Institute for Public Policy Research

IPPR North

NORTHERN INDUSTRIAL STRATEGY

Luke Raikes

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SUMMARY

The North could thrive in the decades ahead. Its economy is significant on an international scale: it is larger than most EU economies, and those of the UK's devolved nations combined; and it has vital assets and capabilities which have national importance and global reach. The North's economic diversity is one of its great strengths. Assets, industrial clusters and the wider foundations of growth are varied and distributed across the region's geography: the city regions, towns, airports, ports and rural areas all have a role to play in helping to underpin and galvanise future northern prosperity.

But to succeed in the future, the North must learn from the past. An honest appraisal of the North's current economic position finds some severe weaknesses: all the UK's nations regions have major challenges – not least our unequal an overheating capital – but the North has an economy in which productivity, job creation and job quality are all far too low.

This underperformance isn't inevitable. Similar regions in Germany, the Netherlands and France have used devolved powers and regional industrial strategies to adapt to the same challenges more effectively; these regions are now powerhouses for their national economies. Decades of centralised industrial strategy in the UK have cost the North and the country a great opportunity.

In order to succeed in the decades ahead, the North must work together. Local industrial strategies will rightly make the case for sub-regions to be the focus of devolved economic policy. But in some areas of policy, the North needs to coordinate, and in others the North must act collectively: pan-regional transport, trade and investment, innovation and supporting supply chains.

For this reason, we recommend that northern leaders set out a Northern Industrial Strategy and develop pan-northern policy in three phases.

PHASE 1: SETTING OUT A NORTHERN INDUSTRIAL STRATEGY – 2019–2020

- A Northern Industrial Strategy should be developed to enable the North to fulfil its economic, social and environmental potential.
- Its scope should include: pan-northern approaches to transport, trade and investment, innovation, supply chain development and planning; coordinating and influencing policy at all tiers; and facilitating pan-northern collaboration.
- It should build on the strengths of northern organisations already in existence, and the strategies and evidence that have already been developed.
- There should be three outputs: an evidence base; the Northern Industrial Strategy; and a pipeline and implementation plan.
  - It should be a broad 30-year strategy that's refreshed every five years and monitored regularly.
  - It should be co-produced by the North and central government.
  - It should form the basis of devolution to the North and the development of its institutions.

PHASE 2: DEVELOPING NORTHERN ECONOMIC POLICY – 2020–2022

- Northern governance should be pragmatic, transparent and collaborative.
- A small team of officers from different organisations should come together to develop policy.
- Key funding streams would not yet be held at the northern level, but should be devolved where possible to its constituent sub-regions.
- A reference group for each of the prime and enabling capability stakeholders should be set up to inform policy, by building and learning from those already in place.
- Work streams should be used to develop policy priorities in areas where pan-northern approaches add value.

PHASE 3: DELIVERING NORTHERN ECONOMIC POLICY – 2022 AND BEYOND

- Governance should be reviewed, then formalised, strengthened and integrated.
- Capacity should be built up to coordinate and deliver policy via four organisations focused on adding value at the northern level: Transport for the North; Trade and Investment North; Innovation North and a Northern Growth Hub Network

INTRODUCTION

The decades ahead will bring great change to the north of England. In the decades ahead, the global economy will start to look very different, and if the North is to thrive then it must adapt to the many threats and opportunities on the horizon.

- A disorderly Brexit threatens to severely disrupt important supply chains, which would have significant implications for exporting firms and the other businesses that they work with; this places future trade and investment policy in the spotlight like never before. The North is twice as vulnerable to Brexit as London, and while there are diverse and dynamic areas that can adapt, there are also many areas that lack resilience to such economic shocks (Chen et al 2016; Raikes et al 2016).
- Global economic geography is changing rapidly: Chinese megaregions are developing at a striking pace; global value chains are becoming more integrated; and decisions made by large corporations in other countries have significant influence on regions across the world, including the north of England. Within the North, international migration is boosting city centre populations, while the direction of net internal migration remains toward suburbs and non-metropolitan areas (Raikes 2017a).
- Technology will, as ever, pose both a threat and an opportunity: new materials, machine learning and additive manufacturing could – if adopted – change the nature of work in previously-insulated sectors such as retail and healthcare. While the impact of this is often overstated, many jobs in the North are likely change fundamentally in forthcoming decades (Arntz et al 2016). However, the North has strengths in high-tech sectors, and specialises in digital, energy, health innovation and advanced manufacturing which could benefit.
- Climate change is at a crisis point and will continue to change the region's economy: several northern communities were historically built around energy generation. The North is already making a transition to low carbon: CO2 emissions reduced by 37.9 per cent per capita in the last decade, and the North generates one-third of all UK renewable energy (including Biomass) (Raikes et al 2018). The North is therefore in a strong position to benefit but will need to develop an inclusive solution – a 'just transition' – for its energy sector and energy intensive industries (Emden and Murphy 2019).
- An ageing population will pose both a challenge and opportunity for the North. People are living longer and some will be happy to keep working or contributing to society in other ways, but others will experience many years of poor health, and there are acute challenges for those currently aged 50 and older (Raikes et al 2018). The average northerner is already in poor health by the time they retire, and the ratio between the working-age population and those 65 and older is expected to fall dramatically from 3.31 in 2018 to 2.65 in 2030 (author's analysis of ONS 2018a; Round 2017).

In order to adapt to these challenges, the North must learn from its recent past. Over the last century, all similar regions across the world experienced major changes in their industrial base: developed economies have shifted, sometimes abruptly, from being primarily reliant on extractive industries, to heavy industries, light industries, and now on to knowledge-intensive services, digital and high-tech manufacturing (Turner 1995).

In the past, the economic policies of central government have served the North poorly during such transitions. Successive UK governments have failed to support

regions and industries to adapt and modernise and have therefore failed to build an economy which is diverse and specialised in the right places and sectors. Instead, since the 1980s, centralised policy has supported financial and business services in London; important but relatively small life sciences industries; and a handful of large automotive and aerospace companies (Jacobs et al 2017).

It is these policies that have created the regional inequalities that are often referred to as the 'North-South divide'. The 'North-South divide' alludes generally to the fact that there are unparalleled productivity differences between London and the South East and the rest of the country – reflected also in employment outcomes. But this is only one dimension of the UK's regional problem: London's high-growth sectors are often exclusive to the people living there, and the capital's property boom incurs a high cost on businesses and residents – driving up poverty and drawing in spiralling amounts of government infrastructure spending. All our regions have fundamental economic problems – including our capital.

The policies that have led to this outcome may not often be referred to as industrial strategy, but, in effect, that is what they have been. Since the 1980s, this implicit industrial strategy made all our regions, including London and the South East, economically dysfunctional, unequal and poor in their own unique way. Unless industrial strategy is done differently in future, these problems will get worse.

This paper draws on a range of economic evidence and policy research to set out the case for a Northern Industrial Strategy that would complement the local industrial strategies already being developed within the North. It also draws on interviews and discussions with policymakers within the North to set out what a Northern Industrial Strategy should look like.

1. INDUSTRIAL STRATEGY AND THE NORTH'S ECONOMY

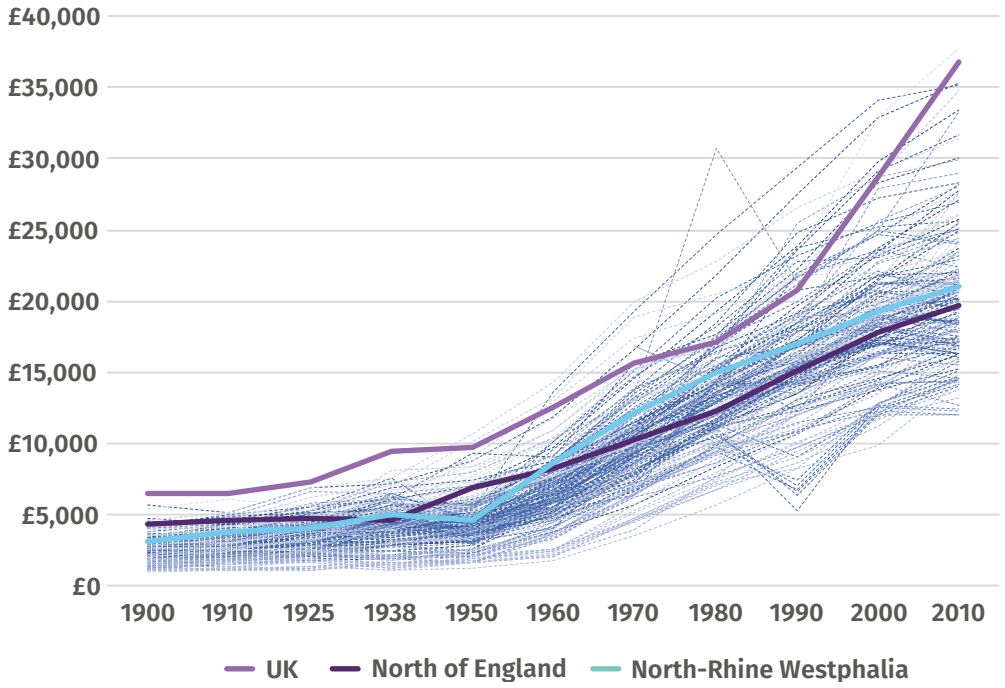
The North has not fared well as a result of UK economic policy, and the industrial strategies – explicit or implicit – of many governments. This section sets out the North's current economic performance relative to the rest of the UK and similar regions overseas, and then describes the industrial and regional strategies that have contributed to this situation, before discussing more recent developments in the Northern Powerhouse and industrial strategy agendas.

1.1 THE NORTH'S OVERALL ECONOMIC PERFORMANCE

The North's economy has changed dramatically over the last century. As figure 1.1 shows: since 1900 the North has gone from the 10th most prosperous region in the EU to the 93rd in terms of GDP per capita,[1] and has consistently underperformed otherwise similar regions – such as North Rhine-Westphalia – since the 1960s.

FIGURE 1.1: OVER THE LAST CENTURY, THE NORTH HAS SLIPPED FROM ONE OF THE MOST PROSPEROUS REGIONS IN EUROPE TO AMONG THE LEAST

Nominal GDP per capita in 1990 international dollars



Source: Roses and Wolf (2018)

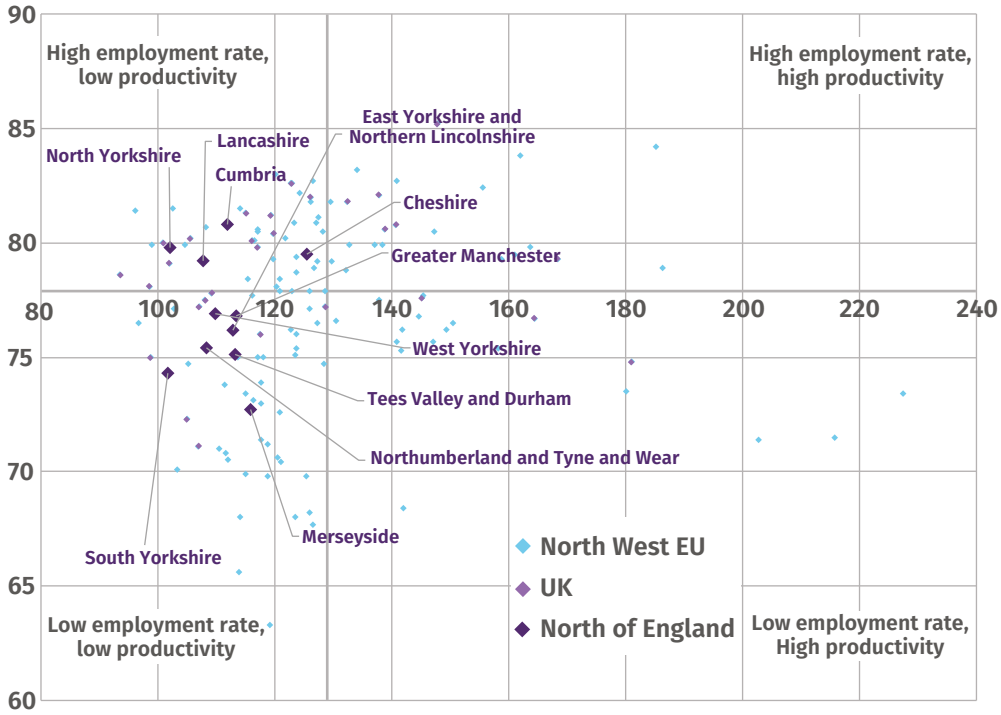
1 This is an imperfect measure at the regional scale due to the impact of commuting. However, productivity data is not available on the same timescale.

The North has productivity and employment rates that lag behind similar regions. There is a great deal of variation within the North, but general trends can be observed, as figure 1.2 shows.

- Productivity[2] is lower and growth in productivity has tended to be slower in the North than in comparable regions in north-west Europe – although Cheshire is a notable exception to this pattern, and estimates indicate that Darlington and Mid-Lancashire have above average productivity too (Eurostat 2018a ONS 2019a).
- Job creation has also tended to be slower in northern regions compared to similar regions in north-west Europe – although there are high employment rates in the non-metropolitan areas such as Cumbria, North Yorkshire, Lancashire and Cheshire (Eurostat 2018b).

FIGURE 1.2: MANY NORTHERN SUB-REGIONS HAVE BOTH A LOW EMPLOYMENT RATE AND LOW PRODUCTIVITY COMPARED TO SIMILAR REGIONS OVERSEAS

Productivity (GVA per hour worked) index (x axis) and employment rate (y axis) for north-west EU sub-regions (NUTS 2) - axes cross at North West EU median



Source: Eurostat (2018a and 2018b)

1.2 THE HISTORY OF INDUSTRIAL STRATEGY AND REGIONAL POLICY IN THE UK

This economic performance reflects negatively on industrial and regional policy in the UK – particularly since the 1970s. These two areas of policy are closely related in practice: industrial strategy has a regional impact, and regional strategy has an industrial impact. Effective economic policy has strong industrial and regional dimensions to it, marshalling the assets of places to support industries in the most effective way, and working with local industries to benefit the wider region. But these areas of policy are often treated separately in the UK, and their overlaps are often incidental.

2 In this case defined by output (GVA) per hour worked – see definition here: https://ec.europa.eu/eurostat/documents/3217494/9210140/KS-HA-18-001-EN-N.pdf/655a00cc-6789-4b0c-9d6d-eda24d412188

Industrial strategy

The UK has always favoured particular industries, but has not always had an explicit industrial strategy in name.

- Before the 1980s, governments undertook economic policy that was explicitly 'industrial strategy' – that is, it was interventionist and sector-specific (also known as 'vertical'). Often simplified as 'picking winners', this approach involved subsidising industries and sometimes public ownership of industries, ranging from steel to energy and transport. These were sometimes based in the midlands and the North, but also in outer London.
- This was followed by a long period – from the 1980s until the late 2000s – when economic policy was supposedly 'laissez faire' and 'hands-off'. During this period, the government privatised many of the industries it had stakes in, and adopted a more generalist approach to economic policy that was less directly interventionist and less explicit about the industries it supported (also known as 'horizontal'). There were interventions, and the financial and professional services sector in the capital benefited significantly from policy, but this wasn't presented as an 'industrial strategy'.
- There was a brief mention of industrial strategy in the final years of the Brown government, but this was not taken forward, and the change of government in 2010 sank any prospect of such a strategy.

Regional and urban policy

The UK has never sustained a strong and interventionist set of explicitly regional or urban policies.

- During the inter- and post-war period, central government undertook significant intervention in regional economies – largely in housing and regeneration. Almost 2.7 million new houses were built between 1930 and 1940 by both local authorities and private developers (Cullingworth and Nadin 2006). The pace of housing growth was such that the 1938 Green Belt Act was introduced to provide a clear distinction between town and countryside (Booth 2003). The urgent need for economic growth and reconstruction in the post-war era led to the introduction of the 1947 Town and Country Planning Act which, for the first time, enabled the state to influence the private interests of developers by effectively nationalising the rights to future development. The New Towns Act 1946 represented the largest programme of new town development in UK history, housing up to 2 million people (Alexander 2009; Homer 2000). There was particular enthusiasm for the New Towns Act from within the Labour party because it was seen as an opportunity to build the "model of the better post-war world that planning could create" (Ward 2004).
- Government deviated from this interventionism in the 1980s by taking a market-led approach to policy, with smaller-scale private-sector-led regeneration efforts up to 1997, often focused on inner city decay. During this period, 'enterprise zones' offered looser planning constraints and tax breaks, while private-sector-led urban development corporations were the major feature. But these were largely ineffective – they often simply moved companies around rather than generating new activity, and any successes were often due to the accompanying infrastructure investment (Sissons and Brown 2011).
- There was something of a revival of regional (and urban) policy after 1997. The 1998 Urban Task Force focused largely again on physical urban decay, while the later New Deal for Communities and Neighbourhood Renewal Fund were more focused on improving lives for people. This included local enterprise growth initiatives (LEGI) – which were successful in supporting indigenous business growth, new start-ups and skills development, and attracted businesses to the area – but again suffered from a high rate of displacement (DCLG 2010; Einiö and Overman 2016). Local authority business growth incentives (LABGI)

also incentivised local government to drive economic growth by allowing local government to retain a share of business rates growth within their area. But this was criticised for being too complex to have a real impact, and didn't adequately deal with the many complex factors associated with business rate retention (Schmuecker and Woods 2011).

- The most significant shift towards regional policy during this period was the devolution of power to Scotland, Northern Ireland and Wales (which has since been built upon). Within England, regional development agencies (RDAs) were the major focus of regional policy – these were well-resourced but lacked other forms of power and weren't accountable to or integrated with local government. The 2004 referendum on a (very weak) North East assembly was overwhelmingly lost in a referendum and so they never gained the necessary accountability. The primary legislation enabling combined authorities was passed by the Labour government in 2009, but the first (the Greater Manchester Combined Authority) came into existence under the subsequent coalition government in 2011.
- Post-2010 saw a significant weakening of regional policy in England, but there was a proliferation of small-scale initiatives. The RDAs were immediately scrapped by the new Coalition government and replaced by far looser, less powerful and significantly underfunded local enterprise partnerships (LEPs). However, these LEPs had the advantage of being at smaller spatial scales than RDAs, and therefore more closely matched "travel-to-work" areas[3] – an important type of functional economic area for economic policy. Economic development has been funded by a range of competitive funding processes and deals – the regional growth fund, city deals and growth deals. Business rate retention has been pushed forward as a form of regional policy on the premise that it will 'incentivise growth' – pilots are currently under way, but so far have mainly succeeded only in giving the capital a £240 million funding boost in a single year (TfL 2017). The devolution of business rates in order to incentivise growth is itself fundamentally flawed as a concept, which recent studies have shown (Sandford 2017).
- Since 2017, regional policy in England has taken on a new dimension with the election of new metro mayors to govern major city regions. While combined authorities were rolled out from 2011 onwards, they proliferated significantly in 2017, and many were granted new powers and high-profile, directly elected metro mayors. Because of their geography and their statutory footing, combined authorities (together with LEPs) are well placed to deliver economic growth and tie this in with public service reform, as has been consistently argued by leading local authorities (LGIT 2014). These mayoral combined authorities do have some power, but will need far more in order to deliver the change required (Raikes 2017b).

In recent years, there has also been a significant strand of EU policy directed at reducing regional inequalities. This includes most recently the European Regional Development Fund (ERDF), which allocated economic development funding to sub-regions with the lowest GDP per capita. The government has proposed to replace this with its Shared Prosperity Fund, although details of this are currently unclear (Henry and Morris 2019).

Aligning industrial strategy and regional policy

In summary, there have clearly been many different initiatives that have sought to support industries and regions in the post-war period, but they have, for the most part, been underpowered and piecemeal. The notable exceptions are devolution to Scotland, Northern Ireland and Wales – although recent devolution to mayoral combined authorities in England also has significant potential.

3 Areas which are relatively self-contained in terms of commuting patterns.

But while the policies that have *explicitly* been described as industrial strategy and regional policy have had little impact on regions or industries, other economic policies have done so dramatically in practice. Governments may have used 'horizontal' policies and substituted the words 'industrial strategy' for 'economic strategy' – but their policies have given significant support for certain industries over others. Likewise, central government has not put a large amount of resource behind policies that can be *explicitly* described as 'regional', but their policies have certainly benefited some regions over others.

- There are *non-strategic* actions that explicitly support particular industries – which in turn have a major impact on regional growth. This includes direct government relationships with major car manufacturers, as well as pharmaceutical and aerospace firms. There have also been long-standing 'sector strategies' for life sciences and advanced manufacturing sectors. The relationship with the finance sector is also notably close – there is a City minister, and the government bought shares in the major UK banks following the financial crisis in 2008. All these policies have an impact on the regional economy in which these industries are based.
- There are *non-strategic* actions that support particular regions – and in turn support the industries concentrated there. Transport spending in London has been consistently twice as high per capita as in the North; and 57.8 per cent of government spending on R&D goes to London, the East and the South East of England (ONS 2019b). The Northern Powerhouse and Midlands Engine agendas are also examples of emerging regional policy. However, it is perhaps misleading to describe this activity as a regional strategy in its current form.
- There are major economic policies which are 'horizontal', and 'spatially blind' in name, but actually benefit particular sectors and regions in effect – despite not being explicitly designed to do so. This applies to tax policy: for example, when 57.8 per cent of those paying the top rate of tax live in London and the South East, cutting this tax has a regional effect as well as an effect on people's incomes (ONS 2019c). And it also applies to monetary policy: London and the South East gained disproportionately from quantitative easing, because a disproportionate amount of UK wealth is concentrated there (Bunn et al 2018).

The net result of all of these policies is significant and underpins the UK's regional problem: there may not have been much of an explicit industrial strategy or regional policy in the UK, but government actions and national economic policy have benefited London and the South East – and small group of sectors largely concentrated there – far more than any other region.

For this reason, it is particularly welcome that the government is introducing an industrial strategy with a strong focus on 'place'. This has the potential to bring forward a coherent approach to industrial strategy that is tied to regional policy initiatives such as the Northern Powerhouse.

1.3 THE NORTHERN POWERHOUSE AND INDUSTRIAL STRATEGY

Industrial strategy

The government's introduction of an explicit 'industrial strategy' in 2016 is a very welcome development. This does not mark a dramatic break with previous policy, but an evolution: as outlined above, economic policy has long favoured particular industries (albeit less explicitly), and the 'five foundations' set out in the government's white paper match up to long-standing 'drivers of growth' referred to in mainstream economic policy: places, people, ideas, infrastructure and business environment – described in further detail below (BEIS 2017; BEIS et al 2015; OECD 2012). But there are several new developments since 2016 that are especially noteworthy.

- The advent of the department for Business Energy and Industrial Strategy (BEIS) is itself an important step forward. It marks a small move away from a situation where economic development was overwhelmingly dominated by the Treasury – which tends to prioritise short-term fiscal considerations – and various permutations of the 'business' department, which have always been underpowered and spread too thinly between different responsibilities. The Treasury of course retains significant power over economic policy, and will still make the crucial spending decisions, but this new department marks an improvement on the previous situation.
- The introduction of a 'mission-oriented' industrial strategy, framed around 'grand challenges', is also to be welcomed. Approaches to industrial strategy in the past have been accused of 'picking winners' – favouring defined industries. This arguably held back innovation in these industries while depriving others of necessary support. In contrast, a 'missions' approach involves government setting out what economic objectives they aim to achieve and then supporting any business, from any sector, that can help achieve it (Mazzucatto 2016). The government has framed its 'missions' as 'grand challenges', which are: artificial intelligence and data, an ageing society, clean growth, and the future of mobility.

However, the government's current approach doesn't go far enough. In order to have the desired effect on productivity and economic growth it must also focus on economic justice (see box 1); it must target the 'everyday economy' sectors in which most people work (retail, hospitality and social care, for example) and it should also concentrate on diversifying our industrial base (Jacobs et al 2017).

Box 1: Inclusive growth and economic justice

The 'inclusive growth' debate has arisen in recent years and is an important consideration for a Northern Industrial Strategy. Economic policy has come under criticism for being overly focused on generating growth in output and/or productivity and expecting the benefits of this growth to accrue to the people who live or work where that growth happens (Stiglitz et al 2009). This is sometimes referred to (pejoratively) as 'trickle down' or 'trickle out' economics (CEJ 2018). It has also been acknowledged that economic growth is in fact held back if the type of growth generated is too exclusive (Lupton and Hughes 2017).

The inclusive growth agenda seeks to address this concern, by prioritising forms of growth which do benefit the people working or living where that growth occurs. There are various ways of doing so: improving the skills of local residents so that they can benefit from the jobs created locally is one of the more common solutions proposed; but at the more radical end of the spectrum, it can include reforming 'everyday economy' sectors such as social care, or developing supply chains to increase demand in an areas' economy (Jacobs et al 2017). 'Economic justice' is a broader term which includes this definition but is more comprehensive in its scope (CEJ 2018).

The evidence suggests that economic growth and economic justice are not antagonistic – in fact, they are mutually supportive (ibid). Evidence from across developed countries shows that more inclusive economies are more productive and resilient (OECD 2016). This is well recognised by major institutions such as the OECD and the IMF (OECD 2016; Lagarde 2013). This evidence shows that economic justice must be an objective if the North is to have any kind of prosperous economy.

In its industrial strategy, the government recognises the importance of economic geography (or 'place'), and *local* industrial strategies are a particularly welcome feature. The secretary of state for business energy and industrial strategy, Greg Clarke, has personally emphasised this importance, saying in the foreword to the 2016 green paper: "Britain is one of the most centralised countries in the world, but this has not led to places being uniformly prosperous" (BEIS 2016). This agenda is led from the cities and local growth unit (CLGU) – which spans BEIS and the ministry of housing, communities and local government (MHCLG).

In addition, the government has recommended that local industrial strategies are drawn up across the country, with three 'trailblazers' in Greater Manchester, the West Midlands and the Oxford-Milton Keynes-Cambridge corridor. These three local industrial strategies are co-produced by central government and the respective combined authorities and LEPs. Greater Manchester's local industrial strategy was published in June 2019 and set out the long-term priorities for the city region (GM and the NP 2019). In the rest of the country, the local industrial strategies will also be drawn up by LEPs, but with less central government involvement and at a slower pace.

The government has also pledged to increase R&D spending as part of its industrial strategy. The UK has historically underinvested in R&D compared to other developed countries, and the government plans to increase spending to 2.4 per cent of GDP by 2027, and to increase funding by £4.7 billion over four years, as part of its industrial strategy (BEIS et al 2018). The Industrial Strategy Challenge Fund has been set out to help achieve this goal, and allocates funding aligned to the four areas where the UK has a particular strength (artificial intelligence and data, ageing society, clean growth, and the future of mobility). There are a further 15 challenges, including the Faraday battery challenge (which will establish new facilities in battery production, use and recycling), and a quantum technologies 'pioneer' fund to translate quantum science into new products and devices (Innovate UK et al 2017).

Finally, the Shared Prosperity Fund is a crucial stream of funding that is closely related to industrial strategy – and particularly to local industrial strategies. As noted earlier, this will replace current structural funds that the UK receives from the EU as and when the UK leaves the bloc – currently €2.4 billion a year. The government is still developing its thinking on the nature of this fund, and has yet to go out to consultation. Local industrial strategies are being prepared with the expectation that they may at some point in future have a bearing on the allocation of these funds. IPPR have previously recommended that this fund is distributed on the basis of a wider set of measures than GDP per capita, that its management should be devolved to the local level, that local communities should have direct input into how the funds are designed and delivered, and that some of the funds are directed to help foster community wealth building at the neighbourhood level (Henry and Morris 2019).

The Northern Powerhouse agenda

The Northern Powerhouse agenda has been an important feature of economic policy in central government and in the North since 2014. It was Initially led out of central government and narrowly focused on productivity, cities and frontier sectors; but in five years northern leaders have pushed for a more comprehensive agenda, focusing on quality of life, education, health and the diversity of the 'whole North' economy (Raikes et al 2018). Perhaps most importantly, devolution has enabled the North to lead on this agenda – which will be necessary to sustain it, given central government's track record on regional policy.

The government's industrial strategy white paper in 2018 highlighted the importance of regions and of the Northern Powerhouse agenda. In this document, the government states that:

> ***"Such regional approaches can help to deepen pools of skilled labour, drive competition, and increase market access. There are also policy benefits to working at scale, including logistics and the promotion of the UK on the world stage."***
> BEIS 2017

This is also an important development and is in line with IPPR North's previous research (Raikes et al 2016). In addition, the government has signalled they will refresh 2016's Northern Powerhouse Strategy – an opportunity to set out a more comprehensive economic plan for the North with local and regional industrial strategies at its heart.

Finally, the North has itself been developing in parallel with central government. A strong consensus has emerged on the North's 'prime' and 'enabling' industrial capabilities, based on the 2016 Northern Powerhouse Independent Economic Review (IER). These prime capabilities are advanced manufacturing, energy, health innovation and digital (discussed in section 2) while the enabling capabilities are financial and professional services, logistics and higher education.

There have also been significant institutional developments: Transport for the North has become a statutory pan-regional transport body and has set out its strategic transport plan and investment pipeline (TfN 2019). The NP11 – a collaboration between the North's 11 LEPs – has been set up and is focusing its activity on innovation, trade and investment, supply chains and 'place'. The Convention of the North also met for the first time in September 2018 and brought together the North's civic leaders and a wide group of stakeholders. And IPPR North has convened the Great North Plan steering group, which discusses collaboration at the northern level.

Box 2: The UK's regional problem and the reality of the 'North-South divide'

The UK's severe regional inequality is often referred to as the 'North-South divide'. This concept generalises the North as run-down and 'poor', while the South is generalised as affluent.

It is true to say that, in terms of productivity, the UK is the most geographically imbalanced country of its size in the developed world (McCann 2016). But to simplify this as a 'North-South divide' does not reflect the reality of the UK's regional problem. Firstly, the most appropriate regional geography would group the UK into three parts: London, the South East and parts of the East of England can be grouped together (they have a strong relationship, similar structures, and are 'decoupling' from the rest of the economy) (Iammarino et al 2018; McCann 2016). The rest of England (including the South West, the Midlands and the North), Wales and Northern Ireland are also similar. Finally, Scotland appears to be diverging from both these other blocs (McCann 2016).

But this only presents a picture based on productivity and GDP per capita statistics; these are important measures, but not the whole story. A wider analysis of the statistics reveals a profoundly different picture: London has the highest rates of poverty and inequality in the UK due to its housing costs, and the South West has extreme problems with deprivation too. This doesn't easily fit within a simplistic conception of a North-South divide.

Looking at this whole picture, it is clear that the UK does have a severe regional problem. But all regions – including London – are economically dysfunctional; all of them need intervention and devolution, and a more regionally 'balanced' economy would benefit all parts of the UK.

2. THE NORTH'S ECONOMIC STRENGTHS

The North's relative underperformance is not a mark of its lacking potential – far from it. The striking feature of the North's economic performance is that it does not match up to its rich asset base, its economic geography and its industrial specialisms. This section will assess the economic strengths the North has, referred to as its 'capabilities', and which a Northern Industrial Strategy needs to develop and build upon. This rests on an understanding of the North's place in the world – how the North compares to similar regions overseas, and how northern industries sit within global value chains that extend across continents.

2.1 PLACES

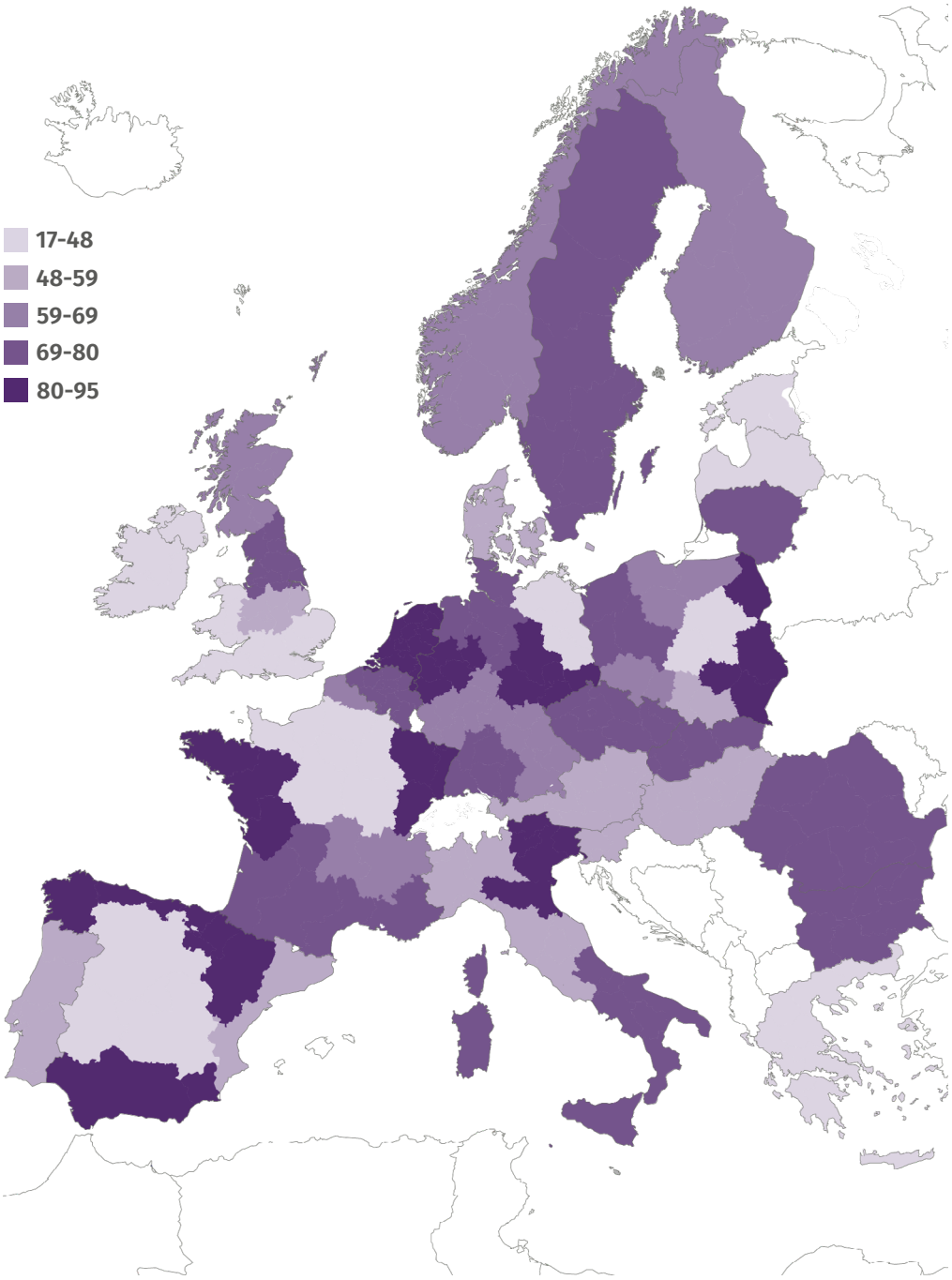
Of the government's 'five foundations', 'places' is the most cross-cutting and the most important for this project. To develop an industrial strategy, it is essential to understand how and why particular industries work within and between particular places.

- The North is a collection of places that can and should work together more effectively. The city regions are vital, but there is a range of assets that need to be fully utilised – and these are in the North's towns and national parks and on its coasts as well as city centres (TFN 2019). The Pennine area, with Leeds and Manchester at its heart, is especially appropriate for the kind of 'polycentric' development that is seen in similar regions overseas – where different cities and towns have different but complementary functions, in contrast to city regions such as London, which is 'monocentric' in nature (Champion 2012; Hall and Pain 2007).
- Other regions that are similar to the North operate much more effectively as a cohesive whole. As figure 2.1 shows, the North has the geographical configuration to work together (or 'morphological polycentricity'), but research shows that these areas don't work together as well as they could. The North also compares poorly to similar regions overseas, like the Randstad in the Netherlands, and the Rhine Ruhr region of Germany.
- The North's regions and industries are also part of a global economic geography – but the North is in a challenging position. Many parts of the North are dependent on value being added outside of the region, and do not add as much value to these global value chains as similar regions overseas do (Wannicke 2018; Los and Chen 2018).

The other four foundations are best analysed geographically. Below, we set out how the North compares to other countries.

FIGURE 2.1: THE NORTH HAS THE POTENTIAL TO WORK MORE EFFICIENTLY AS A POLYCENTRIC REGION

Indicator of morphological polycentricity – by region



Source: IGEAT et al 2007

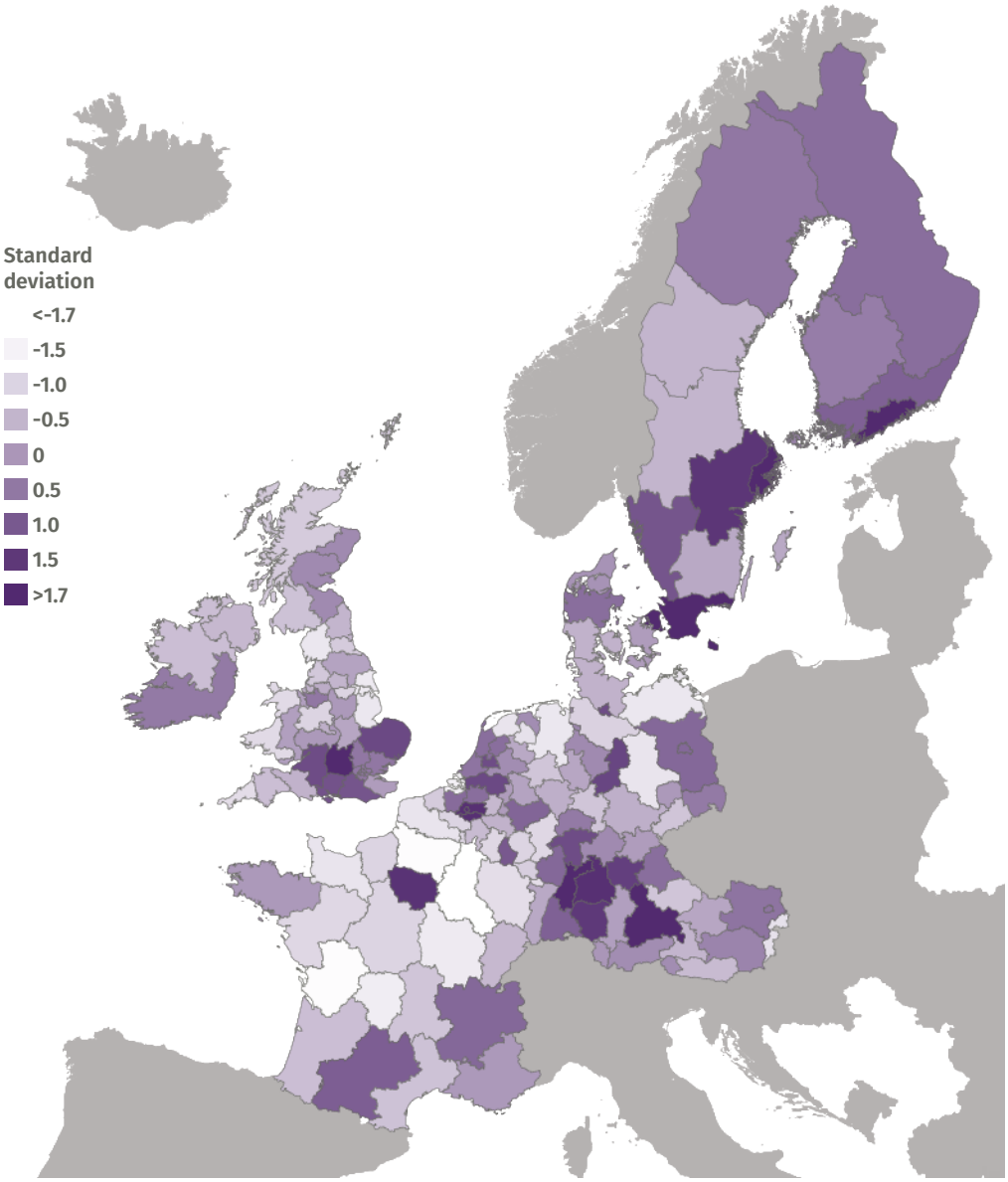
2.2 'FOUNDATIONS' AND DRIVERS OF ECONOMIC GROWTH

Ideas

- Innovation and R&D, which the government calls 'ideas' in its industrial strategy papers, is widely regarded as an essential factor for increasing economic growth (OECD 2012).
- Cumbria, East Yorkshire and Northern Lincolnshire, and South Yorkshire have particularly low R&D intensity, as figure 2.2 shows – comparable with parts of France, but far lower than most of Germany and the Netherlands – and, as noted earlier, public investment in R&D is largely concentrated in the 'golden triangle' of London, Oxford and Cambridge.

FIGURE 2.2: WITH THE EXCEPTION OF CHESHIRE, NORTHERN AREAS TEND TO HAVE A LOWER RATE OF INNOVATION THAN SIMILAR REGIONS IN COMPARATOR COUNTRIES – LARGELY BECAUSE GOVERNMENT SPENDING IN R&D IS CONCENTRATED IN THE SOUTH EAST

R&D intensity (total expenditure as a per cent of GDP), by NUTS2 regions, 2015



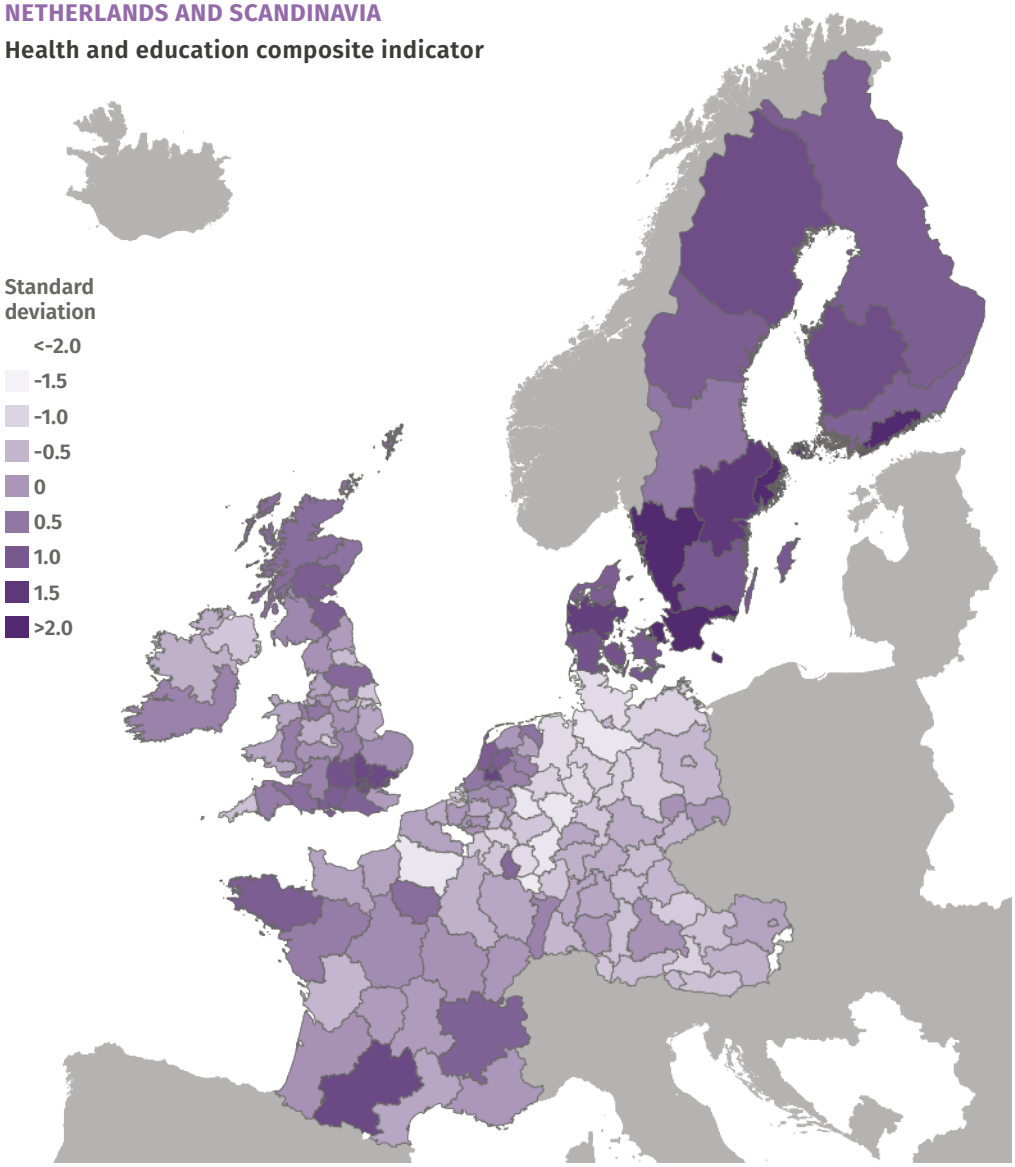
Source: Eurostat 2018

People

- Conventionally, economists use the concept of 'human capital' to understand the value of people within the economy, and higher skills are generally associated with higher productivity and inclusion (Round 2018; OECD 2012).
- But health and wellbeing are also well established as important foundations of an effective economy. There is a complementary relationship between healthy people and a more productive economy, which is now relatively well understood, albeit not yet a major feature in economic policy (Coyle et al 2018; Raikes et al 2018).
- As figure 2.3 shows, health and education levels in the North are broadly comparable with developed countries and high in parts of Yorkshire according to these measures, although they lag behind other parts of the UK, Netherlands and Scandinavia.

FIGURE 2.3: HEALTH AND EDUCATION LEVELS IN THE NORTH ARE BROADLY COMPARABLE WITH OTHER DEVELOPED COUNTRIES, ALTHOUGH THEY LAG BEHIND PARTS OF THE UK, NETHERLANDS AND SCANDINAVIA

Health and education composite indicator



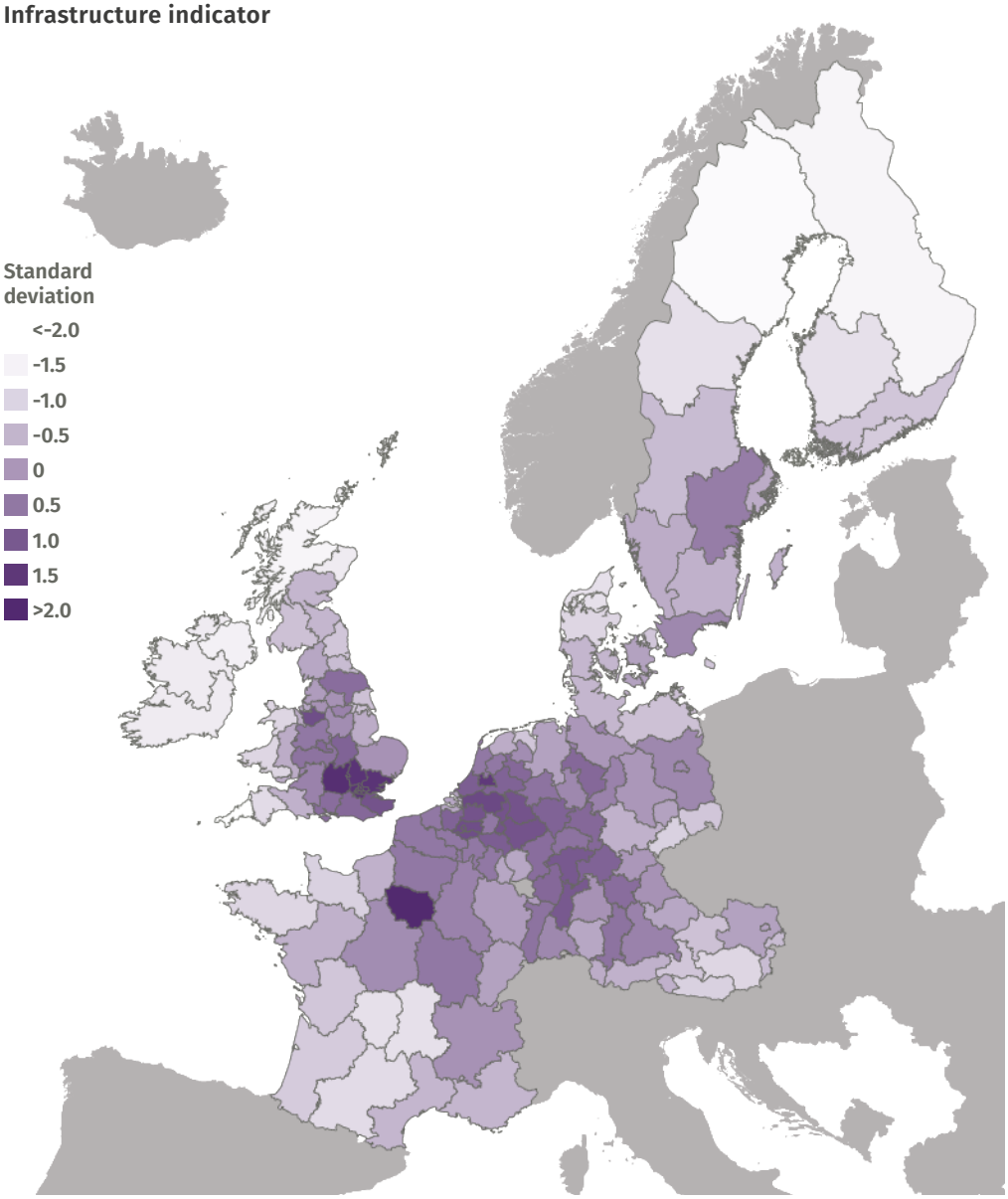
Source: Eurostat 2018

Infrastructure

- All economies need effective infrastructure to function – transport infrastructure is particularly important but digital infrastructure is now also essential.
- Social infrastructure, including the provision of healthcare and education services (such as schools, hospitals, primary care and further/higher education), are also an integral component of a prosperous economy.
- As figure 2.4 shows, the North will need significantly more investment in physical infrastructure: against this indicator, most parts of the North lag significantly behind many areas in London and the South East, as well as large parts of France, Germany and the Netherlands.

FIGURE 2.4: INFRASTRUCTURE IN THE NORTH IS RELATIVELY POOR COMPARED TO THE MORE PROSPEROUS NORTH WEST EUROPEAN COUNTRIES

Infrastructure indicator



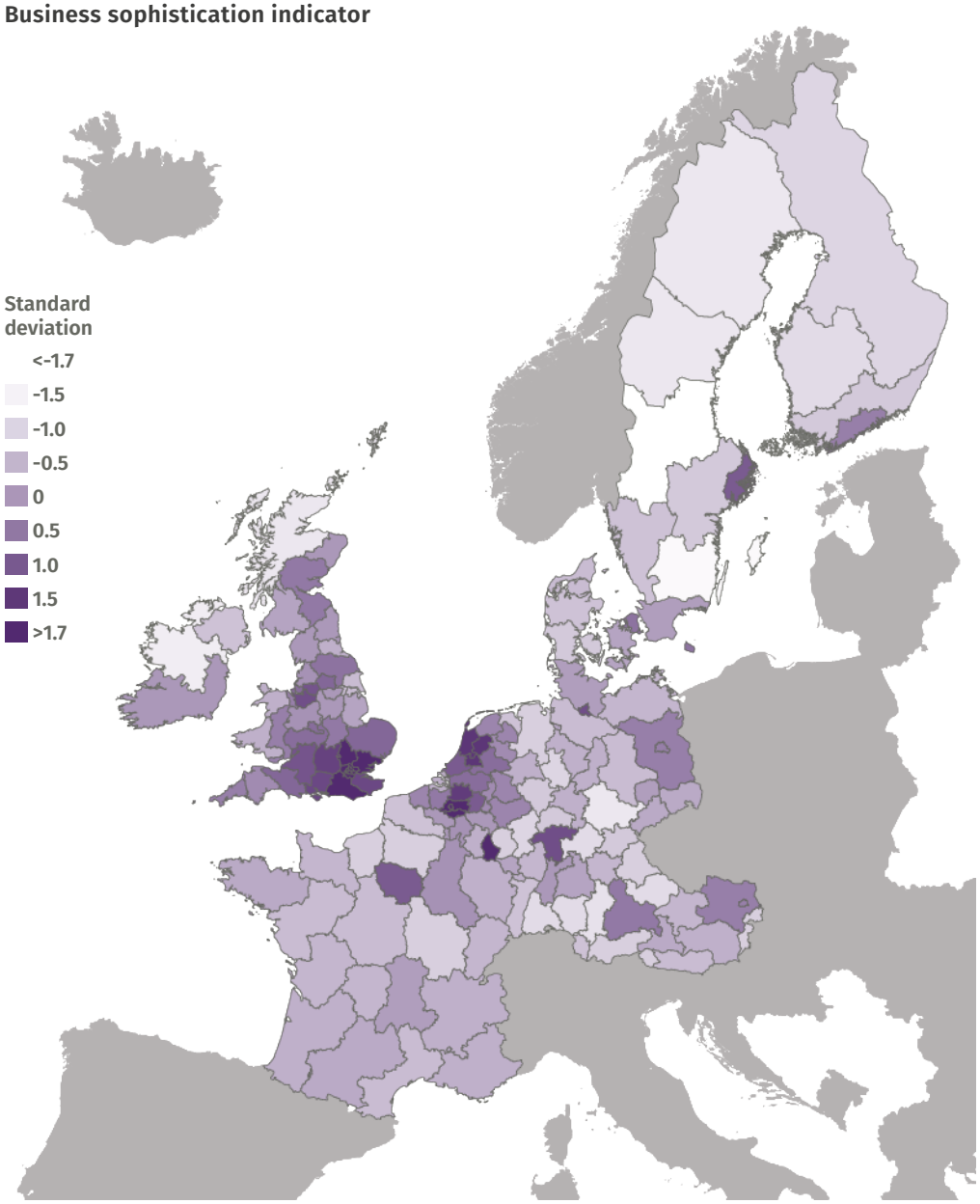
Source: Eurostat 2018

Business environment

- The general business environment is also crucial for businesses to succeed. The research shows that businesses must be sophisticated and innovative if they are to become more productive (Annoni et al 2017).
- The North benefits from UK-wide favourable business conditions, but northern businesses need support to innovate, up-scale and export. As figure 2.5 shows, business sophistication is relatively high in Cheshire and to a lesser extent parts of Yorkshire, compared to regions overseas; but it is lower than areas in the South East of England.

FIGURE 2.5: THE NORTH'S BUSINESS SOPHISTICATION TENDS TO BE LOWER THAN COMPARABLE REGIONS IN EUROPE AND MUCH LOWER THAN AREAS IN THE SOUTH OF ENGLAND

Business sophistication indicator



Source: Eurostat 2018

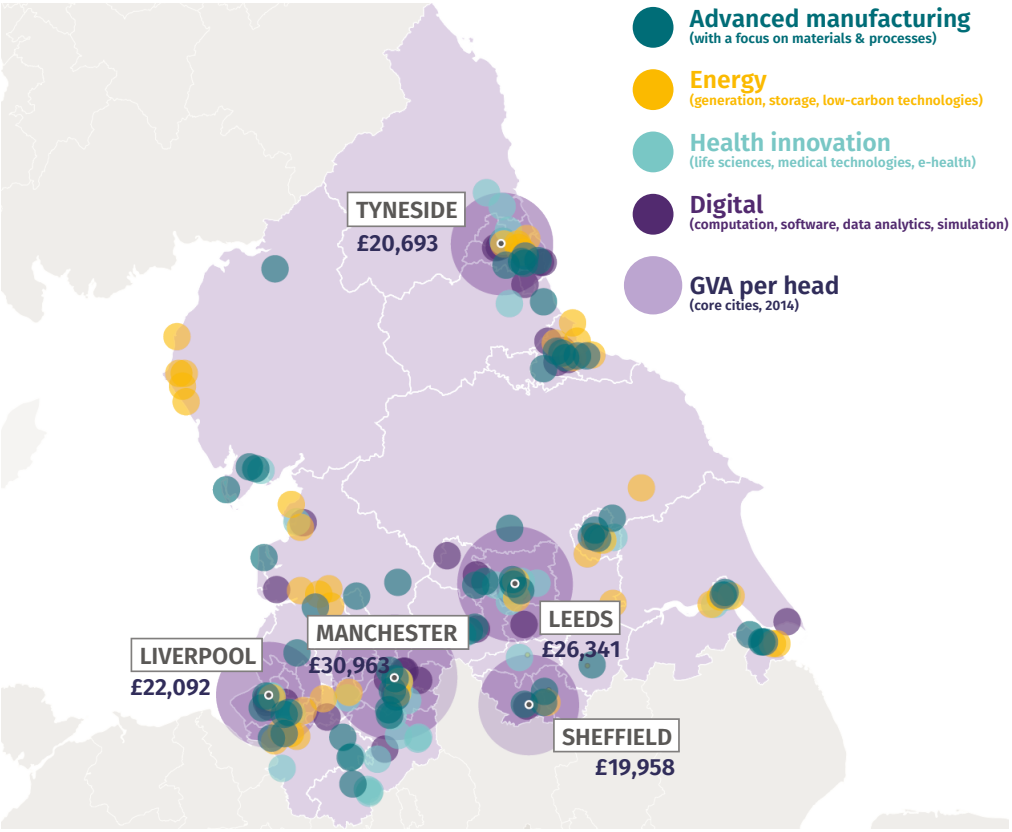
2.3 NORTHERN 'PRIME CAPABILITIES'

There are four sectors – or 'prime capabilities' – that stakeholders agree are the North's strengths (SQW and TfN 2016). The way these prime capabilities interact with each another and other sectors is also an important consideration; for example, there is important complementarity between health innovation and digital sectors, and financial and professional services perform a key enabling role for all sectors (Raikes and Cox 2016).

The geography and interaction of these sectors should therefore be a key point of focus for a Northern Industrial Strategy. These capabilities are often not in the same place; only the digital capability is primarily metropolitan, and financial and professional services tends to concentrate or cluster within city centres, as figure 2.6 shows. These sectors are described in greater detail below.

FIGURE 2.6: THE NORTH'S PRIME CAPABILITIES ARE DISTRIBUTED BETWEEN DIFFERENT PLACES – CITIES AND TOWNS

Northern prime capabilities



Source: IPPR North analysis of SQW and TfN 2016

Energy

One-third (31.3 per cent) of UK renewable energy is generated in the North (BEIS 2018). Hydrogen is generated in the Merseyside and the Tees Valley – it can be stored in salt caverns in Tees Valley and it can be used in a range of ways, from replacing natural gas in Leeds to powering trains. There are tidal assets on each coast and some of the largest offshore windfarms in the world are in the Walney Extension off Cumbria's coast and Hornsea off the East Coast near Hull. There are also emerging innovations – such as in energy storage and smart grid systems (Baxter and Cox 2017).

Health innovation

The North also has significant strengths in the health innovation sector: it accounts for 19 per cent of the UK's total biopharma employment, 21 per cent of medtech employment and 28 per cent of digital health employment (OLS 2018). Clusters are dotted around the North's geography: the major cities have innovative universities working with hospitals and companies to develop new treatments, and there are several clusters outside of the major cities too – for example, Alderley Park in Cheshire. Meanwhile, the North's public sector health force employs half a million people (Raikes 2016a). The opportunity lies in joining up all of this activity, and devolution could help facilitate it, as appears to be happening in Greater Manchester (ibid; Quilter-Pinner 2016).

Digital

The digital sector contributes £9.9 billion (5.2 per cent) to the North's economy and employs 283,500 workers (Raikes 2017). Seven of the UK's 27 key tech clusters are in the North, and – while the North's major city regions dominate – Sunderland has the highest rate of digital tech business start-ups in the UK, and Middlesbrough is also thriving (SQW and TFN 2016). The North's particular strengths lie in cognitive computation, simulation/modelling, financial technology, cyber security, high performance computing, data analytics (big data), and media (ibid).

Advanced manufacturing

The North's manufacturing sector remains important and has been transformed significantly from its heavy industrial past. High-tech manufacturing employs half a million people in the North – 19.7 per cent of the UK total (ONS 2018b). Different places have different strengths: the automotive sector thrives in the North East, Cheshire and Warrington and Liverpool City Region; while there are strengths in aerospace in Lancashire, offshore engineering in the Tees Valley, marine engineering in Cumbria, and high-precision engineering in Sheffield City Region – particularly in the advanced manufacturing research centre (AMRC)(SQW and TfN 2016). Notably, the advanced 2D material graphene was discovered in Greater Manchester.

The North's enabling capabilities are also an essential part of its economy – they are large employers in their own right and support the North's prime capabilities and the wider economy.

Financial and professional services

Financial and professional services in the North tend to perform more of an 'enabling' function (supporting businesses with accountancy or legal services) rather than trading internationally, as these same sectors do in London (Raikes and Cox 2016). Knowledge-intensive business services employ 800,000 people in the North, more than half of whom work in Leeds City Region or Greater Manchester.

Higher education

The North's universities contribute to local society, generate spin-outs and spill-overs, and sit at the heart of sectors such as health innovation and advanced manufacturing. They contribute £16.5 billion to the North's economy through direct spending, student spending and knock-on effects in other industries, and they contribute 169,000 jobs directly or indirectly (UUK 2014).

Logistics

The North makes good economic use of its two coastlines, with eight major ports, which are particularly important for sectors such as renewable energy, automotive technologies and process industries (Laybourn-Langton et al 2016). Freight and distribution activities are also important sectors across the wider North (SQW and TfN 2016). Working together, these sectors are vital for the North's trade in goods, which amounts to £59 billion in exports and £86 billion in imports in 2018 (HMRC 2019).

3. INDUSTRIAL STRATEGY AND REGIONAL POLICY OVERSEAS

There are many reasons why the North's significant asset base doesn't generate the growth and prosperity it should. IPPR North has argued consistently that centralised governance has resulted in successive governments investing too little in the North compared to London and the South East, and that economic policy more broadly has favoured particular sectors in London, and the 'golden triangle' it makes up with Oxford and Cambridge (IPPR North and the NEFC 2012).

In stark contrast to the North, similar regions overseas have held economic powers in their own region. As a result, they have undertaken industrial strategies and economic policies that have managed transitions more effectively and with far less disruption than has been seen in the UK. Many of these regions outperform the North, despite being very similar in other ways, and are now the powerhouses of their countries' economies. Below, we analyse four case studies which have important lessons for the UK and the North.

3.1 GERMANY: NORTH RHINE-WESTPHALIA

Germany is very different to the UK in terms of its governance. It is a federal nation, where regions have a high degree of autonomy, and significant input into federal government policy. Regions have power over economic development and related policy areas. They also have a high degree of fiscal autonomy, and – as in other countries with fiscal autonomy – there is a process of equalisation between regions in order to address funding imbalances.

The region of North Rhine-Westphalia (NRW) and the north of England have some striking similarities, and NRW therefore serves as an important lesson in how regional economic policy could work in the North.

NRW has a population slightly larger than that of the North, at 17.9 million (compared to 15.5 million in the North) (EC 2019). Both are exporting regions: NRW accounts for 19.0 per cent of national exports, compared to 17.5 per cent in the North (ibid; HMRC 2019). NRW is also a polycentric region – no one city dominates; rather, its economy rests upon a cluster of city regions including Düsseldorf, Cologne, Dortmund, and Essen (IGEAT et al 2007). Like the North, it has undergone decades of structural changes, and its GDP per capita does remain below the German national average (EC 2019).

Here, however, most similarities end.

- NRW has retained a far stronger position relative to the North. Its economy is much larger, accounting for €693 billion, compared to €441 billion in the North; and it receives the most foreign direct investment (FDI) of any German region, at 28.5 per cent of the national total, whereas the North tends to be under-represented in FDI statistics (Eurostat 2019; EC 2019; DIT 2019).[4]
- The region remains highly industrialised compared to the North (albeit less so than the German average) – although like the North its services, transport and

4 Comparable figures are not produced in the UK.

logistics sectors are geared toward supporting its industrial base, as opposed to trading internationally or serving consumers (EC 2019).

- Transport networks in the Rhine-Ruhr region are dense and effective: Düsseldorf has the highest highway and rail density in Europe and the motorway in and around Cologne is the busiest expressway in Germany (Prologis 2019).
- Its education and innovation assets are significant: it has 52 universities, a diverse range of federal and vocational educational organisations, three national research centres, six institutes of the Fraunhofer Society and 11 institutes of the Max-Planck society.

A large part of this difference between the north of England and NRW can be explained by the region's response to industrial change – which the North didn't have the power to undertake. Both regions faced crises in their industrial bases, but central government policy in the UK sought to shock industries into sudden changes, while the approach in NRW was far more gradual.

Bross and Walter (2000) describe the NRW approach in greater detail: in NRW, industrial and technology policy mobilised resources – from within the region, from other German states and from the EU – and this was used to diversify and modernise its industrial base. New industries and clusters emerged (especially environmental technologies), business structures became more diverse, the service sector rose (and notably grew to serve the production sector), productivity increased, and firm start-up and survival rates were consistently above the national average during the transition phase (ibid).

All tiers of government worked together in order to produce this relatively positive outcome. In Germany it is the mission of the state – at all levels – to secure the productivity of industry in the medium and long term. During this time, federal policies actually tended not to favour NRW, and were notably designed to sustain the structure of the old industries – which arguably held back modernisation in the region (ibid).

The regional government proved better able to work with industry, despite not having such significant financial resources. To do so, between 1970 and the 1990s, the regional government (ibid):

- coordinated resources, built trust and moderated between actors within the region, supporting innovation networks
- coordinated funding from outside the region – from the federal state, and especially from the EU
- developed its own bottom-up technology policy in conjunction with unions, companies and political groups in order to diversify the industrial base, promote the development of new technologies and accelerate technological change
- developed a shared vision and identity for the region – moving away from coal and heavy industry – using education, culture and international networking.

Innovation policies in NRW are designed at three levels: the EU, the federal level, and the regional level. NRW has a 6-year strategy (2014–2020) which sets out to increase applied research and innovation while building capacity more broadly across the economy. It was developed by the region's Ministry of Innovation, Science and Research together with other departments involved in ERDF funding (EC 2019). It is partly mission-oriented (focusing on major societal challenges such as climate protection, resource efficiency or intelligent, eco-friendly and integrated mobility) and partly designed to build on the specialisms and strengths of the region (in areas such as new materials, machinery and plant engineering and life sciences). Knowledge and technology transfer are of particular importance (ibid).

3.2 FRANCE

France is perhaps the country most similar to the UK, both in terms of its relatively centralised governance and its regional imbalances. France is dominated by Paris' economy, and central government is dominant, but there is still far greater local and regional power than the UK (OECD 2018). France's approach is therefore particularly instructive, as – unlike Germany – it is achievable in the UK without significant constitutional change.

France has gone through three broad phases with regard to industrial strategy. Like the UK, before the 1980s, France had an interventionist, top-down and 'vertical' economic policy – explicitly using central government to favour particular industries, in what has become known as distinctively 'dirigiste'. However, in the 1980s there was a shift toward less interventionist, laissez-faire, 'horizontal' strategies. In the 2000s, a more interventionist and vertical approach was once again adopted, but unlike previous policies, this 'new industrial policy' approach targets small and medium-sized enterprises (SMEs) and technological innovation (TUC 2009).

The governance of economic policy is also particularly instructive for the North. There are now three layers of governance active in economic development in France: central, regional, and local (Zaparucha and Sadeski 2018).

- **Central government** decides which industries to focus on and has a state representative in the regions to oversee national policy.
- **Regions** are strategic leaders of the regional economic development policy. A regional council is accountable for developing plans and coordinating the different actors and tiers of government involved. This regional level has gained power in recent years in terms of its funding and implementation as well as strategy; regional funding and city funding from regions now exceeds that coming from central state in some key areas.
- **The sub-regional tier** is powerful and has taken on significantly more powers in recent years. The local level has significant responsibilities over relevant areas of policy, such as infrastructure, and since 2015 there has been a decentralisation to sub-regions of many economic development powers, such as innovation and internationalisation of SMEs.

The vertical or industrial policy element of economic policy varies between regions – in the Loire, for example, it is very strong. The policy mix here includes a range of interventions, such as tax credits, loans or guarantees (usually via the state-run Bpifrance bank), or direct grants targeting innovation, skills and internationalisation strategies. These are used to: foster cluster development, rapidly deploy and up-scale technologies, and support the 'entrepreneurial discovery' process. Policy is often underpinned by intelligence and framed by smart specialisation and global value chain concepts.[5] The French approach is regarded as highly collaborative between a broad range of stakeholders, as well as the three tiers of government.

3.3 FINLAND

Finland also has some lessons for the UK – particularly for the initial phase of development at the regional tier. As in the UK, Finland's national policies play a strong role; but unlike the UK, the local level is much more powerful. The regional tier isn't particularly powerful in its own right (it doesn't hold any tax powers for example), but it does have an important role. Izsak and Romanainen (2018) describe the governance of Finland's industrial strategy in the case of the Pirkmanaa region.

5 See McCann and Ortega-Argilés (2016) for a discussion of the smart specialisation concept.

- There is a national framework, but the content of regional policy is determined locally. Local authorities and central government's regional representatives are the most important actors.
- A 'regional council' acts as a platform for dialogue between tiers and a "coordination platform to find synergies among the municipal strategies" (ibid). This regional and local experimentation in turn influence national policy. There are 'growth pacts' between national government and cities.
- There is a regional economic development agency owned by municipalities. These tend to be quite lean in capacity – there are 12 people working on economic development in Pirkanmaa (of 34 total), and 40 people work in the region's economic development agency.
- The regional council grants financing to projects with themes connected to improving the competitiveness of SME business activities and promoting a low-carbon economy. It has, however, very limited resources to implement its policies. It is the national level that funds enterprises through innovation or entrepreneurship support schemes.

The policy mix is very fluid, inclusive and largely 'horizontal'.

- The general policy goal is to create an open and collaborative business environment. The main thrust of policy is toward building industrial and innovation 'platforms' on which industries can innovate, reinvent themselves, and adapt to global competition. This platform approach tends to stress the importance of co-creation, communities, talents and global ecosystems – as opposed to traditional cluster policies, which focused on building linkages and cooperation between companies and research organisations.
- Initiatives are developed discursively and in collaboration, as opposed to having a single actor with binding policies and directives. Agencies deliver policy and universities are often central to innovation – especially in clusters. There is also a strong culture of innovation and experimentation.
- The industrial policy mix relies mostly on a project-based implementation, designed to address digitalisation, servitisation, the bio-economy and green industries. Indirect grants dominate – policy has moved away from special tax breaks for multinationals or big companies, due to the experience of Nokia and Microsoft draining graduates and dominating the economy. Horizontal interventions include improving skills and entrepreneurship, and using land to foster industrial development

3.4 ITALY: LOMBARDY

Italy has a high degree of regional autonomy and has some strong regional governments. Regions are therefore particularly strong actors in Italian industrial strategy, and because of the high degree of devolved power, approaches do vary. Industrial strategies are accountable to the regional government, such as a president and council; decision-making is binding, and they are the main source of funding. Policy is often centralised within the region, but it can also be described as participative and inclusive.

The Lombardy region exemplifies one of the more devolved approaches of Italian regions. This region is home to 10 million people. There are two general directorates involved in industrial strategy: the General Directorate for University, Research and Open Innovation (DG UROI) and the General Directorate for Economic Development (DG ED). There is also a proliferation of regional agencies and intermediary independent organisations, with processes set up to manage different interests. The private sector is included, but unions are not. There is a high degree of fiscal autonomy, although funding is also drawn from national

and EU sources. Local government has a role in spatial planning and is therefore involved in any infrastructure.

Policymakers have taken an approach which includes coordinating between the different actors to adapt to industrial development and structural adjustments. Industrial strategy in Italy combines horizontal and vertical policy measures and can be quite diverse in its approach (Elli and Hinojosa 2018).

- There are a number of vertical measures undertaken by regions, and industrial strategies are often well recognised. These measures include supporting industries with grants, using financial instruments, pre-commercial procurement, and public procurement targeted at R&D, innovation, and supporting SMEs and entrepreneurship.
- But there are wider, more horizontal measures undertaken to improve the business environment such as fiscal simplification, the reduction of administrative burdens and strengthening administrative efficiency.
- Policy has evolved from a traditional focus on sector and geography to a more open and innovation-based approach, which creates the enabling conditions for cross-sectoral collaboration aimed at addressing particular social, environmental or technological challenges. Entrepreneurial discovery is often facilitated by the regional authority, as illustrated by the process leading up to the definition of the regional 'smart specialisation strategy'.

3.5 SUMMARY: LESSONS FROM OVERSEAS FOR THE NORTHERN INDUSTRIAL STRATEGY

These case studies offer several lessons for the development of a Northern Industrial Strategy.

- **Cooperation and pragmatism are both crucial**. Successful regional strategies appear to have a high degree of cooperation between actors within a region – such as business, trade unions or state agencies – and integration between tiers of government – local, regional and central.
- **Smart specialisation and innovation platforms seem to work well**. Regional industrial strategy has advanced well beyond the 'picking winners' approach that the UK and many other countries formerly undertook. Successful policies build on an understanding of how regional innovation systems function and seek to develop the unique strengths of different places.
- **Strategy must be long-term and jointly-owned by stakeholders**. Regions benefit from setting out an industrial strategy and sticking to it. This provides the policy stability that enables an economy to flourish and establishes the roles and relationships between the different actors.
- **Governance is vital but there are several options.** Regions with higher levels of autonomy are in a better position to shape and direct economic interventions (such as in Germany and Italy), but some weaker structures can add value in situations where this isn't possible (in France and Finland).

4. THE CASE FOR A NORTHERN INDUSTRIAL STRATEGY

This report has shown that the UK is falling short of its potential because it lacks any sub-national industrial strategy; other regions of Europe similar to the North have them, and they appear to add significant value. If these sub-national tiers are important for industrial strategy, then there are options in terms of geographical scale: which tier should take on which industrial strategy responsibilities and how should this all work together? This can be a contentious question and many options have been discussed over the years.

In order to answer this question, this chapter first outlines which policy levers are most effectively held at the sub-regional tier of the city or county region, and therefore should be under the remit of local industrial strategy. Second, this section sets out why the regional tier is important and what powers are best held at that regional tier, and therefore within the direct remit of a Northern Industrial Strategy. In practice, the functions of different tiers will not be exercised separately but need to be integrated in order to be effective – as they are in the other countries discussed above.

4.1 THE SUB-REGIONAL SCALE: COMBINED AUTHORITIES AND LOCAL ENTERPRISE PARTNERSHIPS

City and county regions are the best foundation – the 'building blocks' – for sub-national economic policy and therefore industrial strategy. The economic arguments in favour of devolution are well worn but worth restating: it is best to exercise policy at the tier of governance that most closely matches the geography to which it applies. The travel-to-work area is the most important of the functional economic areas for this purpose, because the geography of commuting is the primary consideration for those policies related to the more efficient functioning of a labour market. While transport policies often set out to change the geography of commuting and join up different travel-to-work areas, current travel patterns remain fundamentally important as a starting point. For that reason, there is a standard group of economic policies which are best held at a sub-regional tier of the city or county region – the geography that aligns most closely with those of combined authorities or LEPs. This includes:

- skills, employment and education policies – including employment support, adult skills, 16–19 education, and elements of primary and secondary education (Davies and Raikes 2014; Round 2018)
- intra-city/county transport policies – including capital investment and regulation of buses, commuter trains and light rail (Raikes 2016b)
- housing policies – including powers to regulate the private rented sector and the budgets to invest in social and affordable housing (Snelling and Davies 2016).

These areas of policy have been the focus of the growth deals and devolution deals which central government has agreed with LEPs and combined authorities. This geographical scale is also the focus of the local industrial strategies being drawn up across England. It is important to note however that currently there is

a lot of variation at this scale: in some places, the economic geography and policy geography align well, while in others this is not the case.

4.2 THE REGIONAL SCALE AND THE CASE FOR THE NORTHERN POWERHOUSE GEOGRAPHY

The regional tier is far less developed in the UK, but there remain some areas of policy that are 'too big' for local industrial strategies, and 'too small' for national industrial strategies. Chapter 3 showed the value this tier is adding to industrial strategy in other countries, and table 4.1 shows that most similar countries hold significant powers at the regional level.

TABLE 4.1

Competencies exercised at the regional level in selected EU countries

France	Germany	Italy	Spain
• Economic development • Territorial development and planning • Transport • Education: secondary schools • Job training programmes • Culture • Tourism	• Legislation • Public administration • Police • Homeland security • Taxation • Justice • Culture • University education • Education • Environment • Legal supervision of local self-government	• International relations with other regions and with the EU • Trade • Health • Land development • Transport • Manufacturing and distribution of electrical energy • Urban planning • Agriculture	• Territorial development • Civil engineering • Economy • Agriculture • Culture • Social policies • Environmental management • Development of economic activities • Health • Education

Source: CEMR 2016

This isn't to say that the North should simply copy other regions overseas. However, there is an economic rationale to holding some of these powers at the level of the North. The economics of regions are particularly important – especially in the North. Central government policy has recently been focused, to an extent, on cities. But cities, while important, are best conceived of as regional centres which undertake a vital but interdependent role within a wider economic geography – urban areas and towns are all important but often work together as a regional economy (Dijstra et al 2015; McCann 2016). Industries and their supply chains often stretch across regions – as with the north of England's energy, advanced manufacturing, health innovation and digital sectors (SQW and TfN 2016; IPPR North 2016). And the UK's economy is already working in a more 'regional' way: as noted in section 1, London, the East and the South East's economies are closely aligned; the rest of England, Wales and Northern Ireland appear to also align with each other; and finally, Scotland appears to be working differently from both of these blocs (Iammarino et al 2018; McCann 2016). Internationally, in both developed and emerging economies, the 'megaregion' is emerging as the significant economic unit – and these geographies dwarf the cities of the North, and even London (Ross 2009). The evidence shows that the UK's regional economic problem is rooted in its lack of regional institutions (McCann 2016). As also noted in section 1, the importance of this regional tier has been acknowledged by the government in its Northern Powerhouse and Midlands Engine agendas, and the government's

industrial strategy white paper acknowledges the importance of 'regional corridors' (BEIS 2017).

The geography of the North – taken as a whole – is particularly important. While some commentators argue for a return to former regional development agency geographies – the North West, North East and Yorkshire and the Humber – there are significant challenges with returning to this approach. This RDA geography would separate the North's two largest cities, Leeds and Manchester, into two different regions – the very opposite of what is needed to enable region's latent polycentric economy to thrive (Champion 2012). It also makes little sense to divide Manchester Airport from the wider North due to its size and reach (although hub airports such as Schiphol are also very important for many northerners) , or to divide the vital ports and energy infrastructure of the North East coast from that of the North West coast.[6] It would also raise potential issues in the interaction between the sub-regional and regional tiers – Greater Manchester and Liverpool City Region are home to 59.8 per cent of the North West's population combined, and would dominate any structure at the North West level (ONS 2018a).

There is also a strong argument to work with the organisations that are already in place, and these arrangements are maturing well: pan-northern cooperation began in 2004 with the Northern Way and has been sustained through Rail North, One North, the Northern Powerhouse brand, and organisations such as Transport for the North, the NP11 and now the annual Convention of the North.

There is clearly a strong case for exercising some general economic strategy at the northern level, but there is also a case for coordinating policies or even exercising certain powers at this tier. As discussed earlier, the sub-region must remain the primary 'building block' of sub-national policy. But there are five areas of economic policy where it is simply necessary to act at the regional tier, or where this tier adds value to other activity.

1. Inter-city transport – including both rail infrastructure and franchising powers, and managing the major road network.

There is a strong rationale for devolving transport powers away from central government, and while most of this power belongs at the sub-regional tier (the city region or county) the regional tier is clearly the most appropriate for those transport modes that connect up the sub-regions (Cox and Raikes 2015; TfN 2019). As discussed elsewhere in this report, pan-northern collaboration on transport is well-developed and Transport for the North (TfN) is a relatively strong regional organisation with significant capacity. It is in a good position to take on more power, by increasing its control over the rail franchises, and eventually investing in infrastructure – as Transport Scotland does already (Cox and Raikes 2015). Integrating pan-regional transport with spatial planning – and cooperating closely with local planning authorities – will be essential as TfN becomes more powerful in future (Cox and Raikes 2015).

The management and usage of land is a key lever of economic policy which is still highly centralised in England through national planning policy framework. There are emerging local and regional initiatives – such as Greater Manchester's spatial framework, and TfN's strategic transport plan touches on these issues. IPPR North has been working with the Great North Plan group to develop the thinking in this area, and it will be necessary to align pan-northern activity with planning policies within the North – especially with regard to transport.

6 Although for the North East, Scotland's energy industry is also important.

2. Trade and investment coordination

Activity that supports exports overseas can benefit from a pan-regional approach – especially via trade missions, which can capitalise on the North's scale in promotion activity overseas. Foreign direct investment activity requires a high level of local knowledge and there is a case for more power and coordination at the sub-regional level. But it also needs to work at scale in order to form a big enough market in the eyes of the major trading powers and megaregions (IPPR North and the NEFC 2012). For many local areas, the appeal to foreign investors is in fact partly regional in nature – even Manchester and Leeds promote themselves as being part of a significantly larger geography. There is a strong argument for the North to have influence over national trade and investment given its significant scale – particularly when compared to the much smaller Wales and Scotland who are already able exercise 'concurrent' powers in this policy area. Trade and investment also links closely to both innovation and infrastructure, as they both have strong international dimensions.

3. Innovation and R&D collaboration

The North receives significantly less public investment in R&D funding from central government, and collaboration on innovation and R&D is underdeveloped. Opportunities to collaborate between northern universities are often missed, and central government funding goes into the golden triangle of London-Oxford and Cambridge by default. The North could work together much more closely in order to foster this collaboration, and could also work together to attract investment from the government and other investors – especially into the North's prime capabilities (SQW 2011).

4. Supply chain development

Certain industries – especially the prime capabilities of advanced manufacturing, energy and health innovation – have supply chains that stretch across the region (or could be supported to do so) and stimulate northern growth. While many of the North's prime capabilities have strong international supply chains, the North also has something of an internal market – especially between the services sectors of the major cities and the industries that are often in less built-up locations: Greater Manchester trades in financial and professional services with Lancashire's advanced manufacturing industry, and Leeds City Region 'exports' its business services to the rest of Yorkshire and the Humber (Raikes and Cox 2016). Northern businesses with large geographical footprints would benefit from coordination at the regional tier, and each LEP area within the North has a growth hub that could facilitate these patterns of 'trading' between sub-regions within the North. This area of policy is currently underdeveloped, but coordination of local activity at the regional level would add value.

5. CONCLUSIONS AND RECOMMENDATIONS

This report has set out the evidence in favour of developing a Northern Industrial Strategy. It has shown how centralised industrial strategy has limited the North's economic potential, and that the North could thrive in the future by building on its rich inheritance of economic capabilities and assets. We have shown how regional industrial strategies work overseas and where the North, working together, can add value to the activities of local and central government.

We therefore recommend that a Northern Industrial Strategy is now set out to underpin pan-northern collaboration. This would build on the groundwork already undertaken over many years; it would bring together the organisations already in place, and it would take forward and build on some of the initiatives already underway.

PHASE 1: SETTING OUT A NORTHERN INDUSTRIAL STRATEGY – 2019–2020

A Northern Industrial Strategy (NIS) should be developed to enable the North to fulfil its economic, social and environmental potential.

- Its objective should be to support increased northern productivity, resilience, economic justice and sustainability – and it should aim to support the 'just transition' of the North toward a more environmentally sustainable and inclusive regional economy.
- It should be collaborative, inclusive and ambitious – it should set out the long-term 'missions', opportunities and challenges that the North must address together, across all sectors and tiers of government.
- It should be tripartite, bringing together representatives of government, businesses and workers at the strategic level.
- It should not seek to 'pick winners' of individual firms, but instead set out broader missions, build on a 'smart specialisation' understanding of the North's strengths, combine horizontal and vertical interventions, and support emerging technologies and clusters.
- It should be based on evidence of where working at this scale can add value and follow three principles:
    1. **Subsidiarity:** Nothing should be done at the northern tier if it can be done at the sub-regional tier, and no power should be centralised from local authorities or combined authorities to the northern tier.
    2. **Form should follow function:** Whatever organisations are required, they should be set up to deliver the activity they need to undertake, rather than retrofitted to a pre-existing agency or governance structure.
    3. **Flexibility:** Not all activities will include everywhere within North, and some may even involve places from other regions and nations of the UK. This is not a problem, and the northern tier can act as a platform for wider collaboration in these cases.

Its scope should include: determining pan-northern policy in key areas, coordinating and influencing policy at all tiers, and facilitating pan-northern collaboration.

It should have three roles.

1. Determining pan-northern policies, and coordinating and informing interventions across the North in the five specific areas where this is necessary and can add value:
   - transport between major cities and towns, and relevant land-use planning
   - trade and investment
   - innovation
   - supply-chain development

2. Promoting the North's strengths, and coordinating and influencing the activities of regional, local and central government as they apply to the North's prime capabilities and regionally important economic assets. These include:
   - the Northern Powerhouse brand itself – both within the UK and overseas
   - prime capabilities – health innovation, digital, advanced manufacturing and energy capabilities
   - enabling capabilities – financial and professional services, logistics and higher education – that directly support these prime capabilities
   - regionally significant built and natural assets – such as the major ports, airports and national parks
   - skills – while delivery of skills policy is best done at the sub-regional level, a Northern Industrial Strategy could enable the North's labour market to function in a way which aligns supply and demand across a broader geography, particularly through transport
   - culture, tourism and major events (such as the Commonwealth Games or Rugby League World Cup).

3. Facilitating pan-northern collaboration and policy innovation:
   - aligning local industrial strategies so that they complement one another and work across LEP boundaries
   - building capacity and expertise to support local industrial strategy development, sharing best practice in economic policy, sharing data and intelligence, and supporting local policy innovation
   - influencing central government departments to work better and join up their activities within the North
   - adding value to local initiatives at the northern scale – for example by developing a Northern Employment Charter built up from constituent charters.[7]

It should build on the strengths of northern organisations already in existence, and the strategies and evidence that have already been developed.

- It should build up from TfN's Strategic Transport Plan.
- It should draw on the work undertaken by the Northern Way – updating it and developing it where appropriate – the evidence base of the Northern Powerhouse Independent Economic Review and the wide range of evidence already published on the subject.
- The emerging pan-regional work on trade and investment, innovation, supply chains and energy should be developed further into long-term programmes of collaboration.

7 See Johns et al (2019)

- It should support constituent areas to fill any gaps in evidence where needed
- Pan-northern organisations already in place, such as the N8 and NHSA[8], should be involved at the strategic and operational level.

There should be three outputs:

1. **Evidence base.** The strategy should be underpinned by robust, independent and objective evidence. The Northern Powerhouse Independent Economic Review refresh should be the primary source of that evidence – but there would be successive 'deep dives' into specific issues.
2. **The Northern Industrial Strategy**. This would be the overarching Northern Industrial Strategy document summarising the vision, objectives, missions, priority sectors and clusters. This should build up from TfN's Strategic Transport Plan as well as drawing on the evidence base outlined above.
3. **A pipeline and implementation plan.** This sets out the achievable outcomes for all organisations working at the northern level, and a pipeline of interventions from all partners that aim to achieve these outcomes. This would include actions from all areas of policy and from all tiers of government, and include northern assets such as universities, ports, national parks and airports.

It should be a broad 30-year strategy that's refreshed every five years and monitored regularly.

- The NIS should set out broad objectives to the year 2050 in order for all stakeholders to plan accordingly, by which time it is reasonable to expect it to have a significant effect on the performance of the North's economy.
- However, the strategy itself should be refreshed every five years in order to account for economic shocks and changes in the global economy that are inevitable during that period.
- The implementation plan would be monitored, refreshed and updated regularly and would be the main business of pan-northern organisations such as the NP11 and TfN.

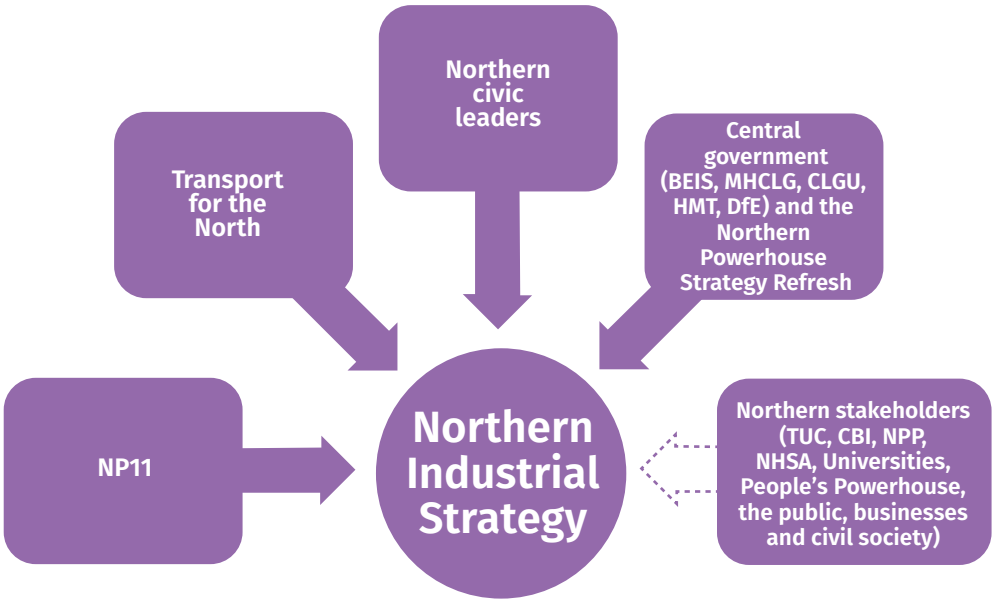
It should be co-produced by the North and central government.

- The North should lead this process, but central government will still hold the vast majority of the funding and power during this phase and co-production will be necessary in order to secure what the North's economy needs– the precedent has been set in the North already with the co-production of Greater Manchester's local industrial strategy.
- Central government's proposed Northern Powerhouse Strategy refresh would form the basis of their input into the NIS and would set out how central government will help deliver the plans which the North and its constituent combined authorities and LEPs draw up. But the NIS itself would be a different long-term strategy led by the North.
- The various organisations with an interest in a Northern Industrial Strategy are very different – and at different stages in their development – but policy-making in the North is marked by its pragmatism and this should continue. As the most established organisation, Transport for the North would, in practice, convene the stakeholders and use their institutional capacity to organise the process, but the strategy must be jointly owned by Transport for the North, the NP11, northern civic leaders and central government.

8 The N8 Research Partnership is "a collaboration of the eight most research intensive universities in the north of England"; the Northern Health Science Alliance (NHSA) "has delegated authority across the North's leading universities, research-intensive NHS trusts and four Academic Health Science Networks, with board-level approval to enter into collaborative research partnerships".

- The development of these outputs should be transparent and inclusive of relevant northern stakeholders – including businesses, trade unions, civil society and the public.

FIGURE 5.1: ILLUSTRATIVE GOVERNANCE MODEL FOR A NORTHERN INDUSTRIAL STRATEGY



Source: Author's analysis

It should form the basis of devolution to the North and the development of its institutions.

- The NIS should set out what organisations are needed in the North, what they are responsible for, and how they should work together.
- It should form the basis of a request for central government capacity funding based on what the North needs to deliver on the ambitions of the Northern Powerhouse agenda.
- It should make the case for the devolution of specific powers and funds to the North and set out what pan-northern activity should look like based on the three principles outlined above.
- It should set out a trajectory for the evolution of pan-northern activity through phases 2 and 3 below.

PHASE 2: DEVELOPING NORTHERN ECONOMIC POLICY – 2020–2022

Northern governance should be pragmatic, transparent and collaborative.

- The NP11 should become formally incorporated as a company and transparent (as many LEPs across the country are currently doing themselves).
- Transport for the North should continue to develop along the path set out in its Strategic Transport Plan.
- Northern civic leaders should begin to meet regularly to discuss shared objectives, come to a shared high-level position on relevant issues, and propose a way forward for a Council of the North to form.
- These three groups should task an officer group with economic policy (see below).

- Governance should become horizontally integrated – each of the three groups should send representatives to one-another's meetings, and while it is important to keep structures simple and focused, key stakeholders, such as businesses, trade unions and civil society, should be co-opted as necessary.
- The Convention of the North should evolve into a regular annual meeting of all northern stakeholders.
- A Northern Citizens' Assembly should be tasked with investigating governance options for pan-northern policy.

A small team of officers from different organisations should come together to develop policy.

- In the first instance, there should be a small northern economic policy team. This would involve employees from the NP11 and/or constituent LEPs, working with TfN officers and officers from one or more combined authority (representing civic leaders). It should also involve a close relationship with central government and take on secondments of civil servants into the team.
- Their primary task would be to take forward the first outputs of the NIS and undertake the secretariat work required to coordinate pan-northern activity – including facilitating and feeding into its meetings.
- They should also set up and task an independent Northern Observatory,[9] where academics and analysts from across the North meet regularly to share intelligence, promote open data and collaborate on pan-northern research projects such as iterations of the Northern Powerhouse independent economic review. Analysts from central government departments and the ONS should also be invited to participate. The Observatory would be tasked by officers (accountable to the structures described above) but their findings and conclusions would be arrived at independently.
- They should organise and facilitate northern policy innovation through a collaborative forum – a regular meeting of policymakers that would discuss local industrial strategy development and encourage collaboration between LEP areas.

Key funding streams would not yet be held at the northern level but should be devolved where possible to its constituent sub-regions.

- The government's Industrial Challenge Fund, Shared Prosperity Fund and the significant increase in R&D funding they propose would not yet be ready for full devolution to the North as a whole, but could be devolved to sub-regions within it.
- However, the NIS should be used alongside local industrial strategies to support any requests for central government funding, while LEPs and combined authorities should seek to collaborate in order to maximise the funding that the North receives from central government and in order to maximise the impact of this funding on the North.
- Any spending on pan-northern activity could be technically spent on behalf of the North by TfN, the NP11 or a constituent local authority during this period.

A reference group for each of the prime and enabling capability stakeholders should be set up to inform policy, by building and learning from those already in place.

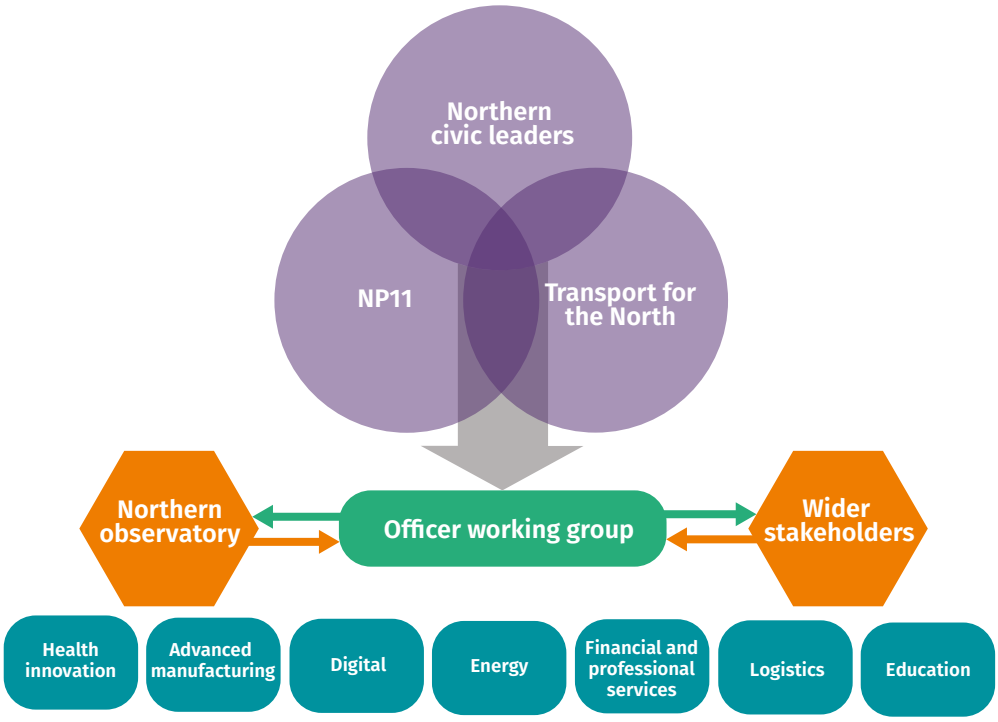
Seven reference groups should be pulled together to reflect the North's prime capabilities. This would include (where appropriate) large and small businesses, employee representatives and relevant education institutions. The 11 LEPs would have a vital role in bringing together many of these actors using their unrivalled position and connections with the wider economy.

9 Which could be formed as a 'data trust'. See: https://theodi.org/article/what-is-a-data-trust/

The seven should be set up as follows.

- **Advanced manufacturing** should be led by a consortium of large established advanced manufacturers, smaller businesses and start-ups, and universities.
- **Health innovation** should be facilitated by the NHSA, but also include BioNow and smaller businesses and start-ups.
- **Energy** should be led by IPPR North's proposed Energy for the North body, which would have a wider partnership board including representatives of some of the key national bodies, government departments, regional stakeholders, the network operators, catapults and university representatives and with a wider private sector reference group.[10]
- **Digital** should include major digital firms with a northern presence alongside smaller startups and representation from further education (FE) colleges, universities and digital infrastructure businesses.
- **Logistics** should include representation from the North's ports, airports, freight and logistics sector – built up from TfN's already established private sector reference group.
- **Education** should involve the N8 alongside representatives of the post-1992 universities, FE colleges, schools and apprenticeship providers.
- **Financial and professional services** should see the larger multinational professional services firms represented alongside smaller practices and representative organisations.

FIGURE 5.2: COOPERATION AND INTEGRATION OF POLICY AT THE NORTHERN TIER 2019–2022



Source: Author's analysis

10 See: https://www.ippr.org/files/2017-10/ippr-north-a-northern-energy-strategy-a4-digital-04.pdf

Work streams should be used to develop policy priorities in areas where pan-northern approaches add value.

Four work streams should be developed, to tie together the prime and enabling capabilities with pan-northern policy-making. These would fit together with the reference groups as shown in the table below. They would be led by the relevant organisation in each case.

TABLE 5.1: INTEGRATION BETWEEN PAN-NORTHERN POLICIES AND PAN-NORTHERN CAPABILITIES – HEALTH INNOVATION AND FINANCIAL AND PROFESSIONAL SERVICES EXAMPLE

		HEALTH INNOVATION	FINANCIAL AND PROFESSIONAL SERVICES
PAN-NORTHERN WORKSTREAMS	**Transport between cities and towns (TfN)**	How can transport create a larger innovation economy by connecting its education assets with improved transport networks?	How can the transport network enable services to support the prime capabilities more effectively?
	Trade and investment (NP11)	How can northern medtech firms be supported to sell their goods overseas?	How can professional services leverage in inward investment?
	Innovation and R&D (NP11)	How can central government R&D spending in the North be maximised through collaboration between universities and firms?	How can professional services bring in investment in spin-outs from northern universities?
	Supply-chain development (NP11)	How can medtech or biopharma companies provide more goods to the North's NHS?	How can northern financial and professional services firms be enabled to deliver services to the North's major firms?

Source: Author's analysis

PHASE 3: DELIVERING NORTHERN ECONOMIC POLICY – 2022 AND BEYOND

Governance should be reviewed, strengthened and integrated.

- TfN, the NP11 and northern civic leaders should launch a governance review that would consider how these organisations should evolve further.
  - They should prioritise integration, accountability and transparency.
  - They should to ensure strong relationships with constituent local authorities, combined authorities and LEPs and ensure power remains held at the most local level appropriate.
  - A Northern Citizens' Assembly should again be asked to consider some of these options and feed into the decision-making process.
- In order to raise and spend public funds, there will need to be a legal entity and – building on the precedent and legislation for combined authorities – a northern combined authority should be considered for that purpose.[11] This would have a similar governance structure to other combined authorities: existing elected representatives would be nominated from constituent local or combined authorities and would make decisions collectively for the North. This would also avoid creating a new tier of politicians – which for the type of powers being considered are not necessary. Following the governance review, TfN and the organisations in charge of innovation, trade and investment, and supply chain development would be accountable to this body. This would then constitute a 'Council of the North'.

11 This would require an amendment to the Cities and Local Government Devolution Act (2016).

- The Council of the North and NP11 should have the regional equivalent of a combined authority-LEP relationship.
- A wider advisory committee should be set up to bring together senior representatives of other stakeholders: unions; civil society; the North's ports, airports and national parks; and the Midlands Engine, Wales and Scotland.
- As with any organisation that spends significant amounts of public money, a scrutiny function will be necessary in order to help inform and challenge policy-making – this could be built up from TfN's current scrutiny committee.

Capacity should be built up.

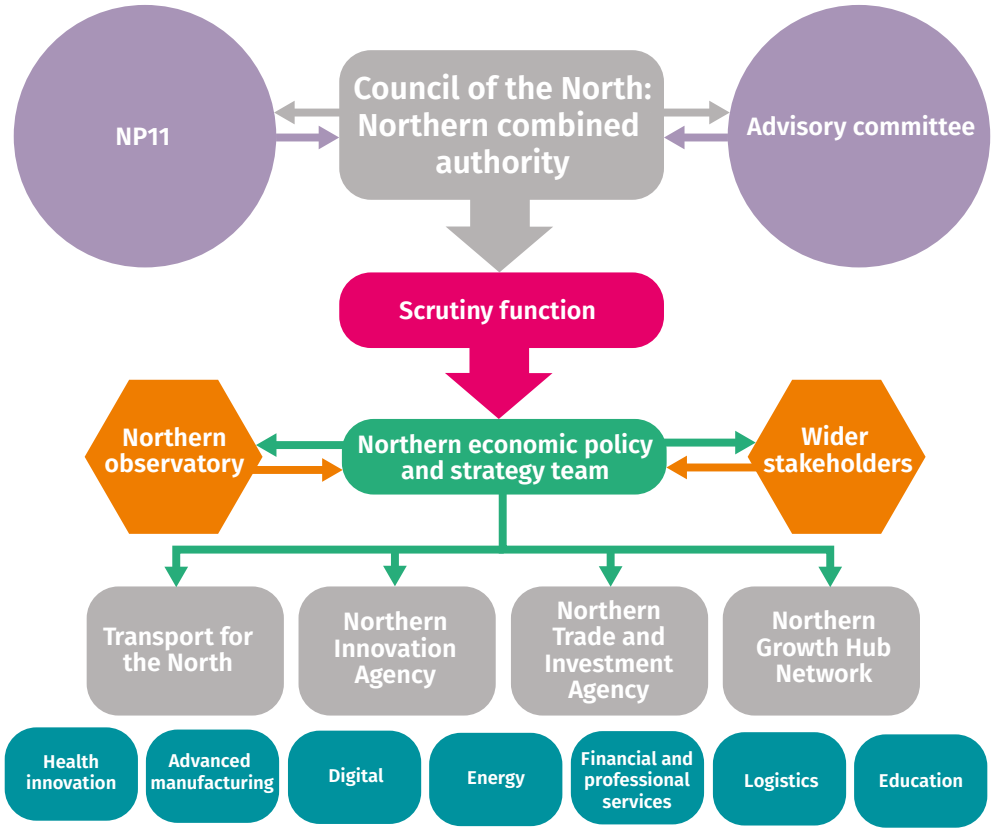
- In due course, central government funding will be needed to build greater capacity, and so the Council of the North should prepare a business case for a capacity development fund, and (contingent on the strength of that case) central government should provide the required funds. Funding should then be settled for the long term and not subject to competitive bidding processes, in order to avoid the kind of short-termism that has held back such initiatives in the past.
- The workstreams discussed in phase 2 could only do so much, and, in order to add value, some power must be exercised at the northern level.
  - **Transport for the North.** TfN is already adding value in its current form, but in order to improve transport networks in the North TfN needs to manage the North's rail franchises and invest in pan-northern infrastructure itself. TfN's role could develop as set out in its Strategic Transport Plan – to increase its responsibilities for rail franchising and to build a collaborative relationship with local planning authorities in the North and (via the Northern CA's legal status) take on greater fiscal autonomy. It should align its activities with those of local transport authorities, but its power would be devolved down from central government not upwards from constituent authorities.
  - **Innovation North**. In the short term, there is value simply in facilitating collaboration at the northern level in order to maximise the funding that the North gets from central government funding processes. But a centralised system of innovation funding is wholly inappropriate for a country the size of the UK, and it has consistently underfunded the North, despite the many innovation assets in the region. Over time, therefore, the NP11 and Council of the North could oversee Innovate UK's northern activity – taking on the role of developing northern projects and advising central government in a role analogous to that which TfN currently undertakes. But regions overseas hold innovation funding themselves and have been able to add value to central government innovation, and therefore over time the North should hold a funding pot to invest at its discretion via an Innovation North organisation.
  - **Trade and Investment North**. Current collaborations with the Department for International Trade (DIT) could evolve so that the North is able to support DIT trade and investment activity and help organise trade missions – making particular use of northern mayors overseas. But, over time, a Trade and Investment North organisation could spin out to take on a strategic advisory role (as TfN holds now) and then, when accountable to the Council of the North, it could take on the power to exercise 'concurrent powers' with DIT – as in Wales and Scotland.
  - **Northern Growth Hub Network**. Northern growth hubs should continue to work together to encourage supply chain development and enable smaller businesses within the North to bid into the supply chains of its larger firms. They should formalise this collaboration only if it is necessary.[12]

12 See Round et al (2019)

These organisations would spend funds in line with the Northern Industrial Strategy.

- The government's funding streams could now be devolved to the North, and the Council of the North would democratically accountable as a legally constituted combined authority.
- The Council of the North would set the budgets of the respective agencies, and they would deliver to the NIS objectives.
- There would be a core economic policy and strategy team that would coordinate and facilitate all economic policy across the North and the activities of the four agencies, and would be charged with tasking the Northern Observatory, and engaging with wider stakeholders – including the public.

FIGURE 5.3: DELIVERING NORTHERN ECONOMIC POLICY – 2022 AND BEYOND



Source: Author's analysis

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