If onerous barriers are put up against foreign ownership, our society will be the poorer for it

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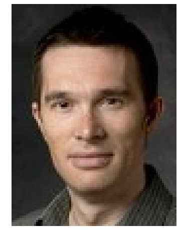
The growth in foreign ownership in the UK is something to be welcomed, not feared. Foreign firms increase competition and help disseminate new ideas as local firms copy business methods and innovation. Britain's traditional openness to overseas investment, trade and migration is something to be cherished, writes ***John Van Reenen****.*



The proportion of UK-quoted shares owned by overseas investors passed the 50% mark for the first time last week. Predictably there was much wringing of hands about the decline of British business and short-termism of UK investors.

But the fact is that the growth in foreign ownership is something to be welcomed, not feared. First and foremost, it is a sign of confidence in the long-run prospects of the economy. Despite the policy mistakes over premature austerity in the last few years, the underlying fundamentals of the UK economy are strong. As pointed out by the LSE Growth Commission the stable rule of law, flexible labour markets and good competitive conditions are attractive to international investors.

Second, foreign-owned plants are on average more productive than domestically owned establishments. Multinationals bring fresh ideas and expertise, such as new technologies and management practices. When Nissan first set up its Sunderland factory in 1984, commentators mocked that it could never replicate Japanese levels of productivity using British workers and managers, hemmed in by poor industrial relations, a different culture and onerous regulations. The cultural relativists were wrong. The Sunderland car plant became the most productive in Europe and remains so to this day. Why all the angst, then?

The worry is that those pesky foreign firms won't nurture local UK talent and will disappear when times get tough. Things are different in France where the state tries to block foreign firms from taking over "strategic sectors" – like yoghurt. Under this view the poor showing of the English national football team lies in the excellence of the Premier League and its reliance on foreign players and managers. But a moment's reflection shows this is nonsense. The English team was performing badly long before the influx of foreigners.

In fact, foreign firms usually up the game of domestic firms. They increase competition and help disseminate new ideas as local firms copy business methods and innovation. Nissan took away the excuse that things could never be done the same in Britain as Japan. They could and they were. Lean manufacturing was transplanted all over the world despite resistance. It's been similar with information technology. American firms have been able to get a lot more productivity out of their computer investments because they have managed people better than European counterparts. Estimates suggest that half of all the gap in productivity growth between the US and EU would be made up if EU firms could make their management on par with US multinationals.

Before the great recession of 2008, there was a cross-party consensus that the British "Wimbledon economy" was the right model. Wimbledon is a globally prestigious event where talent from all over the world competes and that we gain from hosting, even if British players do not win. Only last year, Andy Murray did win.

Britain's traditional openness to overseas investment, trade and migration is something to be cherished. It bespoke a positive attitude to globalisation, engaging with change rather than trying to erect barriers to overseas capital. If the onerous barriers we are putting up against foreign talent with the ridiculous 100,000 net immigration target are repeated with foreign ownership, our society will be the poorer for it.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the

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