



Partnership for prosperity

Building a long-term UK trade strategy

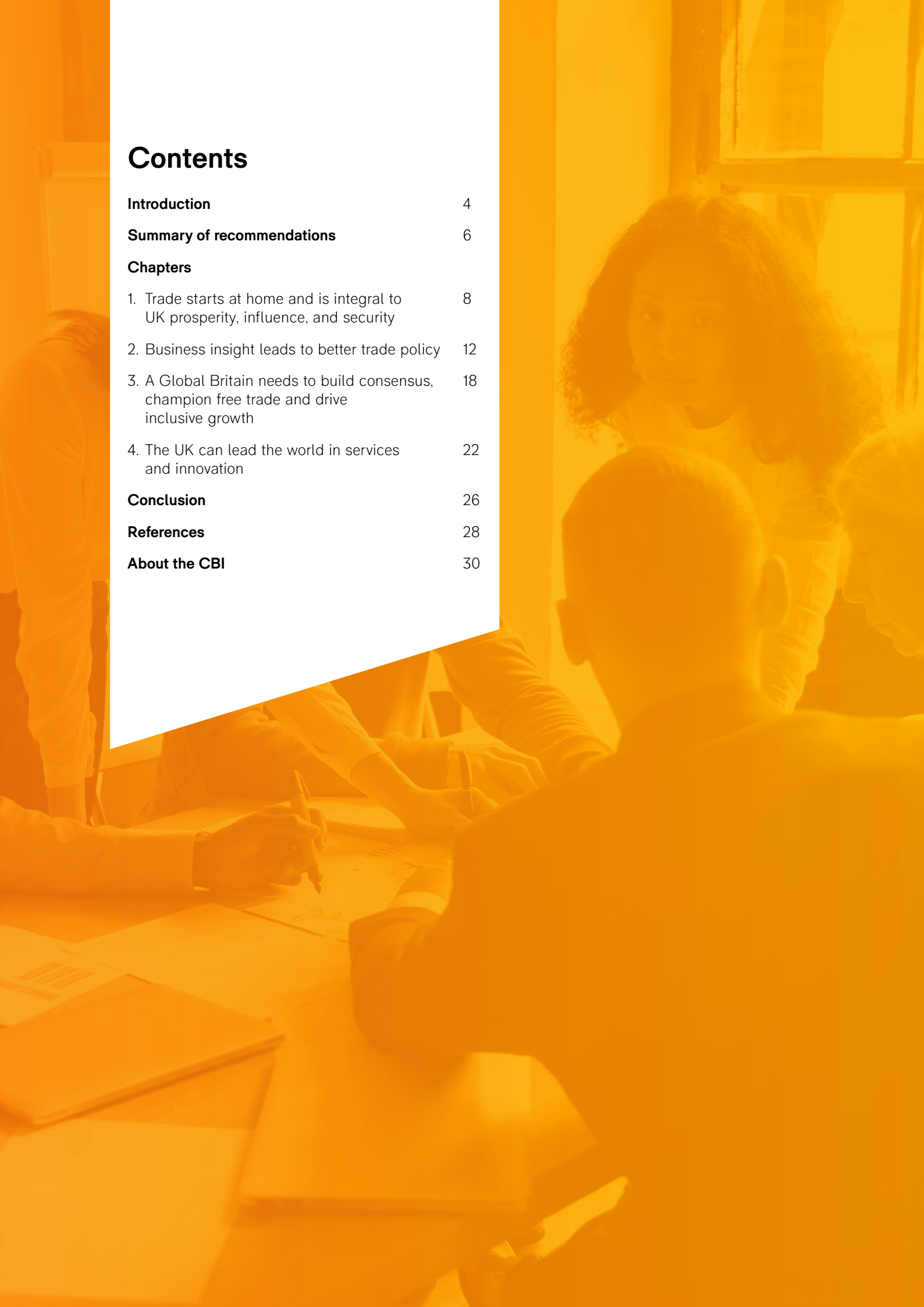
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International Trade



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Introduction

The UK stands at the foothills of an extraordinary opportunity. For the first time in over 40 years, the UK will soon control its own independent trade policy. Trade is woven into the very fabric of British history, core to building prosperous communities up and down the four nations. At a time when the world needs to recover from a Coronavirus-driven economic shock, trade can play a vital role. The UK should embrace this opportunity and rediscover the full benefits of trade and investment for our communities at home as well as for global peace and prosperity.

Leaving the EU has been a complex and lengthy process. But the UK must learn from the past whilst planning for the future. Now is not the time to retrench. In a world increasingly riven and protectionist, the UK can play a vital role as a global leader.

The UK is ready to get back to business. This is a simple but powerful message shared by the UK government and companies alike. As the UK seeks to recast relationships with global economic partners, government and business should look to build a new partnership. By putting business at the heart of the policy-making process, future regulation can support job creation, levelling up UK prosperity for all. This will require international and domestic policy to work in concert.

Domestic policy, such as skills and infrastructure, enable strong, sustainable businesses to be ready to trade internationally whilst attracting foreign investment. The UK needs a refreshed, future proofed industrial strategy. One which puts the tools in place for business to succeed. And one that prioritises the net zero agenda. It should harness and hone the distinct strengths of UK regions and localities. This would be delivered most effectively in partnership with them. Businesses need to play their part as well. Building cross sectoral collaboration, supporting the development of the right opportunities for UK talent, and embedding innovation at the heart of growth.

Internationally, a Global Britain should aim to lead the world in free trade. Free Trade Agreements (FTAs) should be ambitious and fit for the future – they often reach far beyond trade. They should help design global standards in areas like e-commerce, Artificial Intelligence, FinTech, and the regulation of autonomous vehicles. These deals should be approached in the right way, with collaboration and vision. It is the right time to take a fresh approach to modern international trade – to make trade fundamental to our foreign policy.

The UK has made a great start. At the time of writing, the UK has agreed 20 continuity agreements, transitioning EU – third country trading arrangements. A significant trade deal has been agreed with Japan, worth £15.2bn in the long run,¹ whilst those with the US, Australia and New Zealand are ongoing. This is supported by regular trade discussions around the world on trade liberalisation such as in the Economic Financial Dialogues with China and the Joint Economic and Trade Committee (JETCO) with India.



The CBI and its members have contributed throughout this process, but more can be achieved. With greater collaboration, the government can tap into the wealth of knowledge and innovation that the UK has to offer. But the key to trade liberalisation is utilisation. As businesses use trade arrangements to grow, they can create more jobs, develop resilient global supply chains, and attract investment. By weaving external stakeholders ever closer into the architecture of trade discussions success can be prebaked. The responsibility is then on business to capitalise on new markets.

The UK also has an international responsibility to help defend and build an environment suitable for trade and growth. The UK is not alone in the desire to trade more and improve prosperity. An effective rules-based system, on which trade relies, is essential. The UK has an unparalleled year of opportunity ahead to shape and support its continuity at a time when it is under pressure. Taking up an independent seat at the WTO whilst hosting the G7, the CBI chaired B7 and COP26 can enable the UK to build greater consensus.

Finally, the partnership between government and business needs to extend to the public. People have lost faith in trade. They are not convinced it delivers the great jobs, lower prices, and better lives that politicians promise. They do not recall the positive aspects of our trading history. This scepticism has real impact, stalling countless past negotiations. To win back the trust of communities we should have the courage to be honest. In a globalised economy, particularly one going through a digital and technology revolution – free trade and open markets will sometimes affect jobs.

The right response to this is not to close the door to foreign competition but to invest at home, particularly in skills for the changing world of work to help more people succeed and share in rising prosperity.

This is a challenge we share and can tackle together. There are so many examples of where trade can transform communities. Seizing the benefits of trade to transform lives. The future is ours to shape, perhaps in trade more than anywhere else.

Summary of recommendations

1. Trade starts at home and is integral to UK prosperity, influence, and security

- Trade and investment are key drivers of growth, enabled by competitive domestic policies such as skills and infrastructure. To succeed globally, business needs a renewed domestic agenda which puts trade and investment at its core.
- Trade is a geopolitical lever, so integrate business thinking into foreign policy.

2. Business insight leads to better trade policy

- So that business can better highlight issues, support economic impact analysis, and engage to prioritise asks, extend consultative structures for trade policy to wider market access discussions.
- Business has the expertise to advise on the detail, so maximising use of the TAG and STAG stakeholder engagement architecture, including sharing draft FTA text confidentially and consulting the STAG on inevitable trade-offs, will lead to maximum benefit for the UK economy.
- To ensure the UK's trade policy is supporting economic prosperity, the implementation, compliance, and effectiveness of agreed trade liberalisation, including utilisation rates and regional impact, needs to be monitored. Establish an Office for Trade Impact (OFTI) to be accountable for this.
- So that benefits of the UK trade agenda are fully realised, reflect new opportunities from trade deals and wider market access work in export and investment promotion.





3. A Global Britain needs to build consensus, champion free trade and drive inclusive growth

- To provide the insight needed to fully utilise the UK's new independent seat in Geneva and integrate it into DIT's stakeholder engagement architecture, convene a standing committee of UK business representatives with proven expertise in the WTO system.
- To harness and build the UK's strengths and leadership in innovation use FTAs, EFDs and JETCOs to build consensus and lay the groundwork for collaboration on emerging technology and the standards which will underpin their use.
- Lead the inclusive growth agenda through the G7 and G20, tied to discussions on economic recovery and links between UK aid spend and trade to underpin the global economic recovery.

4. The UK can lead the world in services and innovation

- Increase the focus on services as a fundamental UK strength, both within trade policy and through launching a global campaign to promote services liberalisation and exploit export opportunities.

Trade starts at home and is integral to UK prosperity, influence, and security

The government has put levelling up the country at the heart of its mission. In the fight to tackle regional disparities, trade and investment are vital tools so businesses can grow and create sustainable jobs.

In many sectors the domestic market will not be sufficient for the levels of business growth needed. Firms will need to export and identify new revenue streams. This in turn can improve UK competitiveness. There is clear evidence as to why this is important. Firms with higher productivity are more likely to export, while trading overseas also makes firms more productive. Exposing businesses to the pressures of foreign markets helps them to become more competitive and encourages them to innovate.² Instilling a 'think international' attitude across the whole UK business community can therefore support more sustainable businesses and address the UK productivity gap.

To realise the UK's export potential, a focus is needed on the enablers of UK competitiveness, trade, and investment. Be it maintaining the right skills base, building back better with infrastructure for the future or delivering the connectivity to fuel the Industrial Revolution 4.0, the UK needs to appreciate the international impact of our domestic policy. The UK should also maintain its position as a global hub of innovation. It should embed innovation, entrepreneurship, and the commercialisation of R&D alongside business into the heart of the economic recovery.

Foreign Investment levelling up the UK

Realising a competitive domestic environment will need investment. Clear strategies are needed for financing infrastructure, developing a sustainable skills base fit for the future economy, and building the right digital framework. Much of this will need to be attracted from overseas. The UK's inward investment stock is the largest in Europe and second highest in the world,³ but more than half of FDI projects across the country in 2019 landed in London.⁴ This disparity needs to be addressed to raise competitiveness across the UK.

The UK should not allow the increasing need for investment safeguards to stand in the way of the ability to level up the economy. Business understand the limited need for the right safeguards but also know how important it is to create the right system. The government can learn from internationally recognised principles such as no retroactivity whilst working with business as the UK regime develops.



The following CBI reports provide greater details and recommendations for the domestic environment:

- Infrastructure⁵
- Digital⁶
- Skills⁷

Strengthening local partnerships

The four nations that make up the UK, and the regions within those nations, are not homogenous. To support businesses to export and attract the right foreign investment, promotion activity needs to better integrate with local economic growth plans. A consultative mechanism that allows genuine input to UK trade policy by devolved administrations and the offices of Metro Mayors can help bring local expertise to the table. This will also help bring important institutions on board to raise awareness of the benefits of the trade agenda and identify opportunities for pan-region collaboration. This will only work if all parts of the UK truly embrace the benefits of trade in improving their prosperity.

Case Study: Canadian Federal/Provincial partnership

Canada is a good example of a country joining up trade policy with export promotion, maximising the benefits of negotiating trade deals for the whole country. It is no accident that the Trade Minister is also the SME Minister, with the government putting a lot of emphasis on supporting the whole Canadian business community to expand overseas. The Federal and Provincial governments also work closely together to promote Canadian business, and in some cases officials from the Trade Commissioner Service work in the same physical buildings as provincial colleagues.

Impressive gains were made after the implementation of CETA, helped by the focus on promoting the benefits of the deal by the Canadian government. Excluding gold, exports from Canada to the EU increased by 14% after the trade deal came into force.⁸ Making sure trade benefits reach every corner of Canada is baked into the federal structure of the Canadian constitution, as the provinces are regularly briefed and consulted through groups like the Federal-Provincial-Territorial Trade Committee.



Developing a public narrative

There is a global trend of questioning the value of trade as fundamental to providing the jobs, lower prices and better lives promised by politicians. Reversing that and rebuilding trust in trade through a clear public narrative is critical, and business can help.

The message is clear – trade and investment is critical for the prosperity of communities across the UK. Driving growth, job creation, more choice for consumers and lower prices are positive stories to tell. A campaign in partnership with business, civil society and devolved administrations is an important first step. Highlighting the very tangible benefit to communities, families and individuals is the narrative needed to build trust in trade again. This will provide the government with a licence to operate for the FTA negotiations, build consensus for trade policy and support the stability of the Union. The CBI and its members stand ready to help.

Incorporating trade as a key component of UK foreign policy

Improving the perception of free trade is a global issue. The unprecedented impact of the pandemic, increased tensions between global superpowers, and greater nationalistic protectionism endangers free trade. It also raises the question about how and where companies should seek growth and do business. For the foreseeable future UK companies will find themselves trading and investing with countries whose values are not necessarily aligned to our own. With the attendant geopolitical and reputational risks, guidance from, and partnership with, government becomes even more important.

Stronger partnership between government and business is mutually beneficial. Trade, aid, financial and regulatory alignment, and interventions into supply chains are increasingly important foreign policy tools. While these issues are complex and involve areas where business have less expertise, like security, the complexity and interconnectedness of global trade means that economic insight is fundamental to foreign policy. A strategy for a country or region needs to be balance opportunity and risk, utilising all the policy tools at its disposal.

A more formal confidential dialogue between business and government seems vital in the modern world. Both sides can bring insights to the table and benefit from timely advice. Whitehall's Integrated Review of Security, Defence, Development and Foreign Policy is a chance for government to rethink how they involve external stakeholders such as business and create bespoke structures for input.

Development and Aid

The politics of trade is not just about managing risk, it is also about inclusive growth and showing how trade can be a force for good. The best safeguard against trade protectionism is for trade to directly lead to economic development and improve livelihoods. With a more strategic approach to development and aid the UK will have even greater impact.

CBI members greatly value the UK government's commitment to the development agenda. In 2018, the UK was one of only five countries to either meet or exceed the UN's target of spending 0.7% of national income on aid.⁹ This spend contributes to the long-term economic growth and development of partners around the world as well as lending the UK extensive soft power overseas. Supporting countries to develop the policy environment which attracts business and enables them to thrive in a competitive, sustainable way will help address systematic issues. Businesses have a key role to play providing expertise and utilising their global footprint, supply chains and employees.

The merger of DfID and the FCO can create a stronger international voice on prosperity issues. Business is well placed to support and take advantage of links between trade and aid without conditionality attached. A clear and positive UK agenda for trade and aid between the FCDO, DIT, and business community will have benefits for the UK and across the world.

Recommendations

- Trade and investment are key drivers of growth, enabled by competitive domestic policies such as skills and infrastructure. To succeed globally, business needs a renewed domestic agenda which puts trade and investment at its core.
- Trade is a geopolitical lever, so integrate business thinking into foreign policy.



Business insight leads to better trade policy

The CBI welcomes the government's approach to FTA negotiations. Securing continuity of trade with Japan and gaining improvements on the EU's agreement in areas such as digital and mobility, was an absolute priority for UK firms. And the US, Australia, and New Zealand negotiations have set high ambition with a pragmatic pace. To ensure that these and future agreements maximise the opportunity for trade liberalisation businesses need to be engaged throughout.

FTAs continue to evolve. They now include thousands of pages of text which ultimately make it easier for firms on both sides to sell goods and services or invest in each other's markets. The move towards including wider issues such as climate goals within trade deals makes them an important vehicle to have a significant impact. It also makes them more complicated to finalise and more resource intensive.

It is because of this that substance is far more important than speed. The government has a responsibility to strike the right trade deals, with the right partners, at the right time. This is particularly relevant with the US due to the imminent Presidential election. The priority remains a pragmatic approach towards FTA negotiations and to take time to get the content right, before launching a second wave of FTAs.

Business insight led negotiations

The UK's partners in negotiations have well developed systems for consulting business on FTA content. Examples like the US system of trusted advisers ensure that US trade negotiators know what their objectives should be, get the best possible real time intelligence in negotiations and encourage business to promote and use the deal. The CBI published recommendations in January 2020 on how to match this in *Building a world-leading UK trade policy*.¹⁰

DIT established a system of consultative architecture in 2019 with its Strategic Trade Advisory Group (STAG) and Expert Trade Advisory Groups (ETAGs). It updated this system with 11 sectoral Trade Advisory Groups (TAGs) in August 2020. Business supports these innovations and recognises that the system is moving in the right direction. Transparency is key to building support for your agenda and the publication of TAG membership was an important step. The CBI and its members will play active roles in the future STAG and TAG meetings respectively.

To continue the strengthening of the system, the mechanism to address cross-cutting thematic issues alongside business needs clarification. Getting the right agreements in areas like data, intellectual property and customs will be critical for UK prosperity and private sector insights can support this.

The CBI is a participant and advocate for the STAG, a group that is well placed to give strategic direction to the big decisions ahead for Ministers and officials. The sharing of draft negotiation text of with business in real time to ensure opportunities are seized and defensive interests understood is urgent.

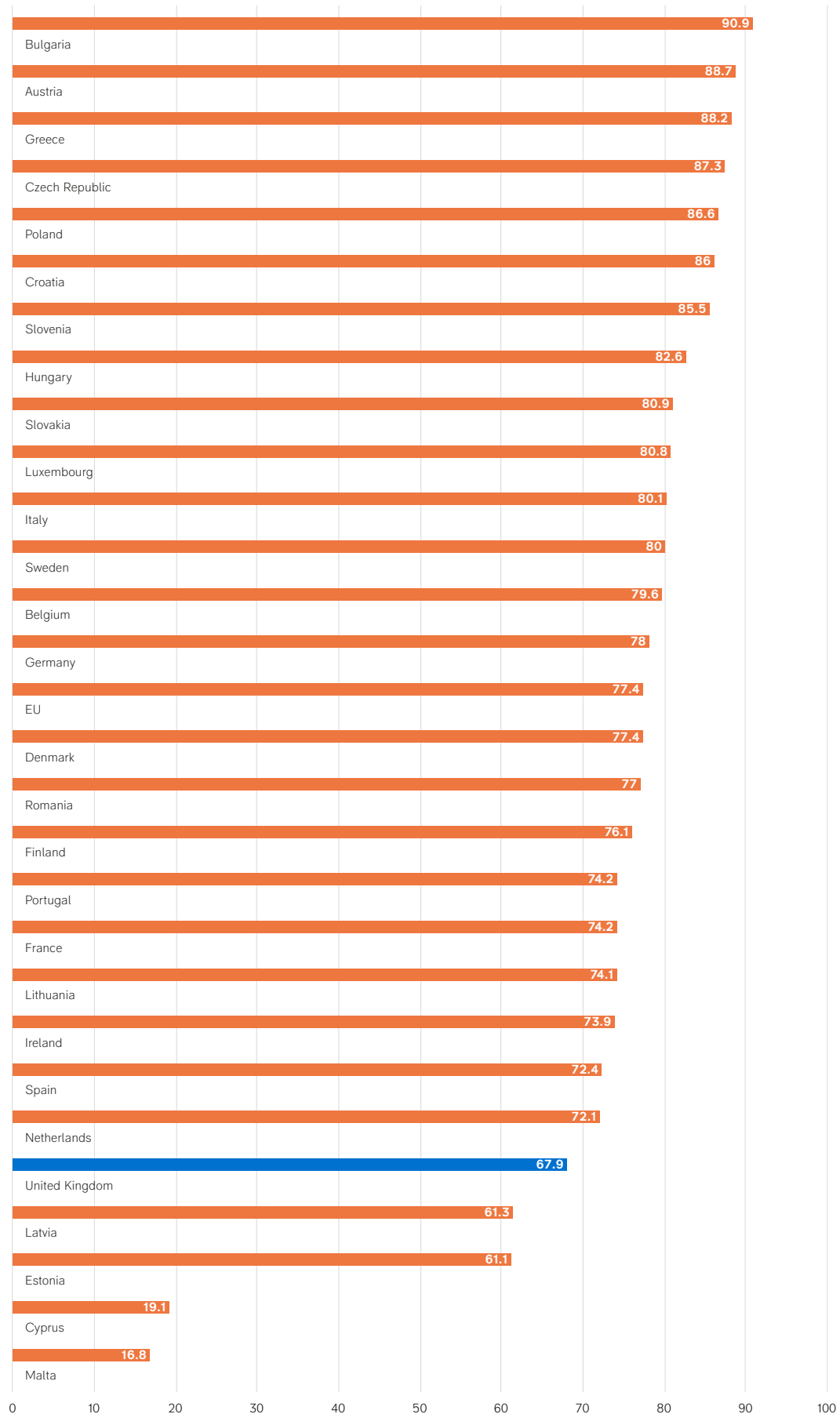
Maximising utilisation

For the hard work of negotiators to bear fruit, businesses large and small need to ultimately use the preferences afforded through trade deals. To drive up utilisation rates, the business community should be brought into the negotiation process early and play a collaborative role throughout. This extends to informing the wider business community of the impact of the negotiated agreement and how to use it.

FTAs are extremely resource intensive and are only worthwhile if they make a tangible difference to UK growth and jobs. UK businesses historically lag behind European counterparts in their utilisation of EU trade agreements, and there is a role for the business community and government to put that right. The UK has a preference utilisation rate of 67.9%, compared to an EU average of over 77%.^{11, 12} Only four countries are less effective at using FTAs across the EU27.



Exhibit 1 Utilisation rates of EU FTAs



A strong partnership between government and business can agree objectives which reflect the current and future UK economy. It can amplify trade promotion linking trade deal provisions directly to the sectors and regions that can exploit them.

To support this, an Office for Trade Impact (OFTI) should be created to monitor the impact of UK trade policy, particularly FTAs, utilisation rates and compliance. The OFTI could be arm's length of government and analyse UK trade policy success across regions and sectors. This emulates examples globally, including the Australian Productivity Commission and the Swedish Board of Trade.

Tackling trade barriers outside of trade deals

An FTA can unlock significant benefits in market access, but it is only one part of the market access puzzle. UK businesses lose billions of pounds worth of trade each year due to market access barriers imposed by other countries. A cultural and political rise in protectionism is accelerating this. The trade war between the US and China, challenges to globalisation and the impact of the Covid-19 pandemic, have all accelerated the number of tariff and non-tariff barriers around the world. The importance of pursuing dialogue, be it within structures such as EFDs and JETCOs or informally, is crucial, particularly in those markets where FTAs are not in place.

Market access is often dependent on tangible, on the ground interventions by government to remove trade barriers. Whether through regulatory convergence and harmonisation, or achieving access for specific products, governments can secure significant short-term gains and lay the groundwork for future trade deals.

Over the last two years, government has made progress to develop and implement an overall market access approach to resolve barriers for UK businesses. This has been underpinned by an improved approach to insight and data. Internally, Embassies and Whitehall developed a market access database and in January 2020, government launched an external digital service for businesses to report market access barriers directly.

This approach has already started paying dividends. For example, GSK won a £35 million contract in Bulgaria after changes to health procurement rules were secured.¹³ The British beef industry received a boost¹⁴ when it was announced the government secured an end to China's ban on the import of British beef.

Success has been driven by more targeted trade policy interventions. In each market the government should decide how best to prioritise their market access asks, targeting the sectors that are of the most value to the UK economy in the long-term and the issues which have the highest chance of being resolved. Businesses can be invaluable in the process. A continued and more formal partnership between business and government posts can inform negotiations whilst aligning business growth strategies.

By moving away from a transactional, case by case approach towards a more strategic, business driven approach the government can maximise the long-term benefit to the UK economy.

The government can also be instrumental in achieving market access wins outside of trade deals even where an FTA is being negotiated. FTAs should be part of a wider strategy for a specific market. Investing in resource on the ground and ensuring the link between business at home and UK officials overseas can be easily established is crucial. While the government is effective and often instrumental when making introductions in-market, more can be done to support businesses to internationalise, whether through improving its digital export offer or providing more detailed analysis on specific markets.

Case Study: ABI

While FTAs are the most legally sound way of reducing barriers to entry and increasing trade, they traditionally involve a lengthy and/or arduous negotiation period. There are limited precedents for substantial or meaningful inclusion of financial services.

Bilateral agreements, regulatory cooperation agreements, Memoranda of Understandings and Economic and Financial Dialogues (EFDs) are more fruitful tools in securing liberalisation for the (re)insurance sector. EFDs are particularly useful with markets where any formal trade agreement is not on the immediate horizon.

The annual EFDs with China and India are particularly valued in securing incremental progress towards reducing some barriers and creating new opportunities for (re)insurers. They have a proven track record of working towards and delivering market access, addressing behind-the-border issues, supporting cross-border capital flows, collaborating on capital market connectivity and development, and regulatory capital.

Government efforts in maintaining good regulatory dialogue can be very helpful in building relationships and bringing regulators to the table to share information on each market, best practice and resolve challenges.

China offers a good example for the (re)insurance sector, where recent EFDs have resulted in commitments to consider granting pension insurance licences and moving towards the removal of restrictions on foreign ownership.

Recommendations

- So that business can better highlight issues, support economic impact analysis, and engage to prioritise asks, extend consultative structures for trade policy to wider market access discussions.
- Business has the expertise to advise on the detail, so maximising use of the TAG and STAG stakeholder engagement architecture, including sharing draft FTA text confidentially and consulting the STAG on inevitable trade-offs, will lead to maximum benefit for the UK economy.
- To ensure the UK's trade policy is supporting economic prosperity, the implementation, compliance, and effectiveness of agreed trade liberalisation, including utilisation rates and regional impact, needs to be monitored. Establish an Office for Trade Impact (OFTI) to be accountable for this.
- So that benefits of the UK trade agenda are fully realised, reflect new opportunities from trade deals and wider market access work in export and investment promotion.



A Global Britain needs to build consensus, champion free trade and drive inclusive growth

As the UK redefines its place in the world it is an opportunity to identify where it will lead. Trade should be central to the new 'Global Britain' narrative which can be realised through a renewed emphasis of our role in multilateral fora.

Building consensus at the WTO

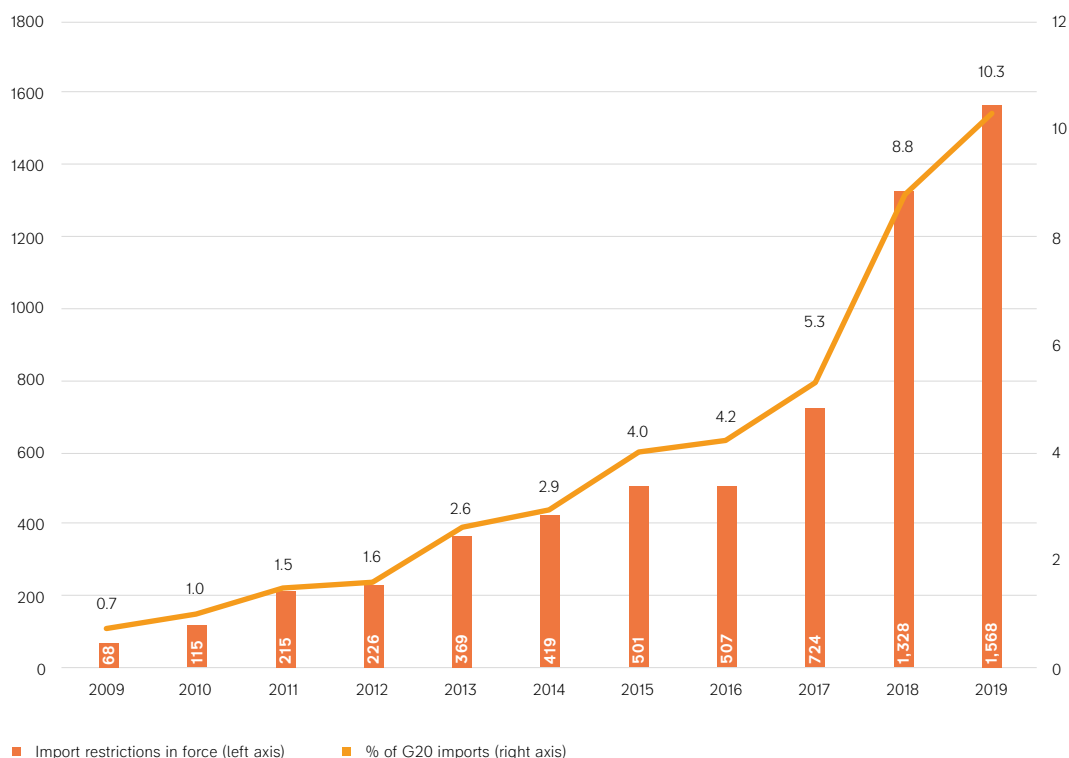
For trade to thrive, the world needs a system of global rules which encourages economic growth, protects fairness, and fosters new technologies. This requires careful management. The WTO, set up to perform this very function, is at the time of writing leaderless and divided.

The problems are not about one administration or another, the WTO needs to be more effective at building consensus. Concluding a deal to cut fishery subsidies, one of the top items on its agenda, would mark only the second time that the WTO has reached an agreement between all 164 members since the organisation began in 1995.

The role of the WTO is ever more important as protectionism increases. Figures show how the percentage of imports hit by restrictions by G20 countries increased 15-fold between 2009 and 2019 and now affect 10.3% of G20 imports (\$1.6 trillion).¹⁵ The pandemic has increased this trend and with it the danger that temporary measures become permanent.



Exhibit 2 Import restrictions imposed by G20 countries on the rise



This trend and the erosion of the WTO pose challenges for UK prosperity but also provide opportunities for the UK to lead. A Britain with an independent voice at the WTO can use this freedom to press for change. It can speak up on behalf of smaller markets and convene like-minded nations to combat protectionism. The government will need an honest assessment of where progress is possible and develop partnerships to work with, through and outside the WTO machinery.

Working with business will be an essential part of the multilateral agenda and the UK can encourage other WTO members to bring the private sector into the debate. Businesses should both call out trading abuse and failures and feed into new rules and standards as they are negotiated. CBI members recognise how difficult the task is but want to support and stand ready to convene. The creation of a standing committee of business organisations with an interest and proven expertise in the WTO system can help significantly to champion business insight and normalise collaboration.

Case Study: The importance of enforcing the rules – Scotch Whisky Association

Negotiating trade agreements, whether bilateral or multilateral, delivers immediate benefits, such as tariff liberalisation. But they must be interpreted and enforced if they are to maximise economic gains over time. As the Scotch Whisky industry has experienced in practice, there are often genuine differences of understanding between parties as to what specific provisions mean. These can have commercial consequences, such as exporters deciding not to claim a preferential tariff because to do otherwise would disrupt existing complex supply chains.

Equally, for domestic political or economic reasons, parties to a trade agreement will often violate its provisions, inadvertently or deliberately. Although tax discrimination against imported brands is clearly a WTO violation, over the years, the Scotch Whisky Association has nonetheless been involved in one GATT and eight WTO disputes where governments have flagrantly discriminated against imported spirits.

Each dispute was the culmination of repeated attempts to achieve a resolution through the lower profile tools in the trade policy repertoire, including bilateral diplomatic contacts, the standing WTO mechanisms and direct industry engagement with government.

UK trade strategy must focus on enforcement of trading partners' obligations under bilateral FTAs and the WTO agreements. This should include not only the capacity to take offensive disputes on behalf of UK exporters, but also the ability to intervene as third party in cases raising systemic issues, such as Australia's current challenge to certain practices of the Canadian Liquor Boards.

The G7 and COP26 are an opportunity to lead

The opportunities for the UK to lead on the global stage extends far beyond the WTO. The UK can use its G7 presidency as an opportunity to shape the post Covid-19 recovery. It will be a chance for the UK to position itself across drivers of growth such as digital, low carbon and inclusiveness. With the US Presidency of G7 interrupted by the pandemic, and COP-26 being postponed until 2021, the UK has a unique double opportunity to set the international agenda. The partnership with Italy to co-host COP as they chair the G20 will enhance this.



The voice of the business community will amplify UK influence through these fora. CBI members and British business should be fully engaged as the agenda is developed and provide insight into the areas of innovation which will have the greatest impact and ability to drive change. The CBI will chair the B7, drawing together business groups from the EU, the US, Canada, Germany, France, Italy, and Japan, and will identify shared priorities to frame discussions and build greater collaboration between global business communities. Working with the EU will also be an important part of this plan. Whatever the differences over Brexit negotiations, the EU is the major trading power which on some issues – like climate – is closest to the UK.

Recommendations

- To provide the insight needed to fully utilise the UK's new independent seat in Geneva and integrate it into DIT's stakeholder engagement architecture., convene a standing committee of UK business representatives with proven expertise in the WTO system.
- To harness and build the UK's strengths and leaderships in innovation use FTAs, EFDs and JETCOs to build consensus and lay the groundwork for collaboration on emerging technology and the standards which will underpin their use.
- Lead the inclusive growth agenda through the G7 and G20, tied to discussions on economic recovery and links between UK aid spend and trade to underpin the global economic recovery.

The UK can lead the world in services and innovation

The UK is a services powerhouse. It is a world leader in services trade and outstrips the rest of the G7 in terms of the percentage share of total exports. Services account for 47% of UK exports, compared to 35% in France and 34% in the United States. The UK's global services exports were £328bn in 2019, while its imports of services were £222bn.¹⁶ In absolute terms, the UK is the second largest exporter of services in the world after the US.¹⁷

The importance of services to the UK economy will also not diminish. These sectors will drive global trade growth. According to the WTO, the share in global trade is projected to increase by 50% in the coming decades, rising from 21% in 2018 to over 30% by 2040.¹⁸

In the UK, services exports grew over twice as fast as goods exports between 2012 and 2019 and on present trends, will make up over 50% of UK exports by the end of the decade.¹⁹

	2012	2019	Increase 2012-2019
Total UK Exports Goods	£298bn (58% of total)	£373bn (53% of total)	25%
Total UK Exports Services	£215bn (42% of total)	£328bn (47% of total)	53%

The growth is likely to be driven by new markets. For example, UK exports to China are made up of 20% services and 80% goods, a far lower proportion than in UK exports to the EU or US. Looking ahead, an increase in demand for services, as the Chinese economy matures and middle-class grows, offers a huge opportunity for UK business.²⁰



Market access barriers in services are significant

The UK's competitive edge in services trade needs to be protected and enhanced. The OECD estimates costs relating to regulatory barriers around the world correspond to around 57% of total trade value for communication services, 54% for business services, 60% for transport services, 103% for insurance services, and 255% for financial services.²¹ The Covid-19 pandemic has accelerated many services trends, particularly in digitisation and technology adoption, highlighting the growing importance of online services.²²

Despite these staggering numbers, trade negotiations and public discussions largely revolve around goods trade with services a secondary consideration. This needs to change. Government and business can work together to make a public case for services. It is easy to visualise trade in goods, but it is much harder to conceptualise trade in services. The absence of a public debate about services and a lack of understanding of the interconnected nature of services trade means it is less likely to be prioritised in trade negotiations, even as the UK's fastest growing export.

Mobility is key for services growth

Face to face interaction and building relationships between people are key factors for trade in services. There are many sectors, like the creative industries, which rely on ease of mobility to carry out business across borders. The UK's role as a business hub between Asia and America, and its mobility regime that has allowed them to get the right people, in the right place, at the right time, are key factors in attracting businesses to locate in the UK.

To enable this business activity, mobility needs to be affordable and simple. The ability to action "fly in fly out" services, allowing workers to travel overseas to carry out short-term work and training, unlocks opportunities for business. A recent TheCityUK/ EY report estimates that nearly two-thirds of UK finance and professional services firms relocate non-UK staff from other offices and three in five bring non-UK workers into the country for training and work experience.²³ It also allows firms to deploy expertise where it is needed across a multinational organisation.

A top priority for UK trade policy should be to make Intra-Company Transfers (ICTs) and short-term business stays easier, supporting "Mode 4" services trade.²⁴ Other routes, such as the Global Talent Visa (GTV) and the Youth Mobility Scheme (YMS), could be expanded and refined to facilitate easier mobility and provide firms with access to the full range of skills they need to grow. to deploy expertise where it is most needed across their organisation and provide graduate trainees with invaluable experience of different areas of the business. Other routes, such as the Global Talent Visa (GTV) and the Youth Mobility Scheme (YMS), could be expanded and refined to facilitate easier mobility and provide firms with access to the full range of skills they need to grow.



Cross-border data flows underpin trade

Alongside human capital, the free flow of data is essential for seamless trade of goods and services across borders. It enables businesses to access new markets, improve their products and give consumers more choice and lower costs. In fact, data flows now generate more economic value than global goods trade.²⁵

The UK is a global hub for data flows, with the largest data centre market in Europe²⁶ worth over £73 billion per year.²⁷ Over 75% of UK data transfers are made with EU countries, making the continued free flow of data between the UK and the EU crucial for businesses operating in sectors from advanced manufacturing to logistics to financial services.²⁸ The rules and mechanisms governing these data flows, as well as those between markets around the world, need to provide certainty for business. Legal uncertainty and interruptions to the free flow of data harm business and consumers.

CBI members are therefore clear that they value alignment with Europe over digital divergence and welcome the EU's intention to make a decision on adequacy by the end of 2020. Securing an adequacy decision is important for all sectors and sets the UK up to remain a hub for global data flows. A strong reliable mechanism for EU – US data flows is also necessary for robust global data flows. Businesses are concerned that the European Court of Justice's (CJEU) landmark Schrems II ruling will negatively impact post-Brexit data flows between the UK, Europe and the US.

With reduced mechanisms for data transfers limiting the benefits of cross-border flows of data, the UK should use its global standing as a thriving technology hub with respected civic institutions to shape global rules. It needs to take a pro-innovation approach that upholds high ethical standards in areas such as privacy and breaks down the barriers to global prosperity.

Protecting IP is critical to capitalising on UK innovation

The UK's innovation status also requires effective protection of IP. With the world on the cusp of a 4th Industrial Revolution promising emerging technologies such as Internet of Things, autonomous vehicles, quantum computing, AI and genomics rely on IP protection to succeed internationally.

The UK should be confident in its highly respected domestic IP system and connected regimes, such as enforcement mechanisms. Trade agreements should require trading partners to introduce and maintain as a minimum, equivalent forms and levels of protection. A priority is to build on the UK's current IP ecosystem and see UK commitments to existing treaties including the European Patent Convention maintained. Some issues, such as substantive patent law, require harmonisation at a multilateral level where CBI members want to see the UK take a lead.

Copyright and its enforceability play key roles in the digital and creative economies. The UK's world-leading creative industries in publishing, film, television and music have been built on these solid foundations and these should be upheld.

Recommendation

- Increase the focus on services as a fundamental UK strength, both within trade policy and through launching a global campaign to promote services liberalisation and exploit export opportunities.



Conclusion

In a wide range of sectors, the UK can lead the world and stamp its authority in the global marketplace if government and business work together on building the trade policy to unleash the country's potential.

The UK remains one of the best places in the world to do business. Ranked in the global top ten for 'Ease of doing business,' by the World Bank, and second only to the US in the G7 economies. The UK has four of the top 10 universities in the world. It is the global leader in fintech. Known for our innovation and creativity.

And more \$1 billion dollar unicorns than any other European country. After years seen as the old guard, the UK is charting a new path and the opportunities to build on existing strengths are significant.

From Glasgow to Portsmouth, Belfast to London, Liverpool to Hull, our country has always looked outward for success. International trade and investment have underpinned the UK's economic growth. It is essential the domestic agenda is centred on furthering the UK's international competitiveness. And the UK can play a leading role globally in championing the value of trade to prosperity and living standards.


Now is the time for the UK to put a long-term strategy for trade in place, pitching a vision that helps more businesses export, maximises the benefits of trade deals, and integrates economic interests into foreign policy. Business stands ready to support and can bring expertise to the table. A genuine partnership between government and business is the route to success.

A man and a woman are sitting at a table, looking at a laptop screen. The man is on the left, and the woman is on the right. They appear to be in a meeting or collaborative work environment. The background is blurred, showing what might be a restaurant or cafe setting with warm lighting. The entire image has a strong orange and yellow color overlay.

“Now is the time for the UK to put a long-term strategy for trade in place, pitching a vision that helps more businesses export, maximises the benefits of trade deals, and integrates economic interests into foreign policy.”

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A person wearing a white protective suit, including a hood and gloves, is holding a clipboard and looking down at it. The background is a brightly lit industrial or laboratory setting with large windows and equipment. The entire image has a strong orange-yellow color overlay.

“While the government is effective and often instrumental when making introductions in-market, more can be done to support businesses to internationalise.”

About the CBI

Founded by Royal Charter in 1965, the CBI is a non-profit business organisation that speaks on behalf of 190,000 UK businesses of all sizes and from across all sectors, employing nearly 7 million people between them. That's about one third of the private workforce. This number is made up of both direct members and our trade association members. We do this because we are a confederation and both classes of membership are equally important to us.

The CBI's mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. With offices around the UK (including in Scotland, Wales and Northern Ireland) and representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

Our mandate comes from our members who have a direct say in what we do and how we do it

The CBI receives its formal mandate from 9 Regional Councils, 3 National Councils from Scotland, Wales and Northern Ireland plus 16 sector based Standing Committees. These bodies are made up of members in that region, nation or sector who serve a term of office. The chair of each Standing Committee and Regional and National Council sit on the CBI's Chairs' Committee which is ultimately responsible for setting and steering CBI policy positions.

Each quarter this formal engagement process across the CBI Council reaches over 1,000 senior business leaders across 700 of our members who have a direct say in what the CBI do and how they do it, from refreshing their workplan to discussing the key business issues of the day and re-calibrating its influence. Over 80% of the businesses represented on the CBI Council are outside of the FTSE350 as the CBI represents a wide range of sizes and sectors from the UK business community. This formal governance process is supported by a wide range of working groups, roundtables, member meeting and events that makes the CBI unparalleled at listening to and representing British business.

CBI Council in numbers



1000+

Committee and Council representatives



28+

Regional and National Council and sector based
Standing Committees



50%

Representatives of the CBI Council at C-Suite level



80%

Of the CBI Council from non-FTSE 350 businesses

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