Council on Geostrategy
CAUDWELL STRONG BRITAIN

Report
Caudwell Strong Britain
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Fixing the foundations:

Making Britain a more attractive destination for Foreign Direct Investment

By *Dr Mann Virdee*

WITH A FOREWORD BY:

The Lord Harrington of Watford
Author of the 2023 Harrington Review of Foreign Direct Investment

New geostrategic thinking for a more competitive age
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About Caudwell Strong Britain

This Report is the culmination of research conducted over two years as part of Caudwell Strong Britain. Caudwell Strong Britain is a research project at the Council on Geostrategy, led by Dr Mann Virdee. It was commissioned by businessman and philanthropist John Caudwell. The project explores how the United Kingdom (UK) can build a greener, more competitive and resilient science and technology base, and unlock Britain's potential for enhanced prosperity and security. Focusing on areas such as planning and infrastructure, skills and education, and the wider ecosystem, it explores the strengths and weaknesses in the UK's capacity for research and innovation in science and technology. The Council on Geostrategy maintains full intellectual independence and autonomy.

Previous work from this programme includes (but is not limited to):

- Road to nowhere: Britain's infrastructure problem (2025)
- Science, not 'Sir Humphrey': Fixing Whitehall's 'tepid bath' (2025)
- Clean Power 2030: Too fast, too furious? (2025)
- How can Britain become more prosperous? (2024)
- British science and technology in 2024: Implications for 'Net Zero' (2024)
- Britain's future is in technology and innovation (2024)
- Is Britain losing its scientific edge? (2023)

John Caudwell is a philanthropist and business leader, and the founder of Phones 4U. Since selling the company in 2006, his primary focus has been charitable and philanthropic work, and he has founded three charities. He is passionate about tackling climate change and growing the British economy by reaching Net Zero targets.

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Foreword

In 2023, the Chancellor and the Secretary of State for Business and Trade asked me to conduct a review into the United Kingdom's (UK) approach to attracting Foreign Direct Investment (FDI) in the face of increasing global competition for internationally mobile investment.

My review recognised that Britain has tremendous strategic advantages, such as a world-class science and technology ecosystem and some of the world's brightest researchers.

Yet, these strengths risk being undermined by the UK's fragmented and risk-averse system. In the review, I advocated for a paradigm shift in our approach to FDI from a reactive, siloed approach to investment towards a more proactive, whole-of-government model which puts the investor experience front and centre.

It is therefore with great pleasure that I welcome this new Report by Dr Mann Virdee at the Council on Geostrategy. This study draws on the underpinning principles of my review and offers some evidence-based recommendations as to how we can make Britain a more attractive destination for FDI in a rapidly changing world.

This Report tells a compelling story. The UK should resist the temptation to engage in quick-fixes such as subsidy races. Instead, Britain should focus on fixing the foundations and addressing systemic barriers which hold the UK back. That means addressing Britain's high electricity costs and fixing its bureaucratic planning system. At the same time, the suggestion of a five-year reduced tax rate and 100% first-year capital allowance for 'greenfield' investments in critical sectors is a good way to support our national prosperity and security in a changing geopolitical context.

The proposal for the Office for Investment (OfI) to be staffed with experienced professionals to design a genuine 'concierge service' is welcomed, and exactly the type of reform I have recommended. It is about providing the best possible support to investors, and ensuring that they have a single point of contact to navigate the UK's complex bureaucratic arrangements.

I especially appreciate the call for a clearer story and value proposition from Britain, which I think is at the heart of winning over international investors' confidence. This is an excellent study, which sets out a clear path for reforming the UK's approach to attracting FDI and a means of strengthening Britain's competitive edge in an increasingly uncertain and volatile world.

The Lord Harrington of Watford
Author of the 2023 Harrington Review of Foreign Direct Investment

Preface

As a businessman, I know how important Foreign Direct Investment (FDI) is to the health of our economy and to our shared prosperity. We can think of strong FDI as a vote of confidence in our economy by others. It also helps bring in the investment, jobs and skills we need to thrive in the decades ahead.

That is why I am so pleased to read this new Caudwell Strong Britain Report by Dr Mann Virdee. This timely study makes a hugely compelling case for tackling the structural causes of why investors are put off investing in the United Kingdom (UK). For too long, as a nation, we have focused on short-term solutions – sticking plasters – when it is clear that deeper reforms are needed.

From my own experience, I know that investors need stability and confidence. This is something our country has been lacking in recent years, and it has harmed our reputation as a place to do business. That cannot continue.

At the same time, the world is changing rapidly. The pace of change is dizzying. From the widespread use of Artificial Intelligence (AI), to the challenges which may be unlocked by quantum computing, to the promises offered by emerging clean technology solutions – there has never been a more exciting time to do business.

And yet, it is uncertain what this will mean for Britain's future prosperity. We are currently watching from the sidelines as these opportunities pass us by – with other nations seizing them with both hands and reaping the rewards. We should be clear that, without decisive action, the UK will decline, and the ramifications will be felt in every street and every household across the country.

We have to act now.

The Report's recommendation of a five-year reduced tax rate of 10% for 'greenfield' investments in critical areas would make Britain a more attractive destination, as would 100% first-year capital allowances for investments in these sectors. These are excellent suggestions, which I recommended as far back as 2020.

Additionally, Dr Virdee's Report makes a compelling case for looking at the investor experience and how this can be made as frictionless as possible.

Currently, decision-making authority in the UK is the worst of both worlds – neither centralised in London, nor properly devolved to regions. That makes life difficult for would-be investors. We need to address that, but in the meantime, the Report outlines how the Office for Investment (OfI) can be bolstered to improve its ability to guide investors through this labyrinth.

Importantly, the study highlights the need to improve planning and infrastructure in Britain. The UK's archaic and bureaucratic system means that it does not have the infrastructure or energy system it needs to prosper in the decades ahead.

Without addressing this, investors will increasingly choose other countries rather than Britain.

Finally, as the Report makes clear, the UK needs a clearer story and value proposition about why investors should choose Britain, and about the UK's unique offer to investors. That, fundamentally, is why I have sponsored this work – 'Caudwell Strong Britain'.

I want Britain to be great, to continue prospering and to be able to play its role in tackling the great challenges of our time.

John Caudwell
Businessman and philanthropist

Executive summary

CONTEXT

- Foreign Direct Investment (FDI) can be defined as an investment made by a resident entity of one economy in an enterprise in another economy. The investment involves a long-term relationship, reflecting a lasting interest and control – with the aim of having an effective voice in the management of that enterprise.[1]

- FDI is an important driver of economic prosperity. It acts as a vital channel for capital, innovation and skills. For an open, trading economy such as the United Kingdom (UK), attracting high-quality FDI is not only beneficial; it is essential for long-term growth, creating high-value jobs, fostering cluster formation and enhancing global competitiveness. FDI can be seen as a vote of confidence in a country's long-term prospects.

- There is a large body of literature linking the attraction of FDI to improving productivity growth.[2] Britain's productivity growth has been stagnant since the 2008 financial crisis and is a seemingly intractable problem for the UK.

- In 2024, Britain attracted 853 FDI projects, making it the second most popular destination in Europe for FDI. However, this represented a 13% decline from the previous year.[3]

- FDI projects are a major source of employment. In the 2024-2025 financial year, FDI projects created 69,355 new jobs and safeguarded another 10,195 existing ones.[4]

[1] Matthew Ward, 'Foreign Direct Investment (FDI) Statistics', House of Commons Library, 09/05/2025, https://commonslibrary.parliament.uk/ (checked: 05/09/2025) and 'World Investment Report 2007: Transnational Corporations, Extractive Industries and Development', United Nations Conference on Trade and Development, 16/10/2007, https://unctad.org/ (checked: 05/09/2025).
[2] Nigel Driffield, Why does inward investment matter for productivity?', The Productivity Institute, 18/09/2024, https://www.productivity.ac.uk/ (checked: 05/09/2025).
[3] Rob Joyce, 'Foreign Direct Investment: UK remains second in Europe', EY, 15/05/2025, https://www.ey.com/ (checked: 05/09/2025).
[4] 'DBT inward investment results 2024 to 2025', Department for Business and Trade, 26/06/2025, https://www.gov.uk/ (checked: 05/09/2025).

- His Majesty's (HM) Government has explored opportunities for improving the UK's attractiveness for FDI, most notably the 2023 Harrington Review of FDI.[5] The Harrington Review calls for a shift in how HM Government approaches FDI, moving from a reactive and silo-based approach towards a more proactive and coordinated plan which places investor priorities at its core.

- This Report picks up from the Harrington Review and builds on its approach for a more contested and volatile world.

QUESTIONS THIS REPORT ADDRESSES:

- What are the primary factors that attract and deter foreign direct investment in Britain?

- To what extent can subsidies and incentives effectively attract investment, and what are their merits and limitations?

- How can HM Government enhance the UK's attractiveness as an FDI destination?

KEY FINDINGS

- **HM Government should focus primarily on ensuring that Britain is the type of country businesses want to invest in.** This cannot be achieved through subsidies, such as grants or tax exemptions, alone. Instead, it involves fixing the foundations and tackling the root causes of why investors are put off the UK. Specifically, HM Government should address:
    - **The challenges facing investors trying to navigate Britain's complex institutional arrangements and bureaucracy.** This requires certainty about where decision-making authority lies in the UK. In order to do this, HM Government should provide clarity on devolved decision making by either centralising authority in Westminster and Whitehall, or devolving greater authority to mayors and regions so they can secure FDI projects directly. The former would yield

[5] Rob Joyce, 'UK regions among Europe's top destinations for inward investment', EY, 17/06/2025, https://www.ey.com/ (checked: 05/09/2025).

results more quickly, while the latter might be a more effective engine of prosperity across the country in the long term. The status quo is the worst of both worlds and leads to confusion for investors. In the absence of clarity over where decision-making authority lies, HM Government should start by bolstering the Office for Investment (OfI) to improve its ability to act as a 'concierge service' for investors;
  - The UK's stifling planning system and laws, and the resulting poor and irregular quality of British infrastructure;
  - High UK energy prices and land acquisition costs;[6] and
  - Competition with other countries.

- **Subsidies have their place when used properly, but HM Government should not view any single incentive as a panacea for Britain's economic malaise.** Incentives can be used to alleviate difficulties, but can also be a sign of underlying problems with a country's ability to attract investment on its own merits. As such, the UK should be cautious about getting into 'subsidy races'; countries and regions around the world can offer preferential tax incentives, subsidies and land with access to water, electricity and other utilities. Subsidies are risky, and do not work in all circumstances.

- **Similar subsidy control rules apply now as when Britain was a member of the European Union (EU).** This is not a significant barrier now – nor was it when the UK was a member of the EU – to providing incentives for attracting FDI to Britain. In practice, EU countries do support their industries – and Britain could have supported particular sectors, such as clean technology, while remaining part of the EU on the grounds of economic development. The UK-EU Trade and Cooperation Agreement of December 2020 required Britain to introduce an alternative state subsidy system. At the same time, being outside the EU has enabled Britain to secure a better tariff deal with the United States (US) than the EU.

[6] 'Why Are Britain's Power Prices The Highest In The World?', Electric Insights, 2024, https://reports.electricinsights.co.uk/ (checked: 05/09/2025).

RECOMMENDATIONS

In order to make Britain a more attractive destination for FDI, HM Government should:

1. **Implement a five-year reduced tax rate of 10% for 'greenfield'[7] investments in areas HM Government deems as critical sectors:** These include clean technology, quantum and biotechnology. Reduced tax rates could be conditional on meeting targets on job creation and Research and Development (R&D) spending. This strategic move would make the UK more competitive compared to international investment zones and significantly improve its appeal for FDI.

2. **Offer 100% first-year capital allowances (full expensing) for investments in these critical sectors:** This incentive would make the cost of a capital investment deductible upfront, rather than over time. By doing so, HM Government could help channel private investment towards its strategic priorities.

3. **Help investors to navigate the UK's institutional arrangements and bureaucracy:** A more proactive and coordinated approach from HM Government would help investors understand Britain's bureaucracy, and shield them from unnecessary bureaucratic burden. As noted previously, this would ideally involve addressing devolution, and in doing so, providing clarity – for both the UK and investors – about where authority lies within Britain's governance institutions and architecture so that investors are not sent back and forth between government departments, regional authorities, non-departmental government bodies and other 'quangos'. In the absence of such reforms, HM Government should:
    - Increase resources and capacity for the Office for Investment (OfI) so that it is better able to act as a concierge service for investors. In the 2025 Mansion House speech by Rachel Reeves, Chancellor of the Exchequer, such a concierge service for the financial sector was announced. However, a concierge

[7] Greenfield investment is a form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new local employees.

service should be broader than this, and explicitly seek to attract strategically important companies and investment – in areas such as clean technology, quantum and biotechnology – and connect them with a clear strategic vision for the UK's future;
- Promote a new culture within the OfI which better understands investor thinking and motivation. New staff should be hired primarily on their experience of trade and investment. The OfI should reduce reliance on generalist civil servants, who are often not as experienced in understanding the motivations and thinking of investors;
- Ensure that the OfI employs staff with a deep cultural awareness of key partner countries with which the UK seeks to improve investor relations;
- Systematise 'soft landings' by providing more structured support for new investors, such as short-term office solutions and connections with local universities and ecosystems; and
- Improve availability of information for potential investors, such as rent prices, tax levels and labour costs.

4. **Promote a clearer story and value proposition:** This would explain to investors why HM Government wants to attract FDI, which types of FDI and, crucially, how this relates to Britain's national and strategic objectives. That includes a clear-eyed assessment of what the UK's unique offer is to investors, such as a bridge to European markets, a world-class science and technology ecosystem, and a comparatively flexible and well-educated labour market.

5. **Improve planning and infrastructure:** This should be done by addressing challenges in planning (such as setting hard deadlines on statutory consultations, and making 'brownfield' sites readily available and connected to energy infrastructure through kitemarked certification).

6. **Find a new mechanism to reduce energy prices:** Now that zonal pricing has been rejected, a long-term solution should tackle the structural causes of high energy prices instead of using subsidies.

7. **Conduct regular international benchmarking:** This would ensure that Britain is aware of the changing international environment, such as the arrangements and schemes being offered by other countries. Although such research and analysis is currently conducted by external organisations (such as EY), Whitehall itself requires a deeper understanding of FDI metrics and how they are compiled. More importantly, such information should be better embedded within decision-making structures and processes within Whitehall, and as such should not be seen as the purview of external organisations alone.

1.0 INTRODUCTION

Foreign Direct Investment (FDI) can be defined as an investment made by a resident entity of one economy in an enterprise in another economy. The investment involves a long-term relationship, reflecting a lasting interest and control – with the aim of having an effective voice in the management of that enterprise.[8] The threshold for being an 'effective voice' is owning 10% or more of a company; investments below this threshold are considered 'portfolio' investments and not included in FDI statistics.[9]

FDI is an important driver of economic prosperity. It acts as a vital channel for capital, innovation and skills. For an open, trading economy such as the United Kingdom (UK), attracting high-quality FDI is not only beneficial; it is essential for long-term growth, creating high-value jobs, fostering cluster formation and enhancing global competitiveness. As such, FDI can be seen as a vote of confidence in a country's long-term prospects.

British productivity growth has been stagnant since the 2008 financial crisis and is a seemingly intractable problem for the UK. There is a large body of literature linking the attraction of FDI to improving productivity growth.[10] Attracting foreign capital and expertise helps to fuel productivity, foster new industries and integrate Britain into global supply chains. As global competition for this investment intensifies, the UK's ability to secure and leverage FDI will be an important factor in its future economic prosperity and security.

Britain has historically prided itself on being a natural destination for international capital. The UK remains at the forefront of Europe in creating jobs via FDI, and is attracting an increasing proportion of high-value Research and Development (R&D) and manufacturing investment (see: Box 1). The most attractive FDI for Britain is that which reflects its specialisation in high-value services and advanced technology. This indicates underlying strength in those sectors, which will foster future growth.

[8] Matthew Ward, 'Foreign Direct Investment (FDI) Statistics', House of Commons Library, 09/05/2025, https://commonslibrary.parliament.uk/ (checked: 05/09/2025) and 'World Investment Report 2007: Transnational Corporations, Extractive Industries and Development', United Nations Conference on Trade and Development, 16/10/2007, https://unctad.org/ (checked: 05/09/2025).
[9] Matthew Ward, 'Foreign Direct Investment (FDI) Statistics', House of Commons Library, 09/05/2025, https://commonslibrary.parliament.uk/ (checked: 05/09/2025).
[10] Nigel Driffield, Why does inward investment matter for productivity?', The Productivity Institute, 18/09/2024, https://www.productivity.ac.uk/ (checked: 05/09/2025).

BOX 1: KEY FDI STATISTICS

- In 2024, the UK attracted 853 FDI projects, making it the second most popular destination in Europe for FDI. However, this represented a 13% decline from the previous year.[11]
- The United States (US) remains the leading source of FDI projects for Britain, with nearly a quarter of all projects originating in America in 2024. Other prominent investors include India, Germany and France.[12]
- Financial services account for a large percentage of the UK's inward FDI. Other top industries to have received FDI include manufacturing, business services, creative industries and digital technology.[13]
- Although the Greater London region remains Europe's top investment region, a lot of FDI schemes and job generation are also taking place outside the capital, with large figures in regions such as the West Midlands and North West England.[14]

However, this Report finds that Britain's strategic advantages – a world-class science and technology ecosystem, flexible labour markets and a globally respected legal system – are being severely hindered by a series of self-imposed structural and administrative barriers. The UK's political environment has in recent years been characterised by uncertainty, and Britain has been slow to address structural challenges such as high energy costs, which has been offputting for investors. That is the biggest challenge facing the UK in terms of investment: the

[11] Rob Joyce, 'Foreign Direct Investment: UK remains second in Europe', EY, 15/05/2025, https://www.ey.com/ (checked: 05/09/2025).
[12] Matthew Ward, 'Foreign Direct Investment (FDI) Statistics', House of Commons Library, 09/05/2025, https://commonslibrary.parliament.uk/ (checked: 05/09/2025).
[13] 'Foreign direct investment involving UK companies: 2023', Office for National Statistics, 14/01/2025, https://www.ons.gov.uk/ (checked: 05/09/2025).
[14] Rob Joyce, 'UK regions among Europe's top destinations for inward investment', EY, 17/06/2025, https://www.ey.com/ (checked: 05/09/2025).

credibility gap between its pro-business rhetoric and the reality for investors.

In the context of rising global competition, vast subsidy schemes and state support in the US, the European Union (EU) and the People's Republic of China (PRC), this study makes the case that Britain should avoid the temptation of engaging in a 'subsidy race'. Instead, the UK's strategy should be to leverage its comparative advantages to out-manoeuvre, rather than out-spend, its competitors. This involves fixing the foundations and addressing systemic flaws of its business environment and, at the same time, making the investor experience and journey as smooth as possible.

The goal should not simply be to secure more investment, but to secure and create the right type of investment, which will embed innovation in the economy, lead to high-value jobs and ensure the prosperity of Britain for decades to come.

1.1 Aim and structure

In order to assess the UK's attractiveness to FDI and what His Majesty's (HM) Government can do to improve it, the following research questions have driven this study:

1. What are the primary factors that attract and deter foreign direct investment in Britain?
2. To what extent can subsidies and incentives effectively attract investment, and what are their merits and limitations?
3. How can HM Government enhance the UK's attractiveness as an FDI destination?

To address these research questions, this study employed semi-structured interviews with experts (see: Box 2). This approach was selected as a way of exploring in greater detail the key drivers of FDI in Britain. This semi-structured format provided a loose framework for the discussions, making sure key topics were asked of each interviewee, as well as offering space to explore new and emergent themes which interviewees brought up. Interviews were typically conducted online and averaged an hour in duration.

BOX 2: LIST OF EXPERTS CONSULTED FOR THIS STUDY[15]

- Douglas van den Berghe, NxtZones
- Adam Breeze, Breeze Strategy
- Paul Brooks, Chartered Institute of Export and International Trade
- Nigel Driffield, Warwick Business School
- Alex Irwin-Hunt, fDi Intelligence, part of the Financial Times Group
- Martin Kaspar
- Ailsa Kiely, Kiely Transformative Growth
- Ayan Mohamed, Innovate UK Business Connect
- Danielle Myles, fDi Intelligence, part of the Financial Times Group
- Jonny Potter, Midlands Mindforge
- Adarsh Varma, NxtZones
- Civil servant at HM Treasury*
- Civil servant at the Office for Investment*
- EU regulatory lawyer*

* Participants asked to remain anonymous for this study.

1.2 Government strategy so far

The UK has a dual approach to FDI. This consists of proactive efforts to attract and support investment on the one hand (best exemplified by the Harrington Review of FDI)[16] and a system to detect and mitigate national security risks on the other (led by the National Security and Investment Act 2021).[17] This dual approach is designed to preserve, and indeed increase, Britain's reputation as a leading international capital market destination without jeopardising its national security interests.

[15] These experts have been consulted in a personal capacity. The findings and recommendations presented in this Report do not necessarily reflect their views or of the organisations they are affiliated with.
[16] 'The Harrington Review of Foreign Direct Investment', HM Treasury, 22/11/2023, https://www.gov.uk/ (checked: 05/09/2025).
[17] 'National Security and Investment Act 2021', Cabinet Office, 01/09/2025, https://www.gov.uk/ (checked: 05/09/2025).

One of the most significant developments has been the creation of the Office for Investment (OfI) in 2020. The OfI was established as a joint 10 Downing Street-Department for Business and Trade unit, with the goal of ensuring that the highest value investors receive the strongest possible cross-government support to realise their UK investments and to make Britain the best place in the world for international investors.

In 2023, out of fears that the UK was losing ground against international competitors, and believing that it has been slow in building its own capacity to secure investment from overseas, Sir Jeremy Hunt, then Chancellor of the Exchequer, and Kemi Badenoch, then Secretary of State for Business and Trade, asked Lord Harrington to conduct a review into Britain's approach to attracting FDI. This was conducted in the face of increasing global competition for internationally mobile investment.

The Harrington Review calls for a fundamental change in HM Government's approach from reactive towards proactive, cross-government and investor-focused. This requires a coherent and stable business investment policy to build trust with investors, a smarter use of incentives, and providing a more systematic statement of the UK's competitive strengths. Recognising the fragmented nature of investment promotion, the Review advocates a 'whole-of-government' response.

The Harrington Review suggested improving the OfI to become a 'one-stop shop' or 'concierge service' for large investors, with bespoke assistance and help to navigate red tape. That includes not only proactive, new, industry-specific tariff deals, but also a strategic targeting of key growth sectors which Britain is well-placed to exploit (such as life sciences and clean tech); and simultaneously improving the overall investor journey by making it easier for large, low-risk projects to gain planning.

The Harrington Review is part of a wider ecosystem of governmental investment policy, and one which should build from and inform others. It is closely in line with what the Modern Industrial Strategy of June 2025 aims to achieve, as well as the substantial growth which the UK is looking towards for the long term.

In 2024, Baroness Gustafsson, the former chief executive of Darktrace – a British cybersecurity company – was appointed as a new investment minister across the Department for Business and Trade and HM Treasury. This was part of a broader plan for the OfI to become a 'larger and better equipped organisation to streamline how the government approaches business and investment'.[18]

As the UK searches for investment, however, HM Government has vastly increased its ability to intervene in acquisitions which it deems to involve risks to national security. Central to this regulatory framework is the National Security and Investment Act 2021. The legislation set up a mandatory notification scheme which forced investors to tell HM Government when they were about to buy into one of 17 sensitive areas of the economy, including defence and Artificial Intelligence (AI). Outside these sectors, HM Government maintains a wide-ranging 'call-in power' to scrutinise transactions which it considers may involve national security issues.

[18] Beckie Smith, 'Office for Investment "revamped" with new minister', *Civil Service World*, 15/10/2024, https://www.civilserviceworld.com/ (checked: 05/09/2025).

The UK is in a 'Goldilocks' circumstance. [...] The UK has one of the richest AI communities anywhere on the planet. [...] I think it's just such an incredible, incredible place to invest. I'm going to invest here.

JENSEN HUANG
Chief Executive Officer, Nvidia
London, 9th June 2025

2.0

WHY DO INVESTORS CHOOSE BRITAIN?

The UK's attractiveness to overseas capital is based on a set of structural benefits which it is difficult for rivals to replicate. Britain's common law system is internationally renowned for its transparency, predictability and rigorous defence of private property and contractual rights. Such an environment provides investors with the comfort and safety of knowing that their wealth is safe, and that claims will be adjudicated in a fair and reliable way. As one of the leading international centres for commercial arbitration, London is a particularly attractive jurisdiction, offering a high-quality neutral arena to resolve complex cross-border disputes.

The UK has an excellent science and technology ecosystem.[19] Britain is home to four of the top ten universities in the world, and has a reputation for having an excellent research base. Public sector research organisations, such as the Defence Science and Technology Laboratory (Dstl) and the National Physical Laboratory, support HM Government by providing scientific and technological advice to policymakers. They also aid strategic capability in policy delivery, and by delivering important science services for government, industry and society more broadly.[20]

This ecosystem is an economic engine that powers a pipeline of new technology and a highly trained workforce. When it comes to FDI, especially in the knowledge economy of life sciences, robotics and AI, the transdisciplinary links between universities and businesses are important facilitators. The commercial potential is clear, with spinout firms based in British universities securing £1.66 billion in equity finance during 2023 – second only to the US worldwide – which demonstrates an ability to scale companies.[21]

With its flexible and highly skilled labour market, investors are attracted to the UK. Britain has some of the most flexible labour market regulations in the Organisation for Economic Cooperation and Development (OECD), meaning that companies can adjust their workforce more easily to new conditions at a time of rapid global change. This is coupled with a highly educated workforce, which can attract top international talent – meaning companies have the human capital needed to remain competitive and innovative.

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[19] 'Science and Technology Framework', Department for Science, Innovation and Technology, 28/04/2025, https://www.gov.uk/ (checked: 05/09/2025).
[20] 'Guidance on assessing performance and value of Public Sector Research Establishments', Government Office for Science, 25/01/2022, https://www.gov.uk/ (checked: 05/09/2025).
[21] 'Universities, founders and investors get behind Government's spinout boom ambition', University of Cambridge, 29/11/2024, https://www.enterprise.cam.ac.uk/ (checked: 05/09/2025).

The UK is a global financial centre, which gives it a substantial edge. Deep and liquid capital markets, particularly in London, combined with a sophisticated and specialised cluster of other professional services firms – including law firms and accountants – mean that investors can tap into these skills for large and complex projects.

But these strengths should not be taken as a sign that Britain will remain an attractive destination for investment. Countries around the world are in direct competition with one another, offering highly competitive and favourable tax environments to attract industry in a largely zero-sum game. In this context, the UK is at risk of falling behind.

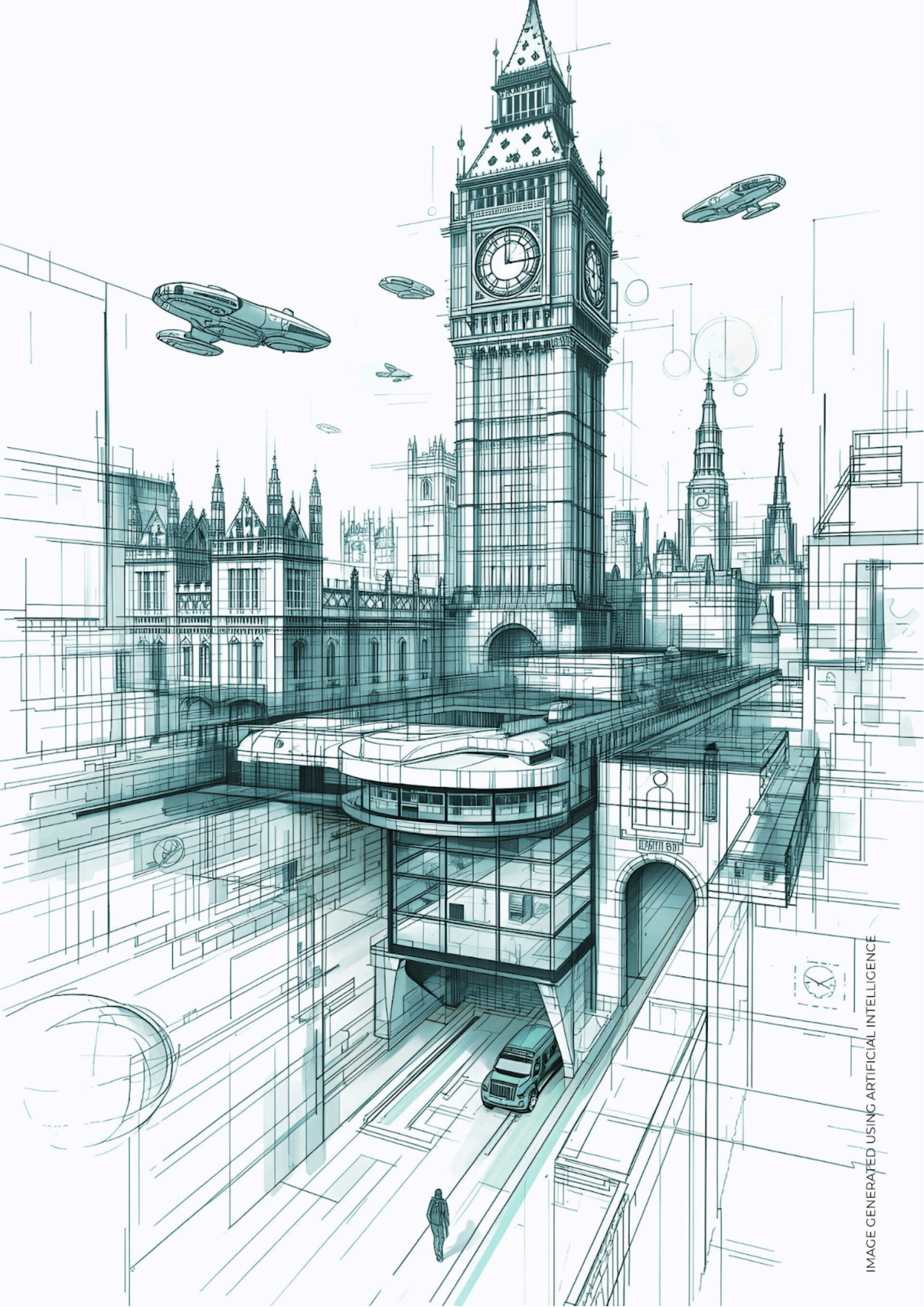

IMAGE GENERATED USING ARTIFICIAL INTELLIGENCE

3.0
CASE STUDIES

This section of the Report provides several case studies. They cover specific FDI projects in Britain and around the world, as well as international examples of concierge services and investment promotion agencies. By doing so, they help to provide a deeper understanding of the nexus between government policy, economic incentives, strategic strengths and the role of investment agencies – and how these can attract or deter foreign capital. Comparing these examples helps identify key lessons as well as best practice for attracting FDI to the UK. They are grouped into three categories (see: Box 3).

BOX 3: CASE STUDIES

Major British investment projects

1. Tata's gigafactory: The strength of strategic subsidies
2. AstraZeneca's warning: The price of policy inconsistency
3. Nissan's legacy in Sunderland: A model of long-term FDI

International examples of attracting FDI

4. Mercedes-Benz in Alabama: A blueprint for regional transformation
5. Facebook in Ireland: The value of a personal touch

Best practices in investment promotion

6. Invest Qatar: A model for investment promotion
7. Invest Lithuania: A strategic approach to attracting the defence sector

3.1 Tata's gigafactory: The strength of strategic subsidies

The Tata Group's announcement to build a new electric vehicle (EV) battery gigafactory in Britain – its first outside India – highlights how FDI can make a strategic contribution to the economic transformation of the country. When operational, the gigafactory could produce up to 40 Gigawatt hours (GWh) of battery capacity a year – the equivalent to over one third of the UK's long-term battery manufacturing capacity needs.

In 2023, Tata made a more than £4 billion investment announcement to build the gigafactory in Somerset, which was welcomed as a major boost to the British automotive sector. This investment, which is the largest ever made in UK car manufacturing, will generate up to 4,000 direct employment opportunities and thousands more across the broader supply chain as Britain tries to secure its position in the global EV shift.[22]

The Tata gigafactory case highlights an important feature of FDI: it is regularly obtained through the merging of a country's inherent strengths and state incentives.

Tata, the owner of Jaguar Land Rover (JLR), selected the UK as a location to offer a home source of batteries for the new EV models of JLR. Britain boasts a robust automotive manufacturing cluster and a highly skilled workforce, yet the move was also apparently made because of a substantial government subsidy package. HM Government's £500 million in grants and infrastructure upgrades proved crucial in the course of a competitive bidding process against Spain and other countries.[23] This amount was over half of HM Government's £1 billion Automotive Transformation Fund to support the sector.

The case study shows the intricacies of attracting FDI. It indicates that while economic basis and market access are required, government intervention in the form of selective subsidies and incentives can be an effective tool to secure large-scale investment projects. The Tata gigafactory is not only a factory, but a strategic piece of infrastructure which will supply nearly half of the UK's anticipated battery manufacturing demand by 2030; a key step towards ensuring the future of the British car industry and its Net Zero aspiration. However, it also poses questions regarding the ultimate sustainability of such enormous subsidies and of the need for a properly integrated industrial policy to respond to the deep-seated problems in the UK's economy.[24]

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[22] See: 'Tata Group Gigafactory Investment', Hansard, 20/07/2023, https://hansard.parliament.uk/ (checked: 05/09/2025) and 'Tata Group to invest over £4 billion in UK gigafactory creating thousands of jobs', Department for Business and Trade, 19/07/2023, https://www.gov.uk/ (checked: 05/09/2025).
[23] 'How Tata's UK Gigafactory Is Shaping the EV Future', Ginger Science, Innovation and Technology, 08/11/2024, https://www.ginger-recruitment.co.uk/ (checked: 05/09/2025).
[24] Aimee Turner, 'Tata confirms location for UK's EV gigafactory', *AM Online*, 28/02/2024, https://www.am-online.com/ (checked: 05/09/2025).

3.2 AstraZeneca's warning: The price of policy inconsistency

In 2025, there were reports that the British biopharmaceutical giant AstraZeneca might move its stock market listing – perhaps together with its corporate base – to the US. The prospect of losing the UK's most valuable company offers some valuable lessons for FDI.

Rumours of AstraZeneca's unease in 2025 came after months of irritation by Pascal Soriot, the company's Chief Executive Officer (CEO), at the UK's commercial and regulatory climate, including a disagreement about governmental backing for a new vaccine plant in Merseyside.[25]

At the heart of this was a dispute over a £450 million investment in a factory to make vaccines. When the Labour government came into office in 2024, it cut a state aid package which had been committed by the previous Conservative administration. As a result, AstraZeneca cancelled its investment plans altogether. This decision, together with Britain's healthcare spending and slow clinical trial procedures compared to those in the US, have created a perception that the UK is not as open as it claims to be to the long-term prosperity of the life sciences industry.[26]

This case study highlights how HM Government should be very careful about reversing committed state aid packages. Policy inconsistency can damage business confidence and lead to the cancellation of major investments. In addition, a failure to support major projects adequately in strategic sectors, such as life sciences, can undermine national ambitions and result in the loss of investment. HM Government should ensure that its commercial and regulatory climate, including clinical trial procedures, is competitive with other countries to retain vital companies and sectors.

3.3 Nissan's legacy in Sunderland: A model of long-term FDI

Nissan Sunderland is a widely used case study of FDI and the positive impact it can have on an economy. Nissan, the Japanese car manufacturer, signed an agreement to build a manufacturing plant in the UK in 1984.

[25] Nick Edser and Michael Race, 'Blow for Reeves as AstraZeneca ditches £450m investment', *BBC News*, 31/01/2025, https://www.bbc.co.uk/ (checked: 05/09/2025).
[26] Julia Kollewe, 'If AstraZeneca goes to the US, it will be a major blow to London and Labour', *The Guardian*, 02/07/2025, https://www.theguardian.com/ (checked: 05/09/2025).

The original investment decision was most influenced by a mix of several factors: the engineering competence of British workers, the guarantee of tariff-free access to the EU market, and a large government incentive package.

The Thatcher government was successful in persuading Nissan to invest in the UK by offering land at a significantly lower price and offering capital and training money. This FDI not only helped with unemployment caused by a decline in shipbuilding and mining in North East England, but also made the region a leader in the world automotive sector.[27]

During the decades since its construction, Nissan's Sunderland factory has grown into Britain's largest and most efficient car production facility, with a significant economic contribution. The plant directly sustains more than 6,000 workers and indirectly sustains tens of thousands more in the supply chain.

The success of Nissan Sunderland has been a catalyst for further investment, attracting a network of suppliers to co-locate in the region, which has enhanced the efficiency and resilience of the UK's automotive supply chain. The plant's role in Britain's industrial strategy has continued to the present day, with Nissan's commitment to produce its Qashqai, Juke and Leaf models securing its future for years to come.[28]

The factory has also been at the centre of the UK's shift to EVs, highlighting again the continuing importance of government incentives to FDI. Nissan has announced the 'EV36Zero' plan: a £1 billion investment to establish an EV manufacturing base, renewable energy hub and battery facility. This project, featuring a cutting-edge gigafactory constructed by partner Envision AESC, was won with strong backing from HM Government in the form of the previously mentioned Automotive Transformation Fund.

Although the plant has confronted setbacks, including rising energy prices and post-Brexit trade intricacies, this new investment illustrates how a long-term strategic alliance between a multinational firm and HM Government can secure long-term high-value FDI, upgrade industry and protect jobs for the future.[29]

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[27] See: Paul Swinney, 'Does Nissan provide a model for levelling up?', Centre for Cities, 22/07/2021, https://www.centreforcities.org/ (checked: 05/09/2025) and 'Why Nissan came to Sunderland', University of Sunderland, 28/07/2016, https://www.sunderland.ac.uk/ (checked: 05/09/2025).

[28] Mark Salisbury, 'Nissan Sunderland plant secures future', *Fleetpoint*, 14/05/2025, https://www.fleetpoint.org/ (checked: 05/09/2025).

[29] Sorin-Andrei Dojan, 'Nissan to invest £3bn in its UK business', *Investment Monitor*, 24/11/2023, https://www.investmentmonitor.ai/ (checked: 05/09/2025).

3.4 Mercedes-Benz in Alabama: A blueprint for regional transformation

The decision by Mercedes-Benz to locate its initial US car manufacturing facility in Vance, Alabama, in the 1990s was a milestone in FDI and economic development in the American South. At the time, Alabama was a largely rural state, and its textile industry – which had been a long-standing source of jobs – was in decline.[30]

In order to attract new companies, state and local government officials embarked on a campaign and presented a significant incentive package to win the bid for Mercedes-Benz, which was aggressively sought by more than 25 other states.[31]

Alabama's successful bid won with the help of a large financial incentive: the state allegedly offered a package of more than US$250 million (£187 million) in incentives, which worked out to around US$150,000 (£111,500) per employee. The incentives were a combination of land and infrastructure investment, training funds for its workers and tax credits. Access to a trainable, union-free labour force and proximity to major transportation centres were also essential factors.

The plant, which became active in 1997, became a magnet for other automakers and suppliers, transforming Alabama's economy. The economic contribution of this one FDI project has been substantial. The Mercedes-Benz plant has now grown immensely to be a centre for manufacturing Sports Utility Vehicles (SUVs) and, more recently, EVs.

The initial investment now stands at over US$7 billion (£5.24 billion), with the plant having over 6,000 workers and indirect employment generating tens of thousands of additional jobs across the supply chain. Alabama is now a leading auto-manufacturing state, and a leading US auto-exporting state. This marks a significant transformation, which started with one significant FDI success.[32]

The problem, however, is that it is not apparent ahead of time if, and when, incentives will work in this way. Such a large financial incentive package now seems like a prudent investment decision – but

[30] Edward Gardner Jr., Robert Montjoy and Douglas Watson, 'Moving Into Global Competition: A Case Study of Alabama's Recruitment of Mercedes-Benz', *Review of Policy Research*, 18:3 (2005).
[31] Jerry Underwood, 'Alabama auto industry's rapid growth fuelled by billions in new investment', Made in Alabama, 03/06/2024, https://www.madeinalabama.com/ (checked: 05/09/2025).
[32] Ibid.

other countries seeking to replicate this success may not find that the results translate so easily.

3.5 Facebook in Ireland: The value of a personal touch

The Republic of Ireland's success as a global FDI destination can be explained in part through a case study of how the country won over the social media giant Facebook (now Meta). Ireland's low corporate tax rate of 12.5% and EU membership were important magnets to attracting Facebook, as were the 'cultural fit' and supply of highly trained, English-speaking workers in the country. Additionally, the one-to-one strategy of the Government of Ireland was also a crucial factor.

Sarah Wynn-Williams, Facebook's former Director of Public Policy, states that the Irish government gave a phone to Sheryl Sandberg, Chief Operating Officer of Facebook, which could be used to circumvent the usual bureaucratic apparatus and solve any problems or address any accommodations required.[33] This face-to-face approach served to emphasise the Republic of Ireland's commitment to making a human connection with Facebook's management and clearly market the country as business-friendly, hospitable and receptive.[34]

This approach was at the heart of persuading Facebook to locate its European headquarters in Dublin in 2008. It should be noted, however, that there are also flaws with such a direct approach and in circumventing proper channels. In this case, the lack of transparency raised questions about whether Facebook had undue influence over tax and data regulation policy in the Republic of Ireland.[35]

More broadly, the Irish government has successfully used An Ghníomhaireacht Forbartha Tionscail – also known as IDA Ireland – its state agency for FDI, to promote the nation as an entry point to the European market.[36]

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[33] Sarah Wynn-Williams, *Careless People: A Cautionary Tale of Power, Greed, and Lost Idealism* (New York: Flatiron Books, 2025).
[34] Arthur Beesley, 'Irish government gave Facebook a "special phone" in case of problems, former executive claims', *Irish Times*, 12/03/2025, https://www.irishtimes.com/ (checked: 05/09/2025).
[35] Sarah Wynn-Williams, *Careless People: A Cautionary Tale of Power, Greed, and Lost Idealism* (New York: Flatiron Books, 2025).
[36] 'Ireland's Foreign Direct Investment Agency', IDA Ireland, No date, https://www.idaireland.com/ (checked: 05/09/2025).

Facebook's decision to locate its European headquarters in Dublin illustrates an important lesson in FDI. Although macroeconomic stability and a competitive tax regime are helpful, they are insufficient by themselves. Focused attention, a government willing to cut through bureaucracy and a distinct national value proposition can be a tipping point when it comes to attracting FDI. Facebook's move into Dublin helped the Republic of Ireland to attract other leading technology companies, including Google, Amazon and LinkedIn, leading to the country being dubbed Europe's 'Silicon Docks'.[37]

3.6 Invest Qatar: A model for investment promotion

The Qatar Investment Promotion Agency, Invest Qatar, showcases how a well-funded, targeted investment agency can be a potent stimulator of FDI. Founded in 2019, Invest Qatar is intended as a one-stop shop and all-in-one investment solutions provider, or concierge service.

The agency engages with investors throughout their journey, giving detailed information about markets and introducing them to key government and private sector contacts. This integrated, forward-looking approach is at odds with more fragmented, multi-entity solutions.[38]

Its success is best exemplified in the FDI growth of Qatar, which enjoyed a strong uplift in 2024, when the country secured more than US$2.7 billion (£2 billion)-worth of new capital and thousands of new jobs.[39]

The agency is strategic, targeting investments aligning with Qatar National Vision 2030, and aims to diversify the economy from hydrocarbons into strategic sectors such as technology, financial services, logistics and sustainability. The country has, for example, attracted tech giants such as Microsoft and Google, and is backing a new US$1 billion (£770 million) investment incentive scheme with customised packages for high-tech industries and technology.[40]

This case study highlights how providing an all-in-one concierge service which guides investors from initial inquiry through to aftercare

[37] 'Foreign direct investment in Ireland', Pinsent Masons, 07/06/2023, https://www.pinsentmasons.com/ (checked: 05/09/2025).
[38] 'Investment Promotion Agency Qatar (Invest Qatar)', World Economic Forum, No date, https://www.weforum.org/ (checked: 05/09/2025).
[39] 'Qatar records over $2.7bn in FDI in 2024, creating over 9,000 jobs', Invest Qatar, 18/05/2025, https://www.invest.qa/ (checked: 05/09/2025).
[40] 'Invest Qatar unveils $1 billion incentives programme to boost foreign and local investment', Invest Qatar, 21/05/2025, https://www.invest.qa/ (checked: 05/09/2025).

can significantly improve the investment environment. HM Government should also learn from Invest Qatar about how an investment agency can be strategically used to attract FDI which aligns with national economic goals, such as fostering specific high-growth sectors.

3.7 Invest Lithuania: A strategic approach to attracting the defence sector

Invest Lithuania is Lithuania's investment promotion agency. As with Invest Qatar, the agency provides another clear example of an investor-centric solution to attract FDI.

An important component of Lithuania's success lies in a proactive, more streamlined concierge service acting as a one-stop shop for foreign firms.

In contrast to more complicated bureaucratic frameworks, Invest Lithuania provides free-of-charge services in one place, such as market research, legal and tax consultations, and assistance in finding local partners or suppliers, as well as recruitment help. This makes the investment journey easier while also instilling a sense of credibility and trust with investors, highlighting a long-term commitment beyond the setup stage. It is this model which has enabled Lithuania to attract international players, and at the same time established the country as a location for companies in high-growth sectors.

The agency also helped to win American financial technology giant Robinhood to its first European hub in Vilnius.[41] Lithuania has specifically sought to lower administrative barriers for foreign defence firms seeking to establish themselves in the country. The country has also introduced a new category of investment projects, which grants large defence sector projects regulatory exemptions on the grounds of pressing national security needs. This has led to investments from Rheinmetall, a German defence manufacturer, which is setting up an ammunition factory for the production of 155mm artillery ammunition in Baisogala.[42] Invest Lithuania has stated that at least five other aerospace and defence companies have expressed interest in using the same legislative pathway, including Northrop Grumman.

[41] 'Robinhood opens first European crypto hub in Lithuania', Lithuanian National Radio and Television, 01/07/2025, https://www.lrt.lt/ (checked: 05/09/2025).
[42] Elisabeth Gosselin-Malo, 'Defence firms follow Lithuania's allure of making ammo sans red tape', *Defence News*, 12/12/2024, https://www.defensenews.com/ (checked: 05/09/2025).

These projects are a result of Invest Lithuania's ability to support enterprises responsively and efficiently, from advising on regulation to securing sites for large-scale ventures.

3.8 Lessons from case studies

The cases of Tata's gigafactory in Somerset and Nissan's factory in Sunderland demonstrate how a nation's strengths (such as a qualified workforce and robust manufacturing base) can be leveraged to attract investment. At the same time, they are also cases which highlight the importance of government intervention, and that strategic support is often a determining factor in attracting major projects. At the same time, the risk of losing AstraZeneca, the most valuable firm on the Financial Times Stock Exchange (FTSE),[43] is a warning. It highlights how uncertainty in government policy and a difficult business environment can drive investment away, even from the one of the most profitable businesses of a country.

The cases of Facebook in Ireland and Mercedes-Benz in Alabama also illustrate how a tailored package of incentives and forward-looking strategy can attract high-growth industries.

FDI strategies in Qatar and Lithuania highlight the success of a targeted strategy to FDI promotion. Both countries employ a concierge service model with great success. Well-funded, professional agencies provide a one-stop-shop to investors, eradicate bureaucracy and offer end-to-end support.

Taken together, these case studies showcase a range of factors which converge to make a country an attractive destination for foreign capital, from economic motivations and government incentives to strategic, investor-focused agencies.

[43] The FTSE 100 is the collective name for the 100 largest UK companies by value.

4.0

WHY ARE INVESTORS PUT OFF INVESTING IN BRITAIN?

In spite of the UK's excellence in some areas, the country's operating and commercial climate is hampered by a series of self-imposed obstacles. This provides friction, uncertainty and cost – eroding the attractiveness of a nation as a destination for investment. That includes (but is not limited to) bureaucratic barriers, the UK's planning system, structural cost disadvantages, and the domestic and international political environment.

4.1 Bureaucratic barriers

The most often-cited barrier from investors is navigating the confusing and fragmented bureaucracy in Britain. For the majority of investors, there is no meaningful 'single front door' to government, and their engagement with HM Government requires engaging with a time-consuming, and often frustrating, process of dealing with different Whitehall departments, as well as a variety of non-departmental public bodies or regulators, each with their own mandate and processes.

This is a problem of the UK's own making; there is no certainty where decision-making authority lies in Britain. HM Government should provide clarity on devolved decision making by either centralising authority in Westminster and Whitehall, or devolving greater authority to mayors and regions so they can secure FDI projects directly. The former would yield results more quickly, while the latter might be a more effective engine of prosperity across the country in the long term. The status quo is the worst of both worlds and leads to confusion for investors.

The lack of an investor-focused, planned approach slows the process down and, as a result, there is significant risk of delay and unpredictability, which in practice amounts to a type of 'tax on investment' for those new entrants who do not already have experience dealing with His Majesty's Revenue and Customs (HMRC).

4.2 The planning system

One of the most significant barriers to major capital investment is the planning and infrastructure impasse. Developers see the UK's planning system as sluggish, cumbersome and uncertain. This can be seen, for example, in the time taken to get consent for a Nationally Significant Infrastructure Project, which has, on average, increased from around 2.6

years in 2010 to 4.2 years today.[44] This not only adds significantly to project costs, but also makes Britain a relatively less attractive location for capital-intensive projects, such as next-generation manufacturing plants and data centres, which rely on investor confidence and certainty.

A case in point is the UK's electricity grid, which has become an impediment to gaining investment into energy-dependent industries; even strategic projects worth billions of pounds can be stifled by an inability to secure grid connections on time. The National Energy System Operator (NESO) has estimated that up to £60 billion of investment is required in the years to 2030 to support the delivery of a clean power system.[45] That means there is a vicious cycle, where investment is needed to improve Britain's energy system, but, at the same time, the inability to secure grid connections puts investors off.

These systemic failings have not gone unnoticed by HM Government, which has introduced a Planning and Infrastructure Bill to cut red tape in an attempt to address them.[46] Yet, this has proved difficult to implement, with many lobbying groups opposed to it. HM Government has already made a series of concessions on the Bill, which will ultimately stifle its effectiveness and leave the problem unaddressed.[47]

4.3 Structural cost disadvantages

In addition to bureaucratic barriers and the UK's planning system, investors also face considerable structural cost disadvantages. Industrial electricity prices in Britain are higher than many competing countries, risking the future of energy-intensive sectors such as chemicals, materials and advanced manufacturing.[48]

Although some government schemes, such as the British Industrial Competitiveness Scheme, provide relief at the margin, they do not

[44] 'Nationally Significant Infrastructure: action plan for reforms to the planning process', Department for Levelling Up, Housing and Communities, 23/02/2023, https://www.gov.uk/ (checked: 05/09/2025).
[45] 'Clean Power 2030', National Energy System Operator, No date, https://www.neso.energy/ (checked: 05/09/2025).
[46] Mann Virdee, 'Road to nowhere: Britain's infrastructure problem', Council on Geostrategy, 01/07/2025, https://www.geostrategy.org.uk/ (checked: 05/09/2025).
[47] Mann Virdee, 'The art of governance', *Britain's World*, 31/07/2025, https://www.britainsworld.org.uk/ (checked: 05/09/2025).
[48] 'Why Are Britain's Power Prices The Highest In The World?', Electric Insights, 2024, https://reports.electricinsights.co.uk/ (checked: 05/09/2025).

address the high underlying wholesale and network costs, which represent the vast majority of the price.

One solution to this was zonal electricity pricing (see: Box 4).[49] However, in July 2025, HM Government rejected the implementation of zonal electricity pricing as part of the Review of Electricity Market Arrangements (REMA).[50] Now that this proposed solution has been rejected, HM Government will need to find an alternative solution to this problem, and one which addresses the structural causes rather than subsidising demand.

BOX 4: ZONAL PRICING

Zonal pricing, also known as regional energy pricing, had been proposed as a solution to some of the UK's electricity problems. Under this system, electricity producers are allowed to charge different rates for electricity based on local supply and demand conditions, such as the cost of production in a given area.

This approach is supposed to create a more efficient and equitable energy market by aligning prices with local conditions. For example, in regions with abundant solar and wind, prices may be lower to encourage greater use of clean energy. Meanwhile, in regions with limited supply, such as those heavily reliant on fossil fuels, higher prices may incentivise conservation and investment in new generation capacity.

This can also stimulate investment in renewable energy projects by providing a clearer picture of the potential returns in different regions. Regional energy pricing may help to alleviate grid congestion by encouraging consumers to shift their energy consumption to times of lower demand, or to areas with excess capacity. This can reduce the need for costly grid upgrades and improve overall system reliability.

Zonal pricing has been predicted to reduce costs. Ofgem found that regional pricing could benefit consumers, including

[49] Jack Richardson, 'Britain's gas dependency: A growing vulnerability', Council on Geostrategy, 08/04/2025, https://www.geostrategy.org.uk/ (checked: 05/09/2025).
[50] 'Review of electricity market arrangements (REMA)', Department for Energy Security and Net Zero, 15/07/2025, https://www.gov.uk/ (checked: 05/09/2025).

industry, by saving between £28 billion and £51 billion across the period from 2025 to 2040.[51] Octopus Energy has also found that businesses would enjoy a significant reduction in wholesale energy costs, and that consumers would see their bills go down.[52]

One of the major financial barriers for investors is the high cost and complexity associated with finding and negotiating access to enough land for large greenfield projects, particularly outside office park enterprise zones. To address this, a new approach could involve making 'brownfield' sites readily available and connected to energy infrastructure through kitemarked certification. Such a process would provide investors with an already validated and lower risk alternative, as the certification would guarantee that the land has been assessed and is ready for plug-in. Doing so would bypass some of the initial financial and logistical hurdles of new site development.

4.4 Political environment

4.4.1 DOMESTIC ECOSYSTEM

In recent years, there has been a lack of consistency in policy, which has made it difficult for investors to plan for the long term. This instability, particularly in areas such as state aid and financial incentives, can deter foreign companies.

One example of this occurred in September 2023, when Rishi Sunak, then Prime Minister, announced a delay in banning the sale of new petrol and diesel cars by five years to 2035. Senior executives at leading manufacturers – Ford, Jaguar Land Rover, Nissan and Vauxhall – told Sunak that they would be forced to pull billions of pounds of investment as a result, and that such a move risked thousands of jobs in Britain's motor industry as car makers look elsewhere to invest in EV production.[53]

[51] Tom Grimwood, 'Ofgem throws weight behind locational pricing', Utility Week, 31/10/2023, https://utilityweek.co.uk/ (checked: 05/09/2025).
[52] Rachel Fletcher, 'Case Study: how regional pricing could save businesses (and everyone) on bills', Octopus Energy, 24/01/2025, https://octopus.energy/ (checked: 05/09/2025).
[53] David Parsley, 'Carmakers bombard No 10 over Rishi Sunak's "utter mess" plan to delay 2030 electric deadline', *The i Paper*, 20/09/2023, https://inews.co.uk/ (checked: 05/09/2025).

4.4.2 THE UK'S RELATIONSHIP WITH THE EU

The investment climate has also been transformed by the post-Brexit competitive landscape. Britain is an important trading partner for the EU, but without frictionless trade there are now customs processes and regulatory checks replacing the comparatively seamless supply chain arrangements which had been in place for many years. This means that it is necessary for a new British value proposition to emerge. However, there have been some benefits, such as the UK's negotiation of tariffs with the US – which resulted in a significantly better deal than the EU received.[54] As such, its marketing angle should emphasise that it is an independent, well-functioning market, and a global hub which offers a unique window into international markets, both European and non-European.

It should also be noted that similar subsidy control rules exist as when Britain was a member of the EU. This is not a significant barrier now – nor was it while the UK was an EU member – to providing incentives for attracting green businesses to Britain. In practice, EU countries do support their industries, and the UK could have supported particular sectors such as green technology while remaining part of the EU on the grounds of economic development. The UK-EU Trade and Cooperation Agreement of December 2020 required Britain to introduce an alternative state subsidy system.

4.5 Addressing the barriers

These barriers are not siloed problems. Rather, they are systemic and mutually reinforcing. A sluggish planning system holds up new energy infrastructure, and a shortage of this costly infrastructure maintains electricity prices at over double those in the US. The high cost of power creates long-lasting effects, making the UK a less attractive location for energy-intensive manufacturing sectors, such as steel, chemicals and gigafactories, which HM Government aims to expand. Firms looking to build such facilities are often deterred by high operational costs compared to competitors in countries with cheaper energy. Addressing these foundational barriers in a cohesive and integrated manner is key to breaking the cycle and unlocking the UK's potential for economic prosperity and security.

[54] Sophie Kiderlin, 'The EU-US trade deal could have one unexpected winner: The UK', *CNBC*, 29/07/2025, https://www.cnbc.com/ (checked: 05/09/2025).

5.0 WHAT ROLE SHOULD SUBSIDIES PLAY?

Amid growing global competition for mobile capital, financial incentives to attract FDI have emerged as an easy solution. As shown in the case studies, incentives can prove highly effective in attracting foreign capital – and they can often be the deciding factor in a competitive bidding process. They are most successful when part of a broader, cohesive industrial strategy.

However, HM Government should adopt a measured and pragmatic approach, and should not view any single measure as a panacea for Britain's wider economic problems. Although some amount of targeted subsidies is a legitimate and important tool to win crucial investments, engaging in an outright 'subsidy race' against global behemoths such as the US, EU and People's Republic of China (PRC) is not only unwinnable, but also unwise.

5.1 The problems with subsidies

The economic justification for foreign investor subsidies is usually a version of the idea of 'positive externalities'.[55] An investment may provide wider benefits to the host economy, such as knowledge spillovers, technology transfers or local supply chains, which are not captured in the private financial return of the investing firm. In these cases, a public subsidy can be warranted to bring the private and social returns closer together and thus make an investment good for the host country, which might not have gone ahead solely on commercial grounds.

The difficulty, however, is that the use of incentives itself has a range of associated risks and costs. When a country has to resort to large subsidies, it is often an indication of fundamental problems in the business environment, or that it can only draw investment by offering something such as incentives. A major risk of these programmes is the use of taxpayer money to push an investment which would have been made anyway.[56]

Moreover, the economic benefits of subsidies are not assured. Evidence shows that if distortionary taxes are used to finance these mechanisms, their efficiency could be strongly diluted, thereby adding undesirable impacts.

[55] Magnus Blomström and Ari Kokko, 'The Economics of Foreign Direct Investment Incentives', National Bureau of Economic Research, 02/2003, https://www.nber.org/ (checked: 05/09/2025).
[56] Mika Haapanen, Jari Ritsilä and Anu Tokila, 'Evaluation of investment subsidies: when is deadweight zero?', International Review of Applied Economics, 22:5 (2008).

Decisive state industrial policy measures have transformed the competition for FDI between world economic giants. The US Inflation Reduction Act and the EU's Green Deal Industrial Plan have signalled trillions of US dollars and euros respectively in subsidies and tax credits, aimed primarily at deploying clean technology development and manufacturing on fast track.

In response to this, the EU has made changes to state aid, and is working on further improving flexibility in its framework. This should help its members to match third countries' offers more easily, as well as fast track decarbonisation project-related aids. For example, in March 2023, the European Commission agreed to national schemes with a total value of €6.9 billion (£6 billion) for this purpose alone, with a focus on hydrogen value chains.[57]

The UK therefore cannot compete on funding scale alone. It would be fiscally unsustainable and strategically misplaced to try to replicate the levels of subsidies provided by the US, EU or PRC. Britain is unlikely to be competitive in a subsidy race, so it should focus on targeting its more limited resources for sectors it deems to be strategically important.

5.2 Tax incentives to consider

HM Government should consider a reduced tax rate of 10% for greenfield investments in areas deemed critical sectors – including clean tech, quantum and biotech – conditional on meeting targets on job creation and Research and Development (R&D) spending. This would make the UK more competitive compared to international investment zones, and improve its appeal for FDI significantly. Alongside this, HM Government should offer 100% first-year capital allowances (full expensing) for investments in these critical sectors.

Greenfield investments often require substantial initial expenditure in the form of specialised equipment. Full expensing helps to offset this by granting an immediate tax benefit, boosting cash flow and encouraging additional investment. Current UK Enhanced Capital Allowances should also be broadened to include more assets across critical sectors.

[57] 'Commission approves up to €6.9 billion of State aid by seven Member States for the third Important Project of Common European Interest in the hydrogen value chain', European Commission, 15/02/2024, https://ec.europa.eu/ (checked: 05/09/2025).

And because I believe the UK is the best place in the world for financial services, today I've announced the Office for Investment's new concierge service.

Launching by October this year, it will provide a tailored service to companies considering setting up and expanding in the UK.

RACHEL REEVES
Chancellor of the Exchequer
London, 15th July 2025

6.0 MAKING BRITAIN A MORE ATTRACTIVE DESTINATION FOR FDI

A successful long-term strategy for FDI in the UK requires a fundamental re-think and shift in focus. Instead of relying on short-term solutions, HM Government should address the systemic issues that deter investors. Fixing foundational problems – the slow planning system, high energy costs and fragmented bureaucracy – will help create a more stable and attractive environment for FDI. At the same time, targeted incentives can help make the UK competitive in an increasingly contested and volatile world.

6.1 Fix the foundations

HM Government should prioritise making the UK an attractive destination for businesses to invest. This is not just about offering grants or tax breaks – it requires addressing fundamental issues which deter investors from Britain, such as the restrictive planning system and its impact on the quality of UK infrastructure, high energy prices and steep land acquisition costs.

6.1.1 RECOMMENDATIONS

- **Improve Planning and Infrastructure:** This should be done by addressing challenges in planning (such as setting hard deadlines on statutory consultations, and making brownfield sites readily available and connected to energy infrastructure through kitemarked certification).
- **Identify a new mechanism to reduce energy prices:** This should not rely on subsidies, especially now that zonal pricing has been rejected.
- **Develop a clearer narrative and value proposition:** This would explain why Britain seeks to attract FDI, what types of FDI it desires, and – crucially – how this aligns with the UK's national and strategic objectives. As part of this, Britain should highlight what its unique value proposition is: a gateway to European markets, a world-class science and technology ecosystem and a comparatively flexible and well-educated labour market.
- **Conduct regular international benchmarking:** This would allow HM Government to stay informed about changes in the global environment, such as the arrangements and schemes offered by competitor nations.

6.2 Help investors navigate the UK's bureaucracy

Britain's fragmented and complex institutional landscape presents a significant and often-cited barrier for foreign investors. The absence of a clear single point of entry means that companies seeking to invest in the UK are often forced into a time-consuming, and frustrating, process of trying to navigate government departments, regulators and quangos. This lack of certainty over where decision-making authority lies, whether in Westminster or in devolved regions, leads to costly delays and unpredictability, which erodes Britain's appeal to investors.

6.2.1 RECOMMENDATIONS

- **Assist investors in navigating the UK's institutional arrangements and bureaucracy:** A more proactive and coordinated approach from HM Government would help investors understand Britain's bureaucracy and shield them from unnecessary bureaucratic burdens. Specifically, HM Government should:
    - Establish a comprehensive concierge service for investors which extends beyond the financial sector, as announced in the 2025 Mansion House speech by Rachel Reeves, Chancellor of the Exchequer. This service should explicitly aim to attract strategically important companies in clean tech, quantum and biotech;
    - Provide clarity – both for itself and for investors – regarding where responsibility lies within the UK's governance institutions and architecture. This would prevent investors from being shuttled between different governmental departments, non-departmental government bodies and other quangos;
    - Increase resources and capacity for the OfI;
    - Foster a new culture within the OfI that genuinely comprehends investor thinking and motivation. This could be achieved by prioritising the hiring of new staff based on their experience in trade and investment. The OfI should reduce its reliance on generalist civil servants, as this Report indicates they often lack an understanding of investor motivations and mindsets;

- Systematise soft landings by providing more structured support for new investors, such as short-term office solutions and connections with local universities and ecosystems; and
- Ensure better availability of information for potential investors, including details on rent prices, tax levels and labour costs.

6.3 Offer targeted, limited subsidies

While subsidies can play a role when used carefully, HM Government should not see any single incentive as a complete fix for Britain's economic challenges. Incentives can ease difficulties, but they can also signal underlying problems with a country's ability to attract investment independently. Therefore, the UK should be cautious about engaging in subsidy races, especially given that other nations and regions can offer favourable tax incentives, subsidies and readily available land with access to utilities. Subsidies carry risks, and they are not universally effective.

6.3.1 RECOMMENDATIONS

- **Introduce a five-year reduced tax rate of 10% for greenfield investments in areas HM Government deems as critical sectors – including clean tech, quantum and biotech – conditional on meeting targets on job creation and R&D spending:** This strategic move would make Britain more competitive compared to international investment zones, and improve its appeal for FDI significantly.
- **Offer 100% first-year capital allowances (full expensing) for investments in these critical sectors:** This incentive would make the cost of a capital investment deductible upfront, rather than over time. By doing this, HM Government could help channel private investment towards its strategic priorities.

7.0

CONCLUSION

The UK's productivity growth has been stagnant since the 2008 financial crisis, and is a seemingly intractable problem for the country. FDI is an important driver of economic prosperity, and is directly linked to improving productivity. It acts as a vital channel for capital, innovation and skills. For an open, trading economy such as Britain, attracting high-quality FDI is not only beneficial; it is essential for long-term growth, creating high-value jobs, fostering cluster formation and enhancing global competitiveness. This study has sought to explain the primary factors which attract and deter foreign direct investment in the UK. It has also explored the extent to which subsidies and incentives can effectively attract investment, as well as their merits and limitations. Together, these help show how HM Government can enhance Britain's attractiveness as a destination for FDI.

7.1 Key findings

In order for the UK to remain a primary destination for FDI, it needs to fix the foundations rather than relying on quick fixes such as subsidies. While targeted incentives have a role – and this Report recommends two incentives for HM Government to consider – Britain's primary focus should be on fixing its bureaucratic systems, reducing high energy costs and creating a more stable political environment.

Additionally, the UK needs certainty about where decision-making authority lies, either by devolving more authority to regions to empower them to make FDI decisions, or centralising it in Westminster and Whitehall to provide a single point of entry into the country. By taking a more proactive and investor-centric approach, and clearly articulating Britain's unique value proposition in critical sectors, the UK can compete on its own merits to secure the high-value, long-term investments it needs for future prosperity and security.

7.2 Final reflections

If Britain is to prosper, the status quo cannot continue. That cannot be stated loudly or often enough. As Sir Keir Starmer, Prime Minister, correctly stated, the UK is in a 'tepid bath of managed decline'.[58] Those who have the privilege of holding positions of authority – legislators,

[58] Keir Starmer, Speech: 'PM speech on Plan for Change: 5 December 2024', 10 Downing Street, 05/12/2024, https://www.gov.uk/ (checked: 05/09/2025).

regulators, scrutinisers and decision makers – need a clear understanding of the challenges the country faces and the urgency with which they should be tackled.

It should be a source of immense national embarrassment that Britain has the world's most expensive electricity costs, is the most expensive place to build a nuclear power plant, and cannot build a high-speed rail line within an acceptable timeframe and at an appropriate cost. It is no wonder some foreign investors think twice. If the UK does not invest in itself, how can it ask others to do so?

Britain must move beyond short-term solutions and tackle structural challenges. This study provides a blueprint for action, outlining how reforms to the UK's tax system, bureaucracy and infrastructure can help Britain remain a top destination for capital and innovation in the face of global competition.

About the author

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About the Council on Geostrategy

The Council on Geostrategy is an independent non-profit organisation situated in the heart of Westminster. We focus on an international environment increasingly defined by geopolitical competition and the environmental crisis.

Founded in 2021 as a Company Limited by Guarantee, we aim to shape British strategic ambition in a way which empowers the United Kingdom to succeed and prosper in the 21st century. We also look beyond Britain's national borders, with a broad focus on free and open nations in the Euro-Atlantic, the Indo-Pacific and Polar regions.

Our vision is a united, strong and green Britain, which works with other free and open nations to compete geopolitically and lead the world in overcoming the environmental crisis – for a more secure and prosperous future.

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> *Dedicated to making Britain, as well as other free and open nations, more united, stronger and greener.*

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