

An overview of international trade

AN IOE&IT POLICY PLATFORM



Contents

Executive summary	4
Introduction from Marco Forgione, Director General	7
Ministerial Foreword from Graham Stuart MP, Minister for Exports	8
The context for UK trade today	9
The UK Government's approach	18
Findings: ten priority areas	22
Ten recommendations	25



Established more than 85 years ago, the Institute of Export & International Trade (IOE&IT) is the leading association of exporters and importers. We provide education and training to professionalise the UK's international traders.

The IOE&IT is fast-growing as demand for our digital training and education products grows post-transition from the EU.

As a partner with UK government, we deliver national and international programmes, acting as evangelists for the UK and establishing UK processes and standards globally.

The Institute co-partners in running the online UK Customs Academy, the world's first training platform dedicated to customs skills and developed at the request of HM Revenue & Customs (HMRC).



Executive summary

The UK is embarking on a truly independent trade policy for the first time in over 45 years. Having regained control of the whole range of policy levers that can support export performance and its contribution to national prosperity, the UK faces important choices and opportunities. It is the moment to take stock of past policy and performance, and to plan how to use the UK's fundamental strengths and new flexibilities to succeed over the next decade.

This paper is a contribution by the Institute of Export & International Trade to this work. It is a manifesto and call to arms, assessing the outlook for UK trade and exports, identifying opportunities, and considering the obstacles the Government and UK businesses need to overcome.

We present ten recommendations to the Government for a successful UK Trade and Exports strategy. But this is not a task for government alone; businesses conduct trade, and the role of government is to facilitate and support it. The Government and business should work together to promote the economic and social value of trade and investment, in the interest of people across the UK.

Realising untapped potential

The UK's export performance is strong, built on a long trading history and bolstered in recent years by global trade liberalisation and dynamic growth in services exports. Trade now accounts for over half of UK GDP, but there is still great scope for growth, particularly amongst SMEs and in regions outside London and the South East, as well as by addressing new international markets.

COVID-19 has made it even more necessary for business and government to realise untapped potential from the UK economy. Like countries all over the world, the UK faces a long road to recovery. Trade should play a crucial part in driving that recovery, but faces significant headwinds.

Even before the pandemic, the pace of global trade liberalisation was slowing amid tensions between the major trading nations and blocs and a trend towards economic nationalism. Rapid technological change is altering the nature of trade, presenting previously unimagined opportunities but also calling for new regulation and creating potential barriers.

Now that the UK has left the EU, businesses face new challenges in a less open trade relationship with our nearest and largest market. But with this comes a once in a generation opportunity to lead by example in rebuilding support for multilateral trade rules, resisting protectionist impulses and using trade policy to support environmental, health and social goals. The UK's diplomatic and aid policies should be aligned with trade objectives at home and abroad.

Leveraging new opportunities

The Government is working to open new opportunities across the world through a wide range of trade policy initiatives such as Free Trade Agreements (FTAs), leveraging our new regulatory flexibility, and mutual recognition of standards and qualifications. Their ambitious targets include securing FTAs with countries covering 80% of UK trade within the next three years and increasing the export intensity of UK GDP to 35%. Positive early steps included establishing

the Department for International Trade and setting up a world-wide network of Trade Commissioners. In recent months the Government has achieved trade deals that roll over, for now, the terms of a large majority of previously applicable EU trade agreements; and with Japan there are some enhancements on digital trade. It has also started new negotiations with the US, Australia and New Zealand.

Looking ahead, the UK needs to forge greater coherence between its domestic and international aims. Trade and export policy should become an integral consideration in domestic economic strategy, so that businesses see a clear direction of travel, understand the priorities, know where they can get effective and well-resourced support, and have confidence in a stable policy and regulatory environment.

There are many questions. A lively debate has started on which markets to prioritise, the UK's role in reforming the WTO, how to achieve first rate technological trade facilitation and how to minimise red tape. The political and economic choices involved in trade, which were often distant and abstract during our EU membership, are now more immediate for parliamentarians, businesses and the public. Through close collaboration between government and business there is an opportunity to build broad political, industry and public support for an ambitious new agenda.

Our recommendations:

1 Prioritise urgent EU trade transition support

The Government should do its utmost to advise and support companies and individuals on how to continue smoothly trading with the EU.

2 Improve the export finance offer

Continue to improve availability, access and flexibility to export credit finance, particularly for SMEs.

3 Provide simple integrated support tools for business

Enable companies to access customs and regulatory paperwork, information on barriers to trade, rules on importing and exporting in different markets and other support tools via simple and, as far as possible, integrated information platforms.

4 Link trade policy to wider industrial and regional levelling up strategies

The Government's recent Plan for Growth is an important first step to incorporate the UK's Trade policy agenda into the UK's wider economic strategy. Government should make sure to work closely with the business community to implement it.

5 Further strengthen the overseas network

HMG should further develop the Trade Commissioners network to reflect the changing trade priorities with focus on growing markets in Asia, Africa and South America. Trade should be a priority for the wider diplomatic network with more senior personnel deployed to priority markets.

6 Continue to strike Free Trade Agreements (FTAs) around the world

The focus should be on markets where the UK has volumes of trade with room for further expansion as well as markets where the UK has particular strategic or historical advantages.

7

Robustly defend UK interests

Ensure the UK has the tools, alliances and frameworks necessary to adequately defend UK interests at home and abroad in the face of unfair trade practices and non-compliance with legal commitments.

8

Establish a new UK Trade Committee

Strengthen cross-Government engagement and decision-making, including engagement with industry, by the establishment of a Whitehall Trade Committee, chaired by the Prime Minister, to give greater focus and thrust to trade issues.

9

Give Parliament a stronger voice

Ensure adequate parliamentary scrutiny of trade policy and negotiating mandates, and ratification of agreements. This will bring the UK into line with international best practice and improve transparency and public confidence.

10

Use multilateral fora to champion national priorities, particularly free trade and environmental sustainability

In 2021 the UK, now an independent member of the WTO, holds the presidency of the G7 and will host COP26 in November. It should use these opportunities to promote sustainable global trade in a rules-based multilateral system and to link international trade with the need for robust commitments to reduce carbon emissions.



Introduction

Marco Forgiione, Director General



For the past forty-five years the UK's international trade policy has been led by our membership of the European Union. The economic and international trade landscape has shifted immeasurably since 1973 and the world in which the UK is creating a newly independent trade policy is very different, with new centres and markets leading global growth.

The speed and success of The Department for International Trade in securing continuation agreements and negotiating new trade agreements indicates the energy and enthusiasm of government to set trade policy at the heart of its agenda. The way in which government exploits its new found freedoms, how it secures wide ranging trade agreements and its ability to forge meaningful trading partnerships will influence how we reshape the UK's economy as we 'build back better' from the impacts of Covid. In this policy platform the Institute of Export & International Trade (IOE&IT) seeks to play its part in creating an environment which supports international trade and inspires more business leaders to export.

We believe passionately that the conditions exist for the UK... to sit at the heart of the new global trading landscape

The IOE&IT has tremendous experience and expertise in helping UK businesses grow and trade efficiently. Our mission is as relevant now as it was when we were founded in 1935; to professionalise and enhance the export performance of the UK. The Institute is itself an exporter, delivering qualifications and training across Africa, Asia and the Americas. In addition to the qualifications and training we provide, we operate at the sharp end of trade facilitation and fulfilment, our consultants solve real problems, in real time, and help get business over the line – and the border.

The experience we have, the insights of our globally experienced trade professionals and our broad membership provide a unique viewpoint on the practical impact of trade policy. We believe passionately that the conditions exist for the UK, as an independent nation, to sit at the heart of the new global trading landscape. With this policy platform our aim is to support the achievement of this ambition.

Ministerial Foreword

Graham Stuart MP, Minister for Exports

This is a timely and thought-provoking report. I would like to thank the IOE&IT for coming forward with such clear recommendations and look forward to discussing them with the Institute and wider industry.

Protectionism has been on the rise and Covid-19 is at risk of reinforcing that unfortunate trend. In 2019, before the pandemic, nine of the top ten exporting nations saw their exports fall according to UNCTAD. That's why it is so important that the UK uses the return of its powers over trade policy to champion free trade, reform the trading system and build alliances with like-minded allies. International commerce will be vital in delivering the UK's economic recovery.

After the standout success of our negotiation of continuity deals we are now concentrating on delivering FTAs with additional countries, including our accession to the Comprehensive and Progressive agreement for Trans-Pacific Partnership, and improved market access for all. DIT leads on WTO reform, G7, trade disputes, whilst Lord Frost as Minister of State in the Cabinet Office will implement the Trade and Cooperation Agreement.

But why does trade matter? Our research suggests exports support more than six million jobs in the UK³. Exporting companies are more productive, profitable, innovative and resilient – yet currently, fewer than 10% of British companies export. This is an enormous, missed opportunity. Maximising on this will be central to levelling up the UK and strengthening the Union; already, in 2016, nearly three-quarters of the jobs supported through UK exports were outside of London, equating to hundreds of thousands of jobs in every region and nation of the UK.

The Government is committed to helping British businesses of all sizes, from across the UK realise their economic potential through exports. We provide an end-to-end export support service, with a digital-first approach to ensure businesses have the support they need, when they need it. In addition to online services such as market advice, firms can receive direct support from our overseas network, led by our Trade Commissioners, and the network of International Trade Advisors operating in England. Meanwhile, following a successful pilot, the Export Academy will give SMEs the know-how to sell to customers around the world with confidence.

The support they need, when they need it

The IOE&IT has long been a valuable partner to government in this regard. We recognise and salute the important role of the Institute in inspiring businesses to trade internationally, upskilling both new and existing exporters, and contributing to the UK's economy. Together, we have worked on numerous initiatives to further firms' knowledge of market opportunities and the government support available, such as export finance.

We will continue to work closely together as the Covid-19 crisis abates, helping to ensure businesses are able to seize the new international opportunities before them. I am confident that if we set the stage for UK businesses and exporters to unleash their potential, we can drive a resilient economic recovery levelling up the country, and meet our ambition of an open, outward-looking, truly Global Britain.

³ OECD, 2015: Est. 6.6 million UK jobs supported by exports, or 21.2% of UK employment. Of these approximately 4.1 million were directly supported jobs, whilst 2.5 million were indirectly supported jobs.



The context for UK trade today

UK trade and exports today

The UK is one of the world's leading trading nations in markets across the globe. The importance of trade in our economy has been increasing since the late 1980s, so that it is now worth over half of UK GDP.^{1,2}

Despite shocks during this period, including the 2008 global financial crisis and now the COVID-19 pandemic, the UK has benefitted from the global economic liberalisation and integration of the last three decades. This has brought advantages for UK consumers and new opportunities for UK businesses to export all over the world.

The Government has identified trade as a pillar of its post-Brexit, and now post-COVID, growth agenda, and is considering how best to leverage the UK's new trading independence, with a new Export Strategy anticipated in 'Build Back Better: our plan for growth', published with Budget 2020. With Brexit now an economic reality, this moment provides an important inflection point etc to assess the UK's trading performance and plan how government and business can maintain and strengthen exports and trade.

The context is demanding: continuing to respond to the immediate crisis of COVID-19 and preparing for economic recovery, adjusting to a new and looser relationship with the EU, adapting to a new US administration, and dealing with an increasingly assertive China. Yet the UK's fundamental offer remains strong and the Government and business have an opportunity to strike a new direction as they meet these challenges.

¹ UK trade, 1948-2018: statistics, House of Commons Library, October 2019

² UK Trade in Numbers, Department for International Trade, February 2020

Trade flows

In 2019, UK total trade was worth £1,407.3 billion, an increase of 4.8% over 2018, with imports at £718bn and exports at £689bn – a trade deficit of 1.3% of GDP. Both imports and exports have increased significantly over the last three decades, and the proportion of trade to GDP has risen from 45% in 1990 to 63% in 2018. Since the late 1990s, the UK has had a small but persistent trade deficit.

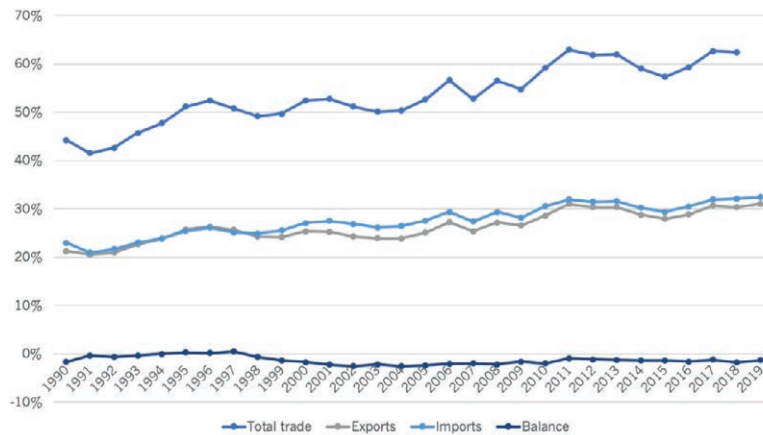


Chart 1
UK trade as a percentage of GDP: 1990-2019³

Compared to similar sized international competitors, the UK's trade performance is strong – close to France and Canada, and better than Japan and Australia. Our export performance is weaker, however, than countries with highly productive manufacturing sectors, notably Germany and Switzerland.

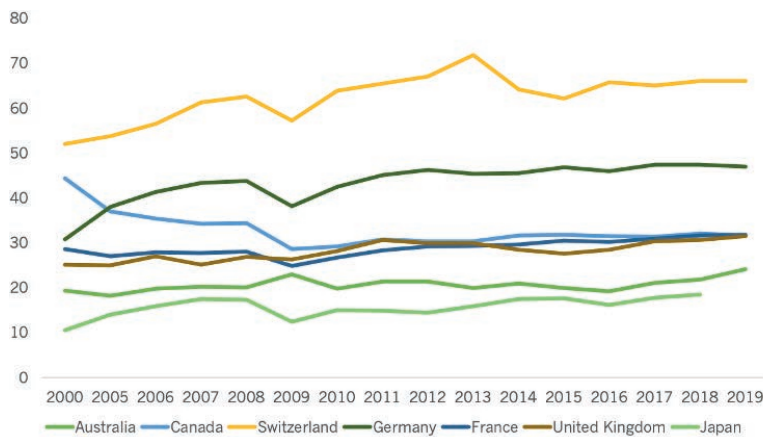


Chart 2
Exports of goods and services of high-income countries as a percentage of GDP: 2000-2019⁴

Successive governments have sought to increase the share of exports in the UK economy, with mixed success. UK exports between 2010 and 2019 were higher than in the preceding decade and the deficit has narrowed slightly, but there is much untapped potential.

³ Balance of payments, Office for National Statistics, August 2020 (note 2020 UK GDP data is not yet available)

⁴ World Development Indicators (Exports of goods and services), The World Bank, October 2020 (note 2019 data not available for Japan)

Exports: goods and services

UK exports in 2019 amounted to 31.1% of GDP. Of this, goods accounted for £372bn (roughly 54%) and services £317bn (46%). In recent decades, goods exports have grown in absolute terms but retained a relatively consistent share of GDP, whereas services exports have experienced dynamic growth and represent clear competitive advantage for the UK. This has been driven by domestic strength: the services sector accounts for approximately 80% of UK GDP and grew 16.4% in the decade to 2018.⁵

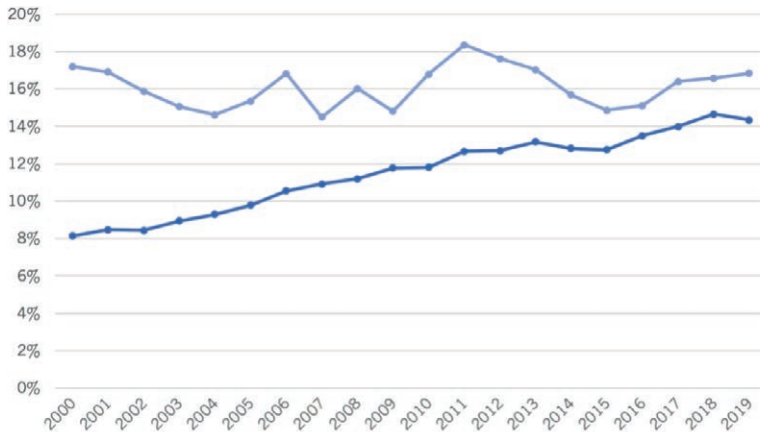


Chart 3

UK exports of goods and services as a percentage of GDP: 2000-2019⁶

Manufacturing's share of the UK economy decreased from 10.6% in 2008 to 9.9% in 2018.⁷ Contributing factors include structural shifts in the UK economy and increased global competition in manufacturing, our mature economy and our manufacturing cost base.

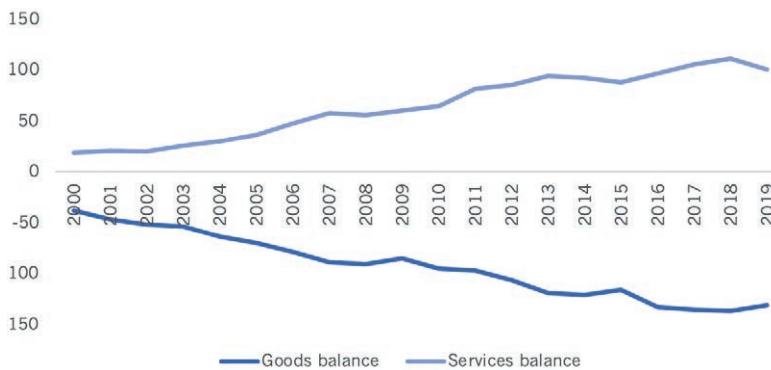


Chart 4

UK trade balance of goods / services (£ million)⁸

⁵ Services sector, UK: 2008 to 2018, ONS, April 2019

⁶ UK trade: goods and services publication tables, Office for National Statistics (ONS), October 2020

⁷ Manufacturing: statistics and policy, House of Commons Library, January 2020

⁸ UK trade: goods and services publication tables, ONS, October 2020

Regional export performance

The South East and London have the largest regional shares of UK exports, reflecting the proximity of the EU market, relative overall economic performance and the strength of the services sector, notably financial and professional services in the City. However, other regions contribute significant shares of UK exports and have potential to do more. As an indication of what might be possible, the East Midlands achieved growth of 7.9% in the value of goods exported in 2018, while the West Midlands delivered a 25.7% increase in the value of services exported. Maintaining this success story, and replicating it in other regions, will be an essential part of the “levelling up” agenda.

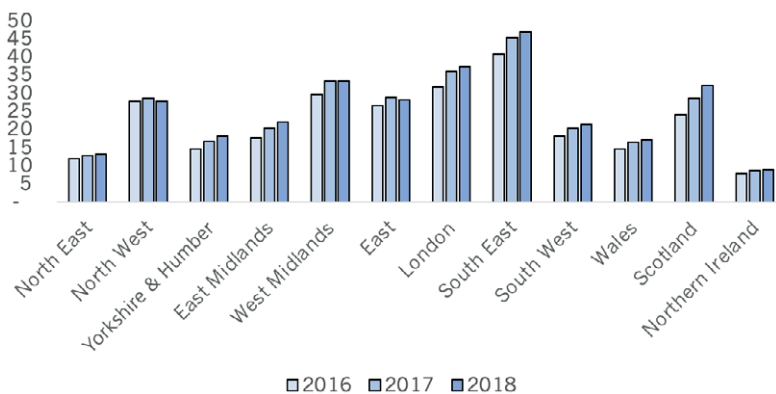


Chart 5

UK goods exports by region, £billion, 2016-2018⁹

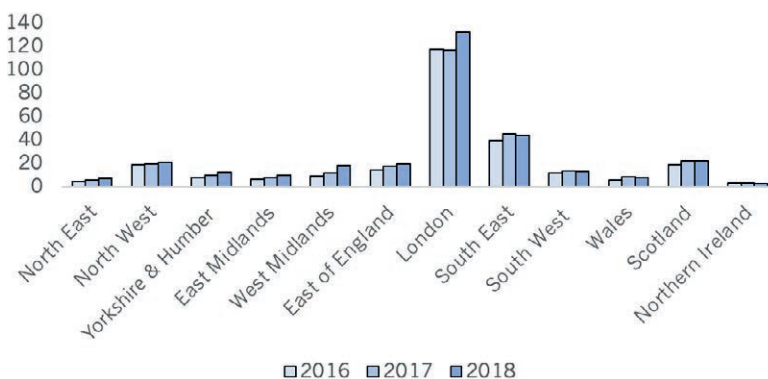


Chart 6

UK services exports by region, £billion, 2016-2018¹⁰

Export performance by size of business

Major firms are more likely to export than SMEs. Latest figures suggest that 42% of larger UK businesses export, compared to only 9% of the 5.3 million SMEs.¹¹ This gap has been increasing: the number of large firms exporting goods increased by 9% between 2014 and 2018 while the SME share of total UK exports fell from more than 50% of total UK exports in 2008 and 2009, to 41% in 2016 and 32% in 2018.^{12,13} There remains significant scope to help smaller UK firms embrace the opportunities of exporting.

⁹ Regional trade statistics, Her Majesty's Revenue and Customs (HMRC), March 2020

¹⁰ International exports of services from subnational areas of Great Britain (data for 2016, 2017, 2018 are in separate documents) ONS, September 2020

¹¹ UK SME exporting trends: finance and trade, British Business Bank, February 2020

¹² *ibid*

¹³ UK Trade in Goods by Business Characteristics 2018, HMRC, November 2019

Digital trade

The digital marketplace is an essential part of today's international trade landscape. The rise of e-commerce platforms, the growing 'servicification' of goods trade, and advances in technology have affected the way businesses engage in overseas markets. The Government estimates that the UK had a surplus of £114 billion in "potentially ICT-enabled" services trade in 2018. This is four times greater than in 1997,¹⁴ and a study by Tech Nation suggests Britain is behind only the US, China and India in tech investment.¹⁵ Early estimates suggest that pandemic-related lockdown measures have helped push UK retail e-commerce spend up 30% in a year.¹⁶

The Government is already prioritising digital trade in negotiations. The bilateral agreement with Japan includes advanced digital provisions covering areas such as net neutrality and anti-data localisation. The CPTPP – which the UK has applied to join – also includes innovative digital trade provisions. The new UK-EU Trade and Cooperation Agreement (TCA) includes an ambitious digital trade chapter, while also allowing the UK to set its own rules in areas like online safety and consumer protection. However, an EU decision on data adequacy equivalence is yet to be made, and even if the UK is granted this, business and consumers can expect a degree of ongoing uncertainty over data flows.

COVID-19

COVID-19 has dealt a severe blow to the UK and major trading partners. In the three months to June 2020 total UK exports fell by £26.7 billion (16.9%).¹⁷ In May, the ONS Business Impact of COVID-19 Survey found that up to three quarters of businesses were exporting less than normal.¹⁸ The easing of some restrictions over the summer increased the trade in goods in from

July to September 2020.¹⁹ However, the third wave of the pandemic (and returning restrictions) has resulted in another downturn.

The effects differ across sectors. Some have faced particular hardship from restrictions imposed by governments. Exports in finished manufactured goods fell by £11.9 billion between April and June 2020, reflecting the consequences of lockdown restrictions on global supply chains.²⁰

The trade effects of COVID-19 are likely to be long felt, even if the outlook appears less gloomy than was at first feared. In April, the WTO predicted that world trade would fall by between 13% and 32% in 2020.²¹ Its October update forecast

a 9.2% decline for 2020, followed by a 7.2% rise in 2021.²² However, the effects of the second and, in some countries, third waves of infections remain to be seen.

The pandemic has also highlighted the importance of resilient medical trade supply chains; governments are looking at resilience as a means to protect public health without resorting to protectionism. This will be a theme for many developed trading nations when devising future strategies.

The effects of COVID-19 are likely to be long felt, even if the outlook for trade appears less gloomy than was at first feared

14 Understanding and Measuring Cross-Border Digital Trade, Department for International Trade, May 2020

15 'UK tech continues to exceed growth predictions' IT Pro, May 2019

16 'Pandemic pushes UK retail e-commerce past 30% of total retail sales in 2020', eMarketer, October 2020

17 UK Trade, Office for National Statistics, June 2020

18 Business Impact of COVID-19 Survey, ONS, May 2020

19 Impacts of the coronavirus on UK trade, ONS, December 2020

20 Balance of Payments, ONS, September 2020

21 Press release 855, World Trade Organization, April 2020

22 Press release 862, World Trade Organization, October 2020

The UK's major trading partners

The US is the UK's largest national trading partner, taking 20.2% of UK exports in 2019.²³ When taken together, the 27 nations of the EU form the UK's largest overseas market, accounting for 43% of exports and 52% of imports in 2019.²⁴ Seven of the UK's 10 top national trading partners are EU member states, with Germany alone accounting for 8.4% of total UK exports and 10.8% of imports in 2019.²⁵

Although the EU as a whole will continue to be the UK's most important market, our trade beyond Europe is growing faster

Although the EU as a whole will continue to be the UK's most important market, our trade beyond Europe is growing faster, and over time is making up a greater share of UK exports. In 2006, the EU was the destination for 55% of all UK exports; this had fallen to 43% in 2019.²⁶ The Government has made important steps in rolling over, and in some cases renegotiating former EU FTAs, but there are many markets where exporters would benefit from initiatives to remove non-tariff barriers or improve on-the-ground support.

As the global economic centre of gravity shifts, there are further opportunities for UK business. The East Asia region, dominated by China, is expected to have higher total GDP by 2025 than both North America and Europe.²⁷ Some African and Commonwealth countries, although relatively small in trade volume, are likely to experience strong economic growth in coming decade and may provide opportunities to leverage historic and institutional ties.

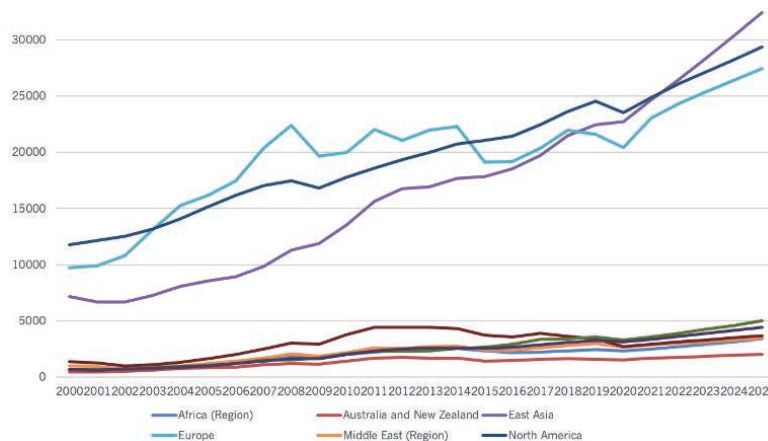


Chart 7

Real and predicted regional GDP growth (\$ billions)²⁸

China will continue to be a critically important market with great opportunity for the UK. Exports to China grew from £5.5bn (1.4% of UK total exports) in 2006 to £30.7bn (4.4%) in 2019, but mounting international tensions may put further progress at risk.²⁹ A strategy focusing on growth markets alone would prioritise China, but policymakers will need to balance the pursuit of economic opportunities with growing political and security concerns, as well as issues of negotiability and enforcement.

²³ UK trade note, House of Commons Library, July 2020

²⁴ Trade: Key Economic Indicators, House of Commons Library, September 2020

²⁵ UK Trade in Numbers, Department for International Trade, February 2020

²⁶ Trade: Key Economic Indicators, House of Commons Library, September 2020

²⁷ Real GDP growth, International Monetary Fund, November 2020

²⁸ World Economic Outlook (October 2020), International Monetary Fund, October 2020

²⁹ Statistics on UK trade with China, House of Commons Library, July 2020

Beyond China, there continues to be strong growth in other 'MINT' and 'BRICS' countries³⁰ where growing populations are becoming more prosperous. India has recently been our fastest growing export market, and is one of the fastest growing economies overall, but still represents only 1.4% of total UK exports.³¹ Japan, with one tenth of India's population, takes 2.2% of UK exports but has far lower growth expectations.³²

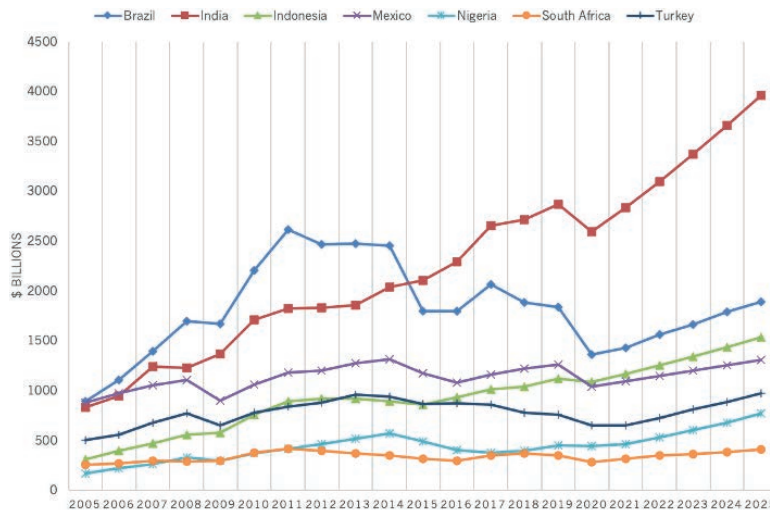


Chart 8
Real and predicted GDP growth of emerging markets (\$ billions)³³

A new UK-EU trading relationship

Four and a half years after the Brexit decision, the reality of a new, looser trading relationship with our biggest market began on 1 January 2021. Although the new TCA ensures zero tariffs and quotas on most goods, subject to rules of origin requirements, a majority of UK exporters and importers of goods and services will experience new non-tariff barriers, additional bureaucracy and impacts on supply chains. Traders on both sides will face the potential for trade remedies and re-balancing, review and sunset clauses. The extent and effects of changes will depend on many factors, including how the agreement is implemented, how well government and business manage new processes, and how quickly the UK can grow its trade with other countries.

³⁰ MINT: Mexico, Indonesia, Nigeria, and Turkey; BRICS: Brazil, Russia, India, China and South Africa

³¹ Newsletter, Institute of Export & International Trade, April 2019

³² UK trade in services; UK trade in goods, ONS, October 2020

³³ World Economic Outlook (October 2020), IMF, October 2020



Shifting global attitudes to open trade

Recent years have seen a weakening of public support for globalisation and open trade in many major economies, most notably across the West. The growth of global trade governance, such as WTO dispute settlement, has led to concerns about sovereignty. A mood of greater protectionism and nationalism has brought a lack of strong, coordinated global leadership and lower motivation to address problems through the multilateral system, including the WTO.

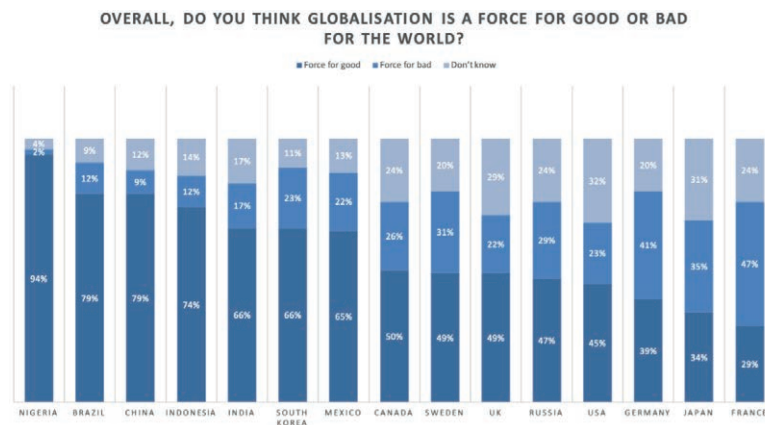


Chart 9

Attitudes to globalisation in developed economies and emerging markets³⁴

In a survey as long ago as 2017 among C-suite UK business executives, 70% said the world was becoming a more difficult place to do business and 85% thought some countries were taking a more protectionist stance.³⁵ There is also some evidence of an increase in protectionist trade measures.

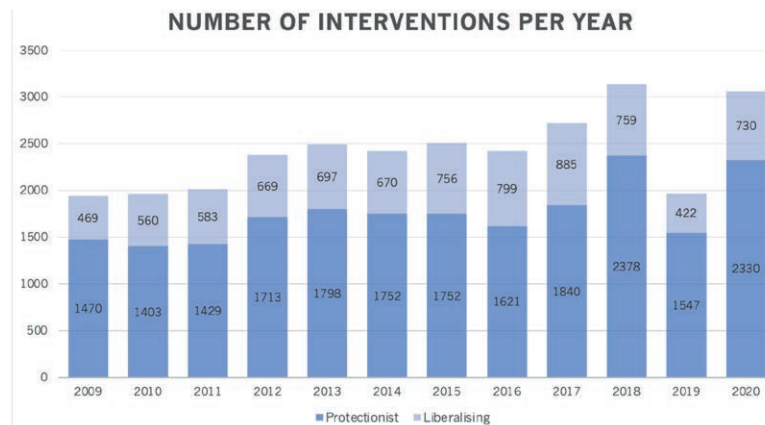


Chart 10

Number of new trade interventions per year (2009-2020)³⁶

³⁴ 2020 Globalization Survey, Global Economic Dynamics (GED) project, Bertelsmann Stiftung, August 2020

³⁵ Global Protectionism, Gowling WLG, November 2017

³⁶ Global Dynamics, Global Trade Alert, November 2020

This does not mean globalisation is in complete reverse; the global economy remains heavily integrated and most countries, in particular emerging economies, recognise strong benefits from open global trade. As tensions between the US and China remain high and confidence in multilateral institutions like the WTO remains low, the UK should seek opportunities to offer leadership and diplomatic convening skills in support of trade openness and collective action. The Biden administration has pledged to revive America's commitment to multilateralism and can be a welcome ally in this effort – but will wish to set the terms and act in US interests.

Environmental sustainability

Governments, legislatures, NGOs, and individuals are seeking to promote environmentally sustainable trade. As an example of this, the UK's negotiating objectives for a trade agreement with Australia require an assessment of the implications for UK carbon dioxide emissions, trade-related transport emissions, biodiversity and natural resources. MPs in Westminster are seeking to include such requirements in all future trade deals.

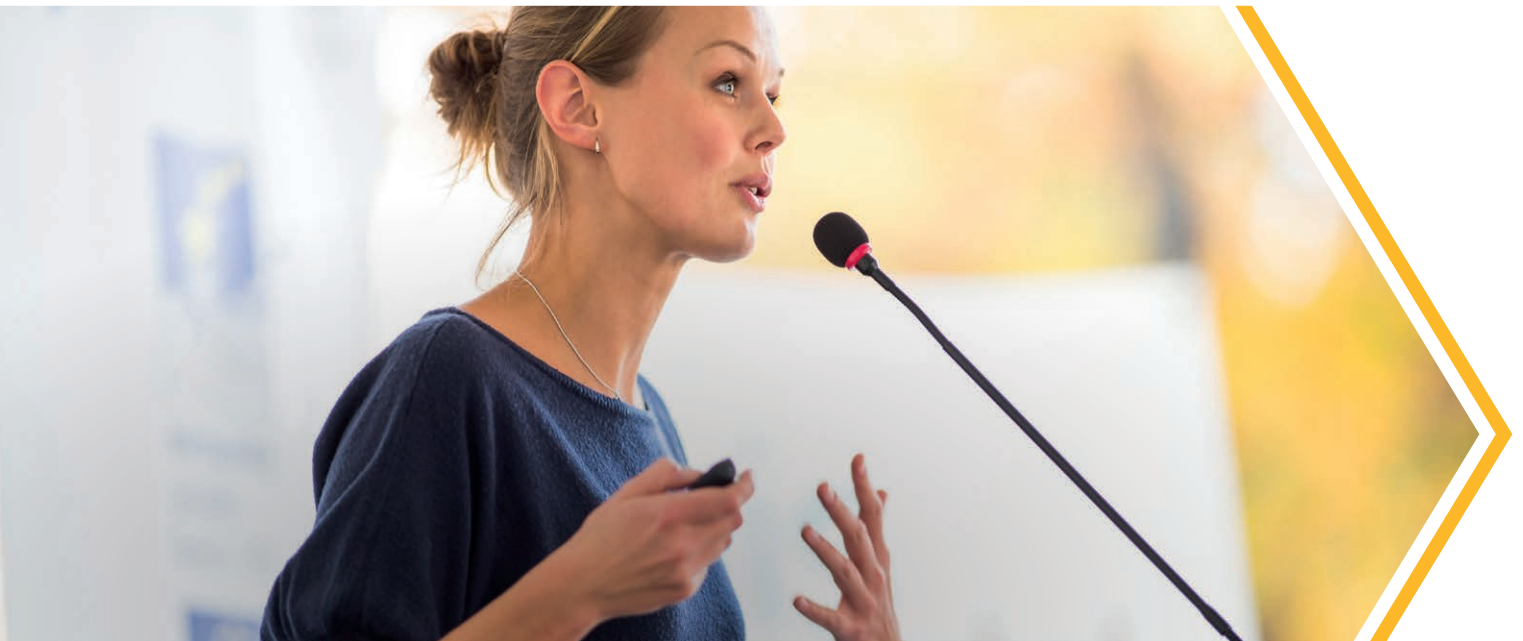
The European Commission has pledged to make respect of the Paris Agreement an essential element in all future comprehensive trade agreements. It is in the process of establishing a carbon border adjustment mechanism to address the risk of carbon leakage. Joe Biden has pledged to integrate climate change into US foreign policy, national security strategies and trade policy, and to encourage every major country to ramp up the ambition of domestic climate targets.³⁷

The European Commission has pledged to make respect of the Paris Agreement an essential element in all future comprehensive trade agreements

The overall outlook for UK trade

A combination of factors – the UK's departure from the EU, the new US administration, the COVID-19 pandemic, the new policy agendas of the EU and the focus on climate and sustainability – make this an important inflection point. While there are significant risks and challenges, the UK has an opportunity to strengthen and refresh policy, setting a modern, forward-looking agenda to support trade and exports that can command public support. It is essential that business and government seize this moment by leveraging the UK's strengths, setting clear priorities, and aligning resources. With clear thinking and strong leadership there is much to gain.

³⁷ Climate plan, JoeBiden.com, accessed November 2020



The UK Government's approach

The UK's new trading independence presents some pivotal choices. They include FTA targeting and strategy, how best to support export promotion and inward investment, and domestic policy options. The UK can now tailor its approach more closely to national needs. There are real benefits to be secured but the choices will involve trade-offs.

Embracing Global Britain

The Government wants a Global Britain, with a wide international trading agenda, prioritising our most valuable markets and those with the highest growth potential and making optimal use of historical and diplomatic relationships.

The goal has been set to secure FTAs with countries covering 80% of UK trade within the next three years, and to achieve 35% export intensity of UK GDP (up from 30% in 2018). The Government deserves credit for establishing a strong trade agenda. It has already achieved more than many expected, and this momentum needs to be sustained in the Export Strategy anticipated before the end of 2021.

Elements of UK Trade Policy

Steps already taken at home and abroad include:

- ▶ **The early decision to create a trade department (DIT)**, bringing under one roof trade policy and trade promotion, and building trade policy expertise.
- ▶ **Action to roll over all EU FTAs** regardless of value. DIT has done well to ratify deals with South Korea and Japan, as well as signing agreements with Mexico, Canada, Turkey, Vietnam and Singapore which can be provisionally implemented prior to ratification.
- ▶ **Maintaining generous EU preference programmes** for the poorest developing countries, with the intention of adjusting them in future.
- ▶ **The start of FTA negotiations** with the US, Australia and New Zealand. Initial steps towards accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).
- ▶ **Accession to the Government Procurement Agreement (GPA)** and progress to finalise national commitments at the WTO.
- ▶ **Strengthening overseas networks** through the appointment of Regional Trade Commissioners, to establish senior presence in key markets and join up trade promotion and policy work.
- ▶ **Introducing a Trade Bill** to establish a Trade Remedies Authority (TRA), to police unfair trading practices which affect UK producers.
- ▶ **Setting a new UK Global Tariff** which seeks to simplify the system and liberalise for environmental goods, but also maintains negotiating leverage.
- ▶ **New Whitehall governance** and consultation arrangements with business.

Openness about choices

The UK has been a consistent advocate of trade liberalisation and its openness to foreign direct investment has yielded economic benefits. But during EU membership some sectors have been sheltered behind the EU's external barriers while trading freely within the EU. As UK businesses become exposed to a wider range of global factors, a political pricing exercise is beginning on trade to establish where the balance of public, business and political opinion will lie.

The debates over chlorinated chicken and 'selling-off' the NHS reveal how quickly trade can become politicised. It will take skilful handling to balance the pursuit of economic advantage with legitimate sovereignty, security, social and environmental concerns

The Government has not yet made clear how far it means to go. In establishing an arms-length Trade Remedies Authority, it retained the power for ministers to reverse certain decisions for reasons of national interest. It has refrained from almost total liberalisation of import tariffs, although its new Global Tariff regime will provide UK industry with lower, simpler, more streamlined rates. The initial FTA targets (the US, Australia and New Zealand) are likely to push for greater liberalisation, especially in agriculture.

The headline GDP gains from the proposed FTAs look quite small and will take time to be realised, as is normal between economies that are already relatively open. The early FTA agenda and wish to join CPTPP are more designed to signal global political and strategic intent than achieve rapid economic gain. The Institute welcomes the drive and energy, though many of these early targets reflect the opportunity of low hanging fruit. We call for a clear strategy that focuses effort on how and where trade benefits can best be secured.

To build a long-term trade agenda the Government will need to increase trust with business, Parliament and the public

To build a long-term trade agenda the Government will need to increase trust with business, Parliament and the public. On sensitive issues of food standards and animal welfare, ministers have tried to allay concerns without binding their hands. To date, consultation of business has felt superficial and compares unfavourably for example with the way the US Trade Representative (USTR) involves US companies

throughout negotiations. Neither the criteria used to determine the UK's top targets, nor the evidence behind decisions about negotiating objectives, have been sufficiently clear.

The role of Parliament should also be clarified. MPs will wish to assert their views and represent constituency interests. The present light-touch approach to transparency, scrutiny and ratification does not match up to best practice in either the US or EU. Strong scrutiny and ratification requirements can also increase negotiating leverage.



Economic competitiveness and industrial strategy

The competitive strength and productivity of UK businesses is a foundation stone of export performance. Effective domestic macroeconomic policy and a supportive business environment are vital.

The UK's domestic economic policy has included a range of industrial and fiscal policy strategies designed to support specific sectors. Successive governments have prioritised investment in infrastructure and skills and have sought inward investment to improve regional performance. The Government was pursuing this approach before the pandemic and it is doubly necessary now.

The 2017 Industrial Strategy highlighted the untapped potential in the UK's export performance and pledged that investment programmes would support exporters. The 2018 Export Strategy offered government support both domestically and internationally. The Government aims to invest £20bn in high-growth businesses by 2027 and has increased investment in Growth Hubs and directly to SMEs through the British Business Bank. The HMRC-backed UK Customs and Export Academy provides a blueprint that supports and encourages those new to international trade. As yet, however, there is no truly joined up trade and industrial strategy that is capable of boosting UK competitiveness and unlocking export potential.

Promoting UK exports

FTAs and multilateral agreements bring many increased opportunities for exporters through lower tariffs, reducing non-tariff barriers and smoother customs processes, but they take time and resource to negotiate. FTAs often fail to deliver real progress on non-tariff barriers and services liberalisation, which are usually tied to domestic regulations.

The Government can deploy a wider trade tool kit – at home and abroad – to boost exports

The Government can deploy a wider trade tool kit – at home and abroad – to boost exports. This includes practical steps to promote export opportunities in specific markets and narrower sectoral or regulatory deals to remove local barriers. Although good in parts, trade promotion support to business has lacked consistency and continuity.

The 2018 Export Strategy aimed to link government support at home and abroad as the first step in a renewed focus on improving export performance.³⁸ It set out Government support for businesses of all sizes through a combination of developing their desire to export, providing better information, connecting them with customers, and access to finance. Build Back Better: our plan for growth, which was published alongside Budget 2020, promises a refreshed Export Strategy and business looks forward to working with Government to deliver its goals.

The Government has recognised that SMEs will play an important role in reaching the 35% trade intensity goal and DIT has pledged to include specific SME chapters in FTAs. Government and SMEs should work together to identify the main barriers and develop the UK's approach. Too many SMEs still find exporting complex and intimidating.³⁹ Online information should be complemented with practical, on-the-ground support. Several initiatives have been launched, such as a 2019 financial package supporting exporters and businesses in their supply chains, and the 2020 Export Growth Plan that established a £38m Internationalisation Fund for SMEs and appointed 64 new DIT Trade Advisers.

³⁸ Export Strategy: supporting and connecting businesses to grow on the world stage, Department for International Trade, August 2018

³⁹ Based on interviews for this document

How does UK export promotion activity measure up?

- ▶ Great campaign – the campaign to promote British goods and services, ideas and talent was launched in 2012, but it is hard to evaluate its success.
- ▶ Nine regional Trade Commissioners – this new network of senior civil servants overseas provides enhanced senior support for trade promotion and a regional focus in embassy networks but lacks senior-level supporting resource.
- ▶ Export finance offer. In 2019-20 DIT provided £958m of underwriting funds.⁴⁰ The new General Export Facility will provide financial support to more SMEs.
- ▶ 364 International Trade Advisers (ITAs) are spread across the United Kingdom.
- ▶ DIT advisers in UK embassies abroad help UK businesses on local conditions and how to establish an in-country presence.
- ▶ Trade Envoys DIT also sponsors a group of unpaid Trade Envoys, usually MPs or Peers, who are tasked with fostering trade links with certain countries at political level and helping UK companies overcome barriers.

HMG's online offer is not sufficiently coherent. The websites of the Department for Business, Energy and Industrial Strategy (BEIS) and DIT offer advice from different perspectives. Similarly, a business must engage with HMRC for one type of rules of origin certificate and DIT for another. The Government should work to streamline and unify these efforts alongside those of trade associations, chambers of commerce and Local Enterprise Partnerships (LEPs).

Technological facilitations

Take-up of trade opportunities by UK businesses is linked to their ability to overcome practical barriers and handle paperwork. The Government aims to deliver 'the world's most effective border' by 2025, and yet global progress in easing trade facilitation is slow.⁴¹ The UK should become a leader in using technology to remove obstacles for firms, many of whom are now engaging with customs processes for the first time.

The Trader Support Scheme (TSS), which facilitates trade between Great Britain and Northern Ireland, and in which the IOE&IT is a partner, is a good example of such innovation.

⁴⁰ Annual Report and Accounts: 2019-20, UK Export Finance, June 2020

⁴¹ 2025 UK Border Strategy Public Consultation, Her Majesty's Revenue and Customs, July 2020



Findings: ten priority areas

From this analysis, based in an extensive review of evidence and wide consultation across business and government, the Institute of Export & International Trade has identified ten priority areas of focus. To address them, the Government will need to coordinate many fields of activity, from domestic economic policy to global diplomacy, with close collaboration and input from business.

1 Linking domestic economic strategy with trade policy

Although the Government has a range of schemes and policies designed to support businesses and develop sectors of the economy, trade policy objectives are not sufficiently integrated into the setting of domestic economic goals and business support programmes. As a result, domestic departments do not work closely enough with internationally focused departments to prioritise new access for UK goods and services, or the development of competitive exporters.

There is also a gap in the implementation of regional and sectoral economic policy. Although the Government has rightly prioritised regional rebalancing through the Northern Powerhouse, the work of Local Enterprise Partnerships and other initiatives, the ambition to encourage exporting is not sufficiently strong in these programmes.

2 Productivity and effective regulation

The strength of UK competitiveness and productivity is a foundation-stone of export performance. If businesses are outcompeted by foreign firms, they will not succeed in foreign markets; but protectionism that closes the UK's markets will not make our exporters more competitive. The Government has rightly identified the need for domestic macroeconomic policies that improve infrastructure, increase investment (particularly in left behind regions) and boost training and skills, innovation and R&D.

Action on this agenda is more urgent than ever in light of the new UK-EU relationship and the pandemic. This also involves getting the balance of regulation right, so that consumers are protected but UK businesses are not saddled with unnecessary costs. Leaving the EU is an opportunity to review existing measures, eliminate unnecessary regulation and set out a vision for the UK's economic strategy – while also minimising the impact of any new British regulatory requirements. The expansion of Freeports supports the objectives of growth and productivity. It will be important to create certainty and clear direction in policy on subsidies, competition and trade defence.

3 Countering protectionism

The steady rise of protectionist measures, whether through non-tariff barriers or on grounds of national security, supply chain resilience or “buy local” rhetoric, is narrowing opportunities for export. The shifting public mood has encouraged politicians to pursue anti-trade measures: for instance, the additional tariffs imposed by the US in 2018, and subsequent retaliatory measures from major trade partners, added an estimated \$51bn cost for US consumers and importing firms.

In some cases, institutions that have helped advance open trade, like the WTO, have been weakened. COVID-19 has reinforced arguments for reshoring and import substitution. The UK should prioritise work nationally and with international partners to reverse this, to guard against entrenching a lasting slump in international business relationships and travel, and to safeguard exports for services as well as goods.

4

Tariffs

UK exporters continue to face tariffs and quotas in important markets. Some of the UK's major trading partners, such as the US, are not yet covered by FTAs. The new UK-EU trade agreement has largely eliminated tariffs and quotas on goods, but subject to rules of origin requirements which will evolve in some sectors. The Government should protect against any moves from the EU to impose remedies or re-balancing measures in the future.

In the current trade environment, and linked to the weakening of the WTO, the imposition of unilateral tariffs is a growing problem. These affect many UK goods exports, for example for the automotive and whisky industries in markets such as India and the US. On the other hand, where the COVID-19 pandemic has led countries to liberalise some import tariffs, there is an opportunity to make this permanent. The UK should continue to use all its tools, unilateral, bilateral and multilateral, to improve access and predictability for exporters.

5

Non-tariff barriers

Non-tariff barriers are far more restrictive to global trade than tariffs.⁴² FTAs and work in the WTO have had some success in removing these, but we need to do far more. Non-tariff barriers often affect services providers and are rooted in domestic regulations, with strong political lobbies behind them. On-the-ground support to navigate them is strong in some markets, but remains patchy, particularly for less experienced exporters, and it can require sustained senior-level intervention. Having left the EU, UK importers and exporters now face a wider array of NTBs at EU and Member State level and in the UK. It is important that a political focus on full FTA agreements does not squeeze out other, lower-profile but potentially more productive routes to improving access, for example through negotiating mutual recognition of standards or qualifications.

6

Gathering and sharing information

Now more than ever, UK businesses need good information to begin their importing and exporting journey. Comparisons with other countries suggest the Government could do more to disseminate information about trade barriers and plans to address them. A stronger dialogue with businesses will help identify barriers and opportunities for new market access, either through FTAs or by other means. The Government's re-launched market access barrier reporting tool is a welcome step, but there is more to do and it is not yet at the level of the EU's updated market access tool. DIT have not yet produced a comprehensive audit of barriers comparable to the US Trade Representative's (USTR) annual Foreign Trade Barriers report, which compiles market access barriers for US firms, country-by-country. This would be a big step forward and would support FTA negotiations.

7

Avoiding red tape and heavy process

There have been great improvements and technological advances in customs processes, particularly in developed countries. But navigating the paperwork for exporting still presents challenges the world over, and this now includes the EU. It is welcome that the Government has made millions of pounds available to help businesses with these procedures and has taken steps to recruit more customs agents. Continued action to reduce and modernise controls remains a high priority. Where COVID-19 has led to improvement and streamlining of measures, for instance electronic exchange of transit and export documents and relaxed requirements for wet stamping, these changes should where possible become permanent.

⁴² World Trade Report, UN Conference on Trade and Development, 2012

8

Effective trade defence and trade enforcement

Strong trade defence and dispute settlement mechanisms are vital to protect businesses from unfair and illegal practices. As a new player in trade disputes after EU exit, the UK should have a clear voice in defence of UK export interests in the WTO, and help restore the WTO's ability to arbitrate and enforce rules. It is also important that the UK has effective resources and systems for trade remedies at a national level. The Government should work to understand the most significant competition issues facing UK businesses, for example in steel production, so that it can prioritise trade defence action based on value and deliverability.

9

Encouraging business to export

Many UK firms, particularly SMEs, do not export because they are not aware of opportunities, are risk averse or find the bureaucracy off-putting. SMEs that do export have concentrated heavily on Europe – the destination for 83% of SME exporters – and now face increased obstacles.⁴³ In DIT's 2017 national survey of exporting behaviours, 30% of SMEs cited lack of knowledge as a key barrier to exporting. The 2018 survey found that 27% UK businesses did not know where to go for advice and support, with only 6% saying they would go to a government department or DIT.

In-market government support is being strengthened, particularly through the Trade Commissioners, and plays an important role. The FCDO's network has also been reviewed. But resources remain stretched given the ambitious agenda, and the Government's Export Growth Plan recognises that more is needed. Business and government can do more together to strengthen support and eliminate duplication.

10

Access to finance

Even when there is a strong desire to export, firms can still face significant practical difficulties in accessing finance. A report suggested that 60% of potential exporters cite access to finance as an important consideration in their export plans, yet the Federation of Small Business says 42% of small companies rate the UK's credit availability as very poor or quite poor.^{44,45} Although the UK is in the top ten global providers of export finance, UKEF's monetary value is less than that of European competitors such as the Netherlands, Belgium, France, Germany and Italy.⁴⁶ The Government's 2020 Spending Review added £18m to the budget of Export Finance. This is a welcome start to improving the provision of finance.

⁴³ UK SME exporting trends: finance and trade, British Business Bank, February 2020

⁴⁴ Research by Capital Economics for UK Export Finance, reported in *Businesses & Innovation Magazine*, October 2019

⁴⁵ International Trade Committee Consultation Response Federation of Small Businesses, September 2020

⁴⁶ Happy Centennial Birthday UKEF: Fit for the Future? UK Trade Policy Observatory, October 2019

Ten recommendations

To take forward this agenda the Institute of Export & International Trade recommends to government and business the following 10 specific actions:

1 Prioritise urgent EU trade transition support

The Government should do its utmost to advise and support companies and individuals on how to continue smoothly trading with the EU through direct and on-line guidelines, training and improved port and customs facilities. It should ensure that the terms of the UK-EU Trade and Cooperation Agreement are adhered to.

2 Improve the export finance offer

The Government should improve the availability, flexibility and accessibility of export credit finance to ensure that no viable export opportunity is lost through lack of support. This should involve improved awareness of and access to the Global Environment Facility (GEF), especially for SMEs and micro-businesses.

3 Provide simple integrated support tools for business

The Government should facilitate access to customs and regulatory paperwork, as well as information on barriers to trade, rules on importing, market analysis, exporting in different markets and other support tools via simple, integrated information platforms. It should also establish a regular knowledge and experience exchange database with in-country customer insights and data on tender and bidding opportunities.

4 Link trade policy to wider industrial and regional levelling up strategies

The Government's recent Plan for Growth is an important first step to incorporate the UK's Trade policy agenda into the UK's wider economic strategy. Government should make sure to Work closely with the business community to implement it.

5 Further strengthen the overseas network

The Government should further develop the Trade Commissioners Network to reflect the UK's evolving trade priorities, with an increased focus on emerging markets in Asia, Africa and South America, as well as an adequate uplift in Europe now we have left the EU. Trade should be a priority for the wider diplomatic network and Government should encourage more joined-up working between FCDO and DIT staff in-country. They should deploy more senior personnel to priority markets to facilitate direct dialogue between businesses and host Governments, with greater involvement of industry groups in agreeing the location and resourcing of trade representation in those markets.

6

Continue to strike Free Trade Agreements (FTAs) around the world

The Government should build on the current FTAs with 60 countries to achieve its commitment to have 80% of international trade covered by FTAs within three years and its aim of having the value of exports equivalent to 35% of GDP. The focus should be on markets where the UK has high volumes of trade with room for further expansion, and markets where the UK has particular strategic or historical advantages.

7

Robustly defend UK interests

The Government should complete the setting up of an effective and professional Trade Remedies Authority (TRA), ensuring there is clarity regarding the policy and political framework underpinning it. The UK should also be ready to enforce commitments secured in FTAs and to defend its interests in disputes at the WTO, including working with other trading partners in seeking to restore a fully functioning WTO dispute settlement regime. This will provide UK companies with confidence that the Government has the tools to deal adequately with unfair trade practices or non-compliance by trading partners with their commitments.

8

Establish a new UK Trade Committee

The Government should strengthen cross-Government engagement and decision making, including engagement with industry, by establishing a Whitehall Trade Committee, chaired by the Prime Minister, to give greater focus and thrust to trade issues, drive delivery and ensure cross government support for trade objectives.

9

Give Parliament a stronger voice

Ensure adequate Parliamentary scrutiny of trade policy and negotiating mandates, and ratification of agreements which will bring the UK into line with international best practice and improve transparency and public confidence.

10

Use multilateral fora to champion national priorities, particularly free trade and environmental sustainability

In 2021 the UK, now an independent member of the WTO, holds the presidency of the G7 and will host COP26 in November. It should use these opportunities to promote sustainable global trade in a rules-based multilateral system and to link international trade with the need for robust commitments to reduce carbon emissions.



With thanks to Flint Global Ltd
for their support in preparing this document



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