

## Broad welcome for the new coalition Government

**B**usiness leaders have expressed a broad welcome to the new coalition Government formed by the Conservatives and Liberal Democrats, but have warned that it needs to act quickly to fix the public finances.

Richard Lambert, director general of the Confederation of British Industry, said: "The agreement between the parties is welcome news. Business wants to see a stable Government with the authority to take the tough decisions that will be required to keep the economic recovery on track and to get a grip on the fiscal deficit. This coalition should have the votes and the mandate to get on with the job."

Mr Lambert expressed relief at a number of specific measures outlined in last week's coalition agreement, including confirmation that the extra £3 billion employer's contribution to national insurance planned by Alastair Darling would be scrapped.

He described the seven-page outline of agreements reached between the two parties as "a credible document which shows that the coalition Government is committed to tackling the major issues. We particularly welcome the significant acceleration in the reduction of the structural deficit and the plan to achieve it through reduced spending rather than increases in taxation. This will provide comfort for international investors and will underpin growth at a critical time."

The energy industry welcomed a number of initiatives, including the maintenance of 'renewable obligation certificates' (which are awarded to 'green' energy producers), the provision of a



'floor price' for carbon, and an agreement to lift the target for energy from renewable sources. The nuclear industry expressed relief that the Liberal Democrats have agreed to abstain when a national planning statement is put before Parliament on whether any new nuclear power stations should be built.

### Protect the defence budget

Perhaps worryingly for the new Government, there are already fears that the forthcoming programme of cuts will hurt industry. Business leaders have expressed concern that the Treasury is to be involved in the imminent Strategic Defence Review (SDR). The new administration said in last week's coalition agreement: "The parties commit to holding a full SDR, with strong involvement of the Treasury." Business leaders said they will be looking for an explanation from Liam Fox, the new Defence Secretary, of the Treasury's position. "You would hope that the Treasury would be involved only after the policy decisions had been made with the Foreign Office, when they were ready to look at how those decisions would be paid for," said one unnamed source. ADS, the trade body set up to advance the interests of the UK's aerospace,

defence and security industries, urged the new Government not to cut this year's defence budget. Its chairman, Ian Godden, believes that the existing levels of investment in aerospace and defence "will see a strong return in high-growth global markets." Defence exports are worth £5 billion a year to the UK, which has 21% of the world market.

Mr Godden said: "The UK aerospace and defence industries are number one in Europe and second only to the USA globally. They offer a strong route out of recession for the UK, if our new Government is wise enough to seize the revenue opportunity. Any Government investment in these sectors will see a strong return in high-growth global markets, as has been demonstrated over the last two decades, and such investment will build on existing success rather than seeking to prop up ailing industries elsewhere in our economy."

"The Government and the country need strong industrial sectors with which to balance the economy and drive our recovery from recession. Aerospace, defence, security and space are just such high-tech, high-skill sectors, and we are ready to deliver for Britain in partnership with our new Government."

### Air tax criticised

Meanwhile, British Airways has attacked proposals to replace air passenger duty with an environmental tax on individual flights, including cargo services. This plan is expected to lead to higher taxes on ultra-long-haul flights such as Heathrow to Sydney. BA said: "Increased taxation on the UK aviation industry will create a financial incentive for customers to use continental hubs rather than flying direct from — or transiting through — UK airports. This could actually lead to higher emissions, as well as financially disadvantaging the UK travel industry."

## Chinese and Indian firms expected to flourish in UK

"A flood of new Indian and Chinese corporations will establish operations in the UK over the next 15 years and create up to 30,000 jobs," according to a report published last week by the accountancy firm Price Waterhouse Coopers (PWC).

Although firms from emerging economies have traditionally expanded into other developing economies first, the report says that they are now focussing on developed markets. India and China are together projected to account for 42% of new multinational businesses over the next 15 years, with up to 400 setting up in the UK between 2010 and 2024.

Although they will provide competition to businesses in developed countries, the report argues that global expansion by Indian and Chinese companies will also bring significant opportunities. The opening of new offices and manufacturing facilities will create demand for local services and infrastructure, the report suggests.

Chris Hemmings, global head of corporate finance at PWC, said: "UK companies need to work hard to interact and deal with the new players, as well as expose their own goods and services to rapidly growing markets around the world. Companies that are able to build early alliances with emerging-

market multi-nationals will be safeguarding their business models for the future."

According to the report, China was the largest source of new multi-nationals last year, but India is expected to overtake it by 2018. Export-orientated South-East Asian countries such as Malaysia and Singapore — along with Russia and South Korea — are also expected to continue to produce significant numbers of new multi-nationals. The report also highlights the changing focus of global emerging-economy businesses, from basic industries to higher-value-added manufacturing and business services.