

**POLICIES FOR
PROGRESS:**
HOW TO UNLOCK
THE UK'S FULL
TRADE POTENTIAL

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FOREWORD



Marco Forgione
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In response to the covid lockdowns and the resulting disruption, global supply chains have been going through a process of fundamental restructuring. These changes take many years, as businesses realign their supplies, infrastructure is redesigned and operational processes reimagined. Technological innovation has added an additional dimension to these changes.

These changes have coincided with a geopolitical realignment. Tectonic forces are at play, traditional partnerships and established relationships are being reshaped. On every continent, structural change is taking place. Whether it's the emergence and growing influence of the BRICS, conflict in the Middle East, or nations imposing export restrictions as part of rise in economic nationalism, global supply chains and international trade are being weaponised. This comes with domestic consequences, not least businesses and citizens facing higher costs of living and doing business.

Cross-border trade is the only solution to the major challenges we face. It is a force for good and has the potential to drive economic growth into a sluggish UK economy, deliver prosperity across the country, address regional and national inequalities, enable international cooperation and be part of the solution in reaching net zero.

How can trade achieve all this? Because all the evidence shows that businesses that trade internationally are more resilient, more sustainable, employ more people, are more innovative and are also more profitable. When British businesses succeed, we all benefit. According to the World Bank, countries that are open to international trade tend to grow faster, innovate, improve productivity and provide higher income and more opportunities for their people.¹

Small business exports, in particular, have the potential to be the true lifeblood of the UK economy. As of October 2023, 99.05% of UK businesses were small to medium enterprises



**of UK businesses
are SMEs**



**of the UK's
SMEs export**

(SMEs)², but it is estimated that only 9% of the UK's small-medium enterprises (SMEs) export³. The UK's economic growth has been slower than some of the G7 counterparts⁴. Focusing on encouraging and supporting more of these small businesses to export would accelerate the UK's economic opportunities and make the UK more competitive on the world stage.

Contrasting sharply with this vision of opportunity, however, are barriers that prevent small businesses from fully embracing the opportunities of exporting. These include, but are not limited to: a lack of signposting to appropriate support and a lack of time to access this support, funding challenges, a lack of appropriate skills and the slow development of interoperable digital trade processes.

Internationally, rising protectionism and geopolitical tensions threaten global trade. In this context, the UK must establish a comprehensive industrial and trade strategy which informs and is integrated with our foreign policy. As the world enters a phase of growing tensions, plurilateral partnerships will be crucial to securing our critical supply chains for the future. The UK has the potential to exert its influence as a force for good in a fragmented global landscape, where the multilateral system is losing sway.

The policy asks in this paper are designed to focus the minds of policymakers on potential changes to the UK's approach to trade that would create a meaningful positive change for the UK economy and, in turn, for communities up and down our nations and regions.

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About IOE&IT

IOE&IT is the professional membership body representing and supporting the interests of everyone involved in importing, exporting and international trade. Its mission is to empower organisations and equip individuals with the expertise to trade effectively, sustainably and competitively, through its world-renowned suite of qualifications and training.

IOE&IT partners with policymakers to deliver national and international programmes, acting as evangelists for the UK and establishing UK processes and standards globally.

1 Stronger Open Trade Policies Enable Economic Growth for All | [worldbank.org](https://www.worldbank.org)

2 Business population estimates for the UK and regions 2023: statistical release | [gov.uk](https://www.gov.uk)

3 Estimate of the proportion of UK SMEs in the supply chain of exporters: methodology note | publishing.service.gov.uk

4 UK set to have weakest growth among G7 in 2024, IMF forecasts | [Reuters](https://www.reuters.com)

1.

The current
VAT threshold
is set at
£85k

TAILOR SUPPORT FOR SMALL BUSINESSES

The support small businesses need to trade internationally must be tailored to their needs. Small businesses are distinct entities that face specific challenges, particularly around funding. To take one example, funding challenges specifically act as a barrier to small businesses participating in market visits and attending trade shows. Many businesses, particularly micro, small and medium-sized enterprises (MSMEs), are invited to exhibitions to foster new connections, but for many the travel, accommodation and participation fees exceed £10,000. In some cases, funding is actually available but there are challenges around signposting or finding the funding which is most relevant.

MSMEs are faced with high costs of setting up exporting capabilities, and as a result are often deterred from getting started on their export journeys. A form of tax incentive credits could help support and incentivize MSMEs to trade.

The UK tax system may also be adversely impacting MSMEs' growth. The current VAT threshold is at £85,000, which means small businesses that cross this threshold will be faced with increased VAT, as they must remit VAT on sales while claiming back VAT paid on inputs. VAT compliance organisation also takes a significantly long amount of time, which puts a strain on MSME resources, adding to costs. This could be addressed by raising the VAT turnover threshold. This would incentivize MSMEs to grow their turnover, without suddenly having to charge customers increased VAT.

Small businesses starting out in exporting also often need advice and support on how to conduct thorough business planning, which markets to target and how to scale. The Department for Business and Trade's International Trade Advisers (ITAs) are in such demand for advice that the government has been consulting on expanding the specialized, individual support the ITAs provide beyond England and into Scotland, Wales and Northern Ireland. This is a welcome move and reflects a clear need for even more one-on-one small business export advisers from across both government and industry.

Policies for progress

There are third-party organisations, such as IOE&IT, that provide a significant amount of advice and resource businesses can access.

At IOE&IT, for example, these include webinars, policy development papers (e.g. Border Target Operating Model whitepaper), one-on-one consultations and helplines.

We recently experienced a strong influx of enquiries to our International Trade and Technical Helpline on Customs Documentation, highlighting how small businesses need support on the 'building block' elements of international trade.

Specific and tailored guidance is needed therefore, from all angles, to encourage small businesses to start engaging in international trade and to allow them to connect with the most relevant overseas markets.

ASK: Introduce a tax credit for MSMEs that enables them to invest in exporting, so they gradually start to see international trade as a normal part of doing business.

ASK: Raise the turnover threshold for VAT from £85,000 to £100,000, to incentivize MSMEs to grow.

ASK: Form a joint government and industry committee of experts to focus on initiatives to help small businesses begin exporting. The committee should be able to receive funding applications for initiatives that help businesses with the practical elements of starting to export and be able to award grants to the best initiatives.

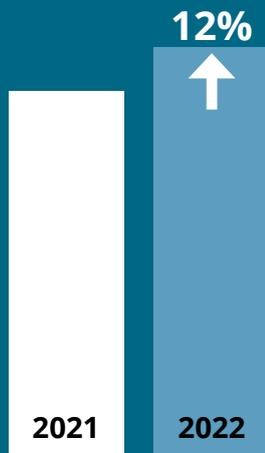


2.

DEVELOP EFFECTIVE DIGITALISATION OF TRADE PROCESSES

In 2022, the value of world merchandise trade rose 12% to \$25.3trn and world commercial services trade increased 15% to \$6.8trn⁶. These are significant statistics that serve to demonstrate the vast economic opportunity within global trade flows. The UK, as a 'services superpower' has the potential to be a major player on the global trade world stage. However, to be resilient and maintain good growth in an increasingly unstable global environment, supply chain operators need to be able to identify and address key challenges and uncertainties. This need for agility calls for the increasing modernisation of trade through technological developments.

Digitalisation is increasingly recognised as a way to address some of the most significant barriers to international trade, such as a lack of visibility across the supply chain. This lack of visibility prevents operators from managing and implementing new trade solutions.



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Policies for progress

In a recent poll of IOE&IT members, when asked “how can the government promote exporters’ involvement in international supply chains?”, almost a third (32%) of respondents said the most important solution was to introduce more digital trade solutions across critical international supply chains.

An example of a digital trade solution that helps address some of the visibility challenges across supply chains is the Trade Logistics Information Pipeline (TLIP). Based on IOTA’s distributed ledger technology, TLIP is an infrastructure solution that captures documentation and events, together with international trade declarations and certificates, for each consignment journey. It thus provides visibility of supply chain information, increased efficiency and greater traceability and ESG performance metrics.

The IOTA-based TLIP infrastructure is being deployed in a range of programmes across Africa, the UK and EU, with emerging interest from the Middle East and Asia.

It is vital that countries across the world have parity of access, both to these kinds of initiatives, but also to broader digitalisation opportunities, such as electronic trade documents. Third-party interoperability is vital. It is of no use for the UK to accelerate the trade digitalisation agenda in isolation.

Therefore, it is vital for strong information-sharing relationships to be maintained, so that digitalisation of trade initiatives can be developed alongside all countries that need to access them in order for trade processes to flow smoothly.

ASK: Strategically invest in interoperable digitalisation of trade initiatives to make trade with the UK’s partners more competitive, sustainable and efficient.



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3.

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Global growth
is being fueled
by trade in
services

CLOSE THE GAP IN REGIONAL TRADE DISPARITIES

For the UK to perform at its best economically, it is vital that every region is performing at its full potential in terms of what they can produce and export, whether goods or services. There is a particular need, however, for policymakers at a national and regional level to increase regional services exports, underlined by the fact that global growth is being fueled by trade in services. The WTO recently reported that growth in services exports outpaced growth in trade in goods in 2022, growing by 15% compared to 2.7%.

Last autumn, IOE&IT published a report entitled: “Global Horizons: Realising the services export potential of UK Nations and Regions”, which presented a new method to assess Services Exports Potential (SEP) nationwide, aiming to identify and address barriers. SEP is measured in the paper through four key indicators: economic complexity, connectivity, education/skills and higher education R&D.

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Policies for progress

In England, 24 of 33 regions (73%) have actual service exports (ASE) rankings in line with services export potential (SEP). This suggests, on a relative basis, that most English regions are performing in line with their potential.

But the gap in both SEP and ASE between London and all other regions is vast. For example, Cornwall, the Isles of Scilly, Lincolnshire and Cumbria are all part of the 12% identified as underperforming in terms of their SEP. This is largely due to having low economic complexity, poor connectivity, low education/skills and low education R&D. For regions such as this across the country to increase export performance, they must first take steps to counter these challenges and increase their potential.

One of the key recommendations put forward in the report is that policymakers should form a Regional Trade in Services Taskforce to encourage, enable and realise SEP across the country. The Taskforce should be charged with improving regional data quality, refining the SEP framework to increase the model's predictive accuracy and delving deeper into the causality of the relationship between observed criteria and services exports.

ASK: Create a Regional Trade in Services Taskforce to swiftly identify the barriers that cause some regions to have a lower Services Export Potential rating than others.



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4.

UNLEASH THE ECONOMIC BENEFITS OF E-COMMERCE TRADE

In November 2022, a report commissioned by Amazon and published by the Social Market Foundation identified that at least an extra 70,000 small businesses had the potential to be selling online cross-border. The report estimated that the effects of this number of small businesses selling online cross-border could be worth £9.3bn GVA to the UK economy.

As a result of one of the report's key recommendations, an industry-led E-Commerce Trade Commission was launched on 13th June 2023. Convened by IOE&IT, the Commission's board members include Amazon, Alibaba Group, eBay, Shopify, Google, the Federation of Small Businesses (FSB), the Association of International Courier & Express Services (AICES), the Institute of Chartered Accountants in England and Wales (ICAEW) and the Department for Business and Trade.



The effects of
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Policies for progress

The Commission will run until June 2025 and is gathering evidence from businesses across all nations and regions of the UK to address the barriers that are preventing them from either beginning, or growing in, their e-commerce exporting journey. The Commission will also seek to simplify pathways to trade by providing new insights and resources that can be accessed in a meaningful way by small businesses.

Although the Commission is working to support small businesses to break down the barriers they face when conducting online cross-border trade, the bigger picture also needs addressing.

Businesses need to be able to take advantage of new markets for cross-border online selling, which means more consistency is needed in e-commerce provisions across free trade agreements (FTAs).

While most FTAs now include digital trade chapters, there is a lack of consistency in how e-commerce provisions are negotiated. This desire for greater streamlining is also dependent on the streamlining of provisions around e-commerce through the World Trade Organization (WTO), with many members supportive of a new e-commerce framework.

ASK: Commit to considering the policy recommendations of the Commission's final policy paper in June 2025. Relevant recommendations could be part of a future UK trade strategy to further realise the economic potential from more UK small businesses trading cross-border online.

ASK: Continue to be a strong and supportive voice within the WTO on the further streamlining of e-commerce provisions.

The E-Commerce Trade
Commission runs until
June 2025



5.

**2.5-2.9****Degrees increase in temperatures are forecast by the end of the century**

DELIVER A TRADE STRATEGY THAT ENSURES A 'JUST' TRANSITION TO NET ZERO

The world is currently facing a climate change crisis. With acknowledgement at COP28 that we are not on track to meet the Paris Agreement target of 1.5 degrees of global warming above pre-industrial levels. Current forecasts indicate an increase of between 2.5 and 2.9 degrees by the end of this century and there is a clear need for drastic global action.

Trade is often seen as a part of the problem, particularly given goods are often moved around the world by typically high-emission transport methods such as freight ships and aeroplanes. But trade can also be a key solution to reducing emissions and reaching net zero.

With the right strategy, trade can be a force for good, helping facilitate the global transfer of green technologies and encouraging environmentally friendly trade that is vital for a sustainable and just transition. As technology pushes the demand for critical minerals, the impact on biodiversity will also need to be considered as part of a UK trade strategy.

As part of this effort, the UK is currently considering a Carbon Border Adjustment Mechanism (CBAM). CBAM is a tariff on imports of emission-intensive products, based on the embedded carbon in these imports. This is to curtail any risk of foreign imports, whose domestic environmental standards are lower than the UK's, causing carbon leakage into the UK market.

This follows the EU's decision to implement its own CBAM in October 2023, which is currently in a transitional phase. The EU CBAM is already proving difficult to comply with for many UK businesses, some of whom are concerned about the extra administrative and cost burdens associated with its additional reporting requirements. This includes UK exporters having to do research to determine the origin and production methods for reporting emissions. But this is also a challenge for many EU companies, who will also need to make sure their suppliers meet these requirements.

Policies for progress

There are three main challenges with CBAM.

First, we must ensure a just transition to net zero. The EU CBAM will not provide an exemption for least developed countries (LDCs). If the UK goes down the same route this will contribute to potentially unfair consequences on developing economies, including reductions in trade and loss of GDP as they struggle to transition to low-carbon manufacturing at pace and are therefore faced with tariffs.

Second, CBAM could limit the climate innovation needed for energy-intensive sectors to transition to net zero and deter long-term research and development (R&D) investments. CBAM may create a divided global carbon market, where certain countries have CBAM and others don't. This bifurcation could limit industrial innovation.

Third, introducing a UK CBAM will only be interoperable with the EU CBAM and allow for UK exports to receive exemptions if the Emissions Trade Scheme (ETS) of both countries are linked. Without establishing ETS linkages, a UK CBAM will create further divergence at the cost of British traders.

ASK: Establish a CBAM tax pot to fund climate innovation and fund aid to LDCs to transition to low-carbon manufacturing.

ASK: Establish an agreement with the EU to create linkage between the two emissions trading schemes.

ASK: Instigate an in-depth impact analysis with industry of CBAM on the UK's economic competitiveness.



**We must ensure
a just transition
to net zero**



6.

FOSTER CLOSER GLOBAL PARTNERSHIPS TO SECURE SUPPLY CHAIN RESILIENCE

We are currently faced with significant global challenges from geopolitical tensions to climate change and rising protectionism. All of them pose a threat to free trade and supply chain security. This isn't just a foreign policy challenge. These developments also have an impact on, and contribute to, a higher cost of living and doing business in the UK.

The Ukraine war ramped up energy prices and increased costs for British consumers and businesses. Houthi rebels have caused disruption to shipments going through the Red Sea, which has raised shipping costs for traders. If tensions continue, there is every chance these higher costs will start trickling down to consumers, feeding again into the cost-of-living crisis. We have seen how foreign actors are trying to monopolize semiconductor markets, affecting the critical supplies required for national security and the green transition. This again could have a significant impact on consumer costs for technology and electric vehicles (EVs).

All these issues, and as yet unforeseen future ones, require close cooperation and collaboration with allies with whom we share values and interests. Foreign policy and security policy must go hand in glove with a trade strategy. As supply chain resilience becomes a key priority for companies, diversifying supply chains to trusted and more secure markets will become crucial.

This starts with our closest and most significant trading partner – the EU. It is vital we are in lockstep with our European counterparts and that provisions in the Trade and Cooperation Agreement (TCA) allow for easier ways to nearshore.

A raft of elections around the world this year may cause further instability globally, with a potential second Trump administration exacerbating protectionism and isolationism, making collective action with the US harder, whether in tackling climate change, managing threats to supply chain security, cyber security or regulatory harmonization.

Policies for progress

This makes the UK's relationship with the EU even more important, and the upcoming TCA review will play a significant role in setting the direction of this trading partnership. But we must take a more holistic approach to trade strategy and incorporate our foreign and security goals in discussions with Europe.

We must also look to like-minded, democratic allies in the Indo-Pacific region. The government has secured the UK's membership into the Comprehensive and Progressive Trans-Pacific Partnership agreement (CPTPP) and is negotiating a trade deal with India. The foundations have been laid, particularly in many Asia Pacific markets, for better rules of origin and regulatory alignment, which could potentially open opportunities for UK firms to expand and diversify into the region.

There is also an opportunity to use CPTPP to engage in plurilateral partnerships with more forward-thinking, innovative members of the bloc. This could help position the UK as a regulatory leader in developing global standards in areas such as AI and emerging technology. For example, this could be developed through establishing regulatory dialogue with the members of the Digital Economy Partnership Agreement (DEPA).

ASK: Establish and maintain closer ties with strategic trading blocs.

ASK: Pursue membership of the Digital Economic Partnership Agreement (DEPA) in order to establish a leadership position with innovative CPTPP members on digital and technology standards.

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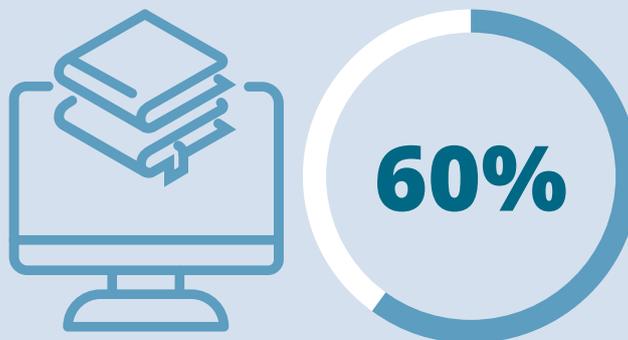
7.

ADDRESS THE SKILLS GAP

We are currently facing a serious skills shortage in the UK. There is an acute shortage of skilled workers with a background in science, technology, engineering and maths (STEM) education, as well as deficiencies in simple IT skills and broader specific shortages of skills in global trade management. Of particular concern for a nation currently respected for its manufacturing prowess, the latest government Employer Skills Survey also showed acute skills shortages in manufacturing.

In a recent poll of IOE&IT members, a majority (60%) of respondents stated that greater expertise in international trade is essential for them to increase exports. Two fifths (40%) said a need for employees skilled in customs procedures was important, while a fifth (20%) stated that export training and support would enable their business to export more.

While there are various options available in relation to plugging some of these gaps in the short-term, it's crucial that we consider how to fill these gaps in a long-term manner. This begins with education. International trade education is vital to help businesses (particularly MSMEs who face the worst of the effects of these shortages) begin to plug some of these gaps. It is also vital to support their employees to navigate the processes they have to go through to start and grow their exporting capabilities.



**of IOE&IT members in a recent poll
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Policies for progress

At IOE&IT, we are passionate about education and professional skills training and its potential to change lives and improve business performance. We know this is also the long-term, sustainable way for our economy to thrive.

Organisations, such as IOE&IT, can help with this important mission of signposting and providing education and training to upskill people looking to go into a stable, fascinating career. From school-level courses to attract young people to international trade as a career, to specifically tailored apprenticeships and supply chain training, there is something available for everyone.

ASK: Partner with training organisations to develop a system where training clusters regionally manage the administrative and tutoring aspects of apprenticeships for MSMEs who wish to take them on. By doing this, MSMEs not ordinarily able to commit to training an apprentice would be able to do so through the cluster's support.

ASK: Prioritise new streams of training and apprenticeship opportunities for sectors in which there are the greatest shortages.





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