of employment in US controlled companies for the UK as a whole.

Fig 1 Employment in US owned companies in UK



Source: Dicken and Lloyd, 1976

Scotland has been particularly successful in attracting the lion's share of this inward investment for example in the period 1945- 1965 a total of 108,500 jobs were created by foreign firms setting up manufacturing units in the UK:* Scotland, despite its size, obtained 46,221 (42.6%), whereas the second most popular region, SE England, gained only 16,926 (15.6%). The reasons for this success have been attributed primarily to a combination of the availability of labour in Scotland, the financial inducements offered by central government as part of regional policy and, the undoubted attraction of the environment, notably of course Scotland's golf courses, for foreign businessmen.

The degree of US involvement can be illustrated by examining employment and investment (as given by net asset value) for 1978 in Scotland. US corporations employ approximately 84,300 which accounts for 14% of Scottish manufacturing employment. The second largest source of foreign investment are European countries (including the EEC) employing 14,000, or 2% of manufacturing employment. A similar gap

* Note however that the figures do not include expansions by existing foreign manufacturers in the UK.

exists in terms of investment with US corporations controlling assets valued at approximately £650m and European companies with £128m.

The main features of foreign manufacturing plants in Scotland are:

1. their size relative to indigenous plants
2. their concentration in a limited number of industrial sectors
3. their export orientation.

1. Size of plant

In 1973, despite controlling 72% of industrial establishments, indigenous plants employed only 41% manufacturing employment in Scotland. North American (ie predominantly US companies) companies on the other hand, although owning only 5% of plants, employed 15% of Scottish manufacturing employment. Indeed this situation is reflected in other external sources of ownership, including investment from the Rest of the UK, which although not discussed in this paper as a source of foreign investment, actually employs virtually the same proportion of the total manufacturing employment in Scotland as indigenous firms.

Table 2 Location of ownership of Scottish manufacturing plants, 1973.

Source	Plants		Employees		av.size of plant
Scotland	2,176	72%	243,440	41%	112
Rest of UK	644	21%	235,150	40%	365
Europe	44	1%	12,560	2%	285
N America	148	5%	87,730	15%	593
Other	29	1%	11,820	2%	408
Total	3,041	100%	590,700	100%	194

Source: J R Firm, 1975

A recent survey by the Scottish Council Research Institute indicates that the average sizes of US and European plants has fallen to 523 and 191 respectively. Despite the reduction in average size of European plants there has been a rise in the number of plants from 44 in 1973 to around 73 in 1978. Firm (1975 p403) summarises the situation as follows

".....the larger the enterprise, the more likely it is to be controlled from outside Scotland - and further, the more likely it is to be controlled by a North American company."

2. Industrial concentration

Although it has been the financial inducements and labour availability which has attracted foreign companies to Scotland these firms have concentrated on sectors

offering the greatest potential for access to UK and European markets, rather than the traditional sectors of the Scottish economy. Again, quoting Firn (1975)

"the faster the growth of the sector, the higher the proportion of that sector's employment in Scotland that is externally controlled."

Table 3 ranks the major sectors for the Scottish economy in terms of employment and net output, reflecting the reliance on 'traditional' heavy industries. However the main sectors favoured by US companies are largely outwith the older industries. In the case of instrument engineering this is a fairly new sector as far as Scotland is concerned and is dominated by US companies who control over 60% of employment in that sector. (Instrument engineering has subsequently played an important role in obtaining substantial oil-related contracts during the development of North Sea oil.)

Table 3

	1	2	3
	Average No employed in Scotland as % UK 1972	Net Output in Scotland as% of UK 1972	US controlled employment as % Scottish manufacturing 1973
Shipbuilding	21.6*	14.0*	11.8
Food, Drinks & Tobacco	12.7*	11.6*	5.7
Instrument Engineering	12.3*	9.1*	60.7*
Textiles	12.0*	8.8*	3.0
Mechanical Engineering	9.1*	6.3	29.3*
Paper & Printing	8.4*	6.6*	2.5
Furniture & timber	8.2	5.0	0.4
Metal manufacture	7.9	6.7*	2.2
Clothing & Footwear	7.1	5.3	13.8
Chemicals & Allied Industries	6.9	5.9	12.1
Leather & Fur	6.9	4.8	n.a.
Bricks, Pottery, Glass	6.7	5.2	1.2
Electrical Engineering	6.1	5.4	31.4*
Coal & Petroleum Products	5.8	3.3	
Metal Goods n.e.s.	5.2	3.9	10.9
Other manufacturing	4.7	3.8	26.1*
Vehicles	2.4	2.0	36.4*
Average%	8.3	6.6	14.9

* Sectors with employment or output above the appropriate average.

Sources: Col. 1 & 2 *Business Monitor PA 1002 972*
Summary tables. Table 4 (HMSO 1977)

Col. 3 *J R Firn, 1975*

Current employment by US and European companies is reported in table 4.

Table 4 Employment in Scotland by location of ownership 1978

Industry	1 USA	2 Europe
Food, drink & Tobacco	4,123	1,352
Chemicals & allied	5,035	1,689
Mechanical Engineering (inc vehicles & shipbuilding)	37,007	2,481
Engineering	23,811	4,574
Metal Goods	2,565	561
Textiles	5,381	493
Bricks, Pottery & Glass	429	108
Paper, Printing & Publishing	1,049	647
Other	4,864	2,089
Total	84,264	13,986

Source: 1. SCRI *US Investment in Scotland, June 1979*
 2. SCRI *European Manufacturing Investment in Scotland, March 1979*

3. Export orientation

US companies are primarily interested in European markets and use Scotland as the base for this operation. European companies, on the other hand, are established to compete in UK markets. Consequently US companies export 40% of their output and European companies only 17%. In 1977 the value of US exports was £751.7m, representing 21% of total Scottish exports. However much of this trade is with the parent company or its satellites around the world.

Encouraging foreign investment, therefore, has been a strategy to replace the industries and employment ravaged by the long term decay in 'traditional' industries. In so doing the industrial base of the Scottish economy has been widened and made less reliant on the fortunes of a limited range of industries. As well as the new jobs, the new skills and the transfer of technology, other potential benefits include access to the parent company's R & D and management expertise, opportunities for indigenous firms to obtain sub-contract work and of course the impact on the UK balance of payments.

However not all of the hoped for benefits have been realised. The foreign owned plants are predominantly branch factories of the parent organisation, perhaps producing only components or sub-assemblies, for the company's main product lines. In addition their marketing and decision making functions are likely to be limited. Although involved in high technology industries the skill requirements in the manufacturing process tend to be for unskilled and female labour, with very little R & D work carried out in Scotland. In short, the branch factory operations in Scotland are determined by the international objectives of the parent organisation whose priorities may, at times, conflict with the economic and social priorities of the UK policy.

Successful, industrial regeneration in Scotland depends not only on attracting foreign manufacturing plants but also on encouraging their suppliers and service industries (perhaps even their customers) to locate in Scotland in an attempt to improve the economic linkages within the economy and to retain value-added locally, such that the incoming industries generate their own investment to ensure their long term survival in Scotland. Prospects for the future however will depend critically on the world economic conditions.

Recently some Scottish branch factories have been closed or threatened with closure. Monsanto and Singers are obvious examples. As a result Scotland's unemployment problem will be worsened, with very few alternative job opportunities being available locally.

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