

# WINNING WORLDWIDE

A FOUR-STEP EXPORTS GROWTH PLAN FOR THE UK

JULY 2018



## **CBI's business engagement**

Underpinning this report is extensive engagement with hundreds of companies in every region and nation of the UK.

Roundtable discussions and wider engagement have taken place in towns and cities across the country, including in:

Bangor, Belfast, Birmingham, Bracknell, Brighton, Bristol, Cambridge, Cardiff, Coventry, Cumbria, Devizes, Dover, Edinburgh, Filton, Folkstone, Gateshead, Gatwick, Glasgow, Heathrow, Leeds, Leicester, Liverpool, Manchester, Newcastle, Plymouth, Stansted, Truro, Warwick, Worcester and across London.

In addition, the CBI has consulted four former Trade Ministers and a range of business councils and advisory firms involved in providing export support services.

# Contents

<b>Foreword</b>	<b>4</b>
<b>Executive summary</b>	<b>6</b>
<b>Step 1: Start at home</b>	<b>13</b>
Industrial strategy & sector deals	13
Innovation	16
Infrastructure & connectivity	18
Tax & regulation	22
Finance	22
Summary of recommendations	26
<b>A spotlight on China</b>	<b>27</b>
<b>Step 2: Put people at the heart of trade policy</b>	<b>31</b>
Mobility of staff	31
Access to international talent	32
Domestic skills base	33
Higher education	36
Summary of recommendations	39
<b>A spotlight on the US</b>	<b>40</b>
<b>Step 3: Play to the UK's strengths</b>	<b>44</b>
Commercial diplomacy	45
Showcasing the British brand	46
Trade commissioners & envoys	48
Practical support from government	49
Development agenda	51
Summary of recommendations	52
<b>A spotlight on India</b>	<b>53</b>
<b>Step 4: Create a long-term partnership between government and business</b>	<b>57</b>
Business and government collaboration	57
Trade missions	58
Trade shows	59
Empowering the regions and devolved nations	60
The CBI's role	62
Multiplying the benefits of exporting	63
Summary of recommendations	64
<b>Conclusion</b>	<b>65</b>
<b>References</b>	<b>66</b>

## Foreword

Our report today is all about opportunity. It proves beyond doubt that the UK has a golden chance to become a bolder, bigger and better exporting nation. Our innovation, creativity and outstanding services have never been more relevant to a changing world. And as politicians look afresh at our international relationships, this is the moment for government and business to set a world-leading level of ambition, backed by action, that will position the UK as a thriving, open and global economy for generations to come.

This matters now more than ever. As the UK renews its commitment to global free trade, new barriers are being erected between nations under the pretext of protecting national economies. This is misguided. It will hurt consumers and hinder prosperity. The UK must lead the international community in championing free and fair trade.

If the global backdrop is challenging, so too is the domestic context. While there are fine examples of British business success in international markets, our export performance has disappointed since the late 1990s. It has not kept pace with global growth. International competitors are stealing a march. Too many government initiatives have come and gone with too little to show for them.

While some have questioned the value of government action in helping companies to export, CBI members are clear that it is partnership between government and business that will help the UK to win. That's the proven winning strategy among other nations; the UK must match and exceed it.

In this report – a contribution to the forthcoming government Export Strategy – the CBI outlines four steps government can take as efforts are refocused in this area. The starting point is clear: exporting begins at home. Great trading nations create goods and services that others want to buy. Policies must improve the underlying conditions for competitiveness and firms must react to good policies with skill, ambition and confidence.

But this will not happen without people. People are at the heart of trade. That means developing the UK's domestic skills base to acquire more international cultural awareness and foreign languages. The UK must also shape a migration system that works for the aspiring firms of today and tomorrow, better enabling them to find the right talent for the future and move people across the globe with ease.

There are real reasons for optimism. British firms are great at what they do and their products and services are renowned for their quality. Making more of the British brand and all that it stands for is an important piece of the puzzle.

Brexit uncertainty must not be allowed to slow our global progress. Many steps can be taken right now to improve the UK's export performance. The CBI stands ready to support that aim and calls for a new level of ambition and commitment to action. The prize is higher growth, productivity and living standards across the UK. There is no time to waste.



**Carolyn Fairbairn**  
**Director-General**

## Executive summary

### A four-step plan to connect UK business to the world

The UK is at a pivotal moment, redefining its place in the world. Now more than ever, the country must put in place a framework that provides the right environment for businesses to grasp opportunities worldwide. Irrespective of the nature of the final settlement with the EU or future free trade agreements with other nations, there are actions that government and business can – and must – take now to improve the UK's export performance.

Government must ensure that the right foundations are in place for firms to compete internationally, which relies on a cross-government approach as many of the actions to increase exports lie outside the remit of the Department for International Trade (DIT). The upcoming Export Strategy from DIT is welcome and must recognise that nearly all of Whitehall has a stake in increasing trade worldwide.

There is no single lever that government and business can pull to make the difference. Re-orientating the UK economy towards exporting will require a long-term commitment from government and business. It's a marathon, not a sprint.

This report sets out the practical steps that will enable firms to expand their international activity, in turn supporting regional and national economic growth.

### Why trade matters: regional growth, productivity and raising living standards

Trade is a fundamental part of growth and prosperity in any nation. It is a major driver of productivity gains and pushes firms to become more profitable. In the fight to tackle regional disparities, trade is one of the UK's most vital weapons.

International trade has multi-faceted benefits for the whole economy. Despite being a relatively small proportion of firms in the UK, exporters generate 30.5% of UK GDP<sup>1</sup> from international activity. Internationalisation is crucial to economic success all the way down to firm level. CBI analysis produced with McKinsey<sup>2</sup> shows that companies which export are more competitive, more profitable, more innovative and more productive. Exporting also allows firms to diversify their risk profile to make themselves more resilient. Companies that open themselves up to foreign investment expand faster and are also more productive. Therefore, it is vital that government puts in place a long-term strategy that actively fosters international trade and investment, with business needs at the heart of policy-making.

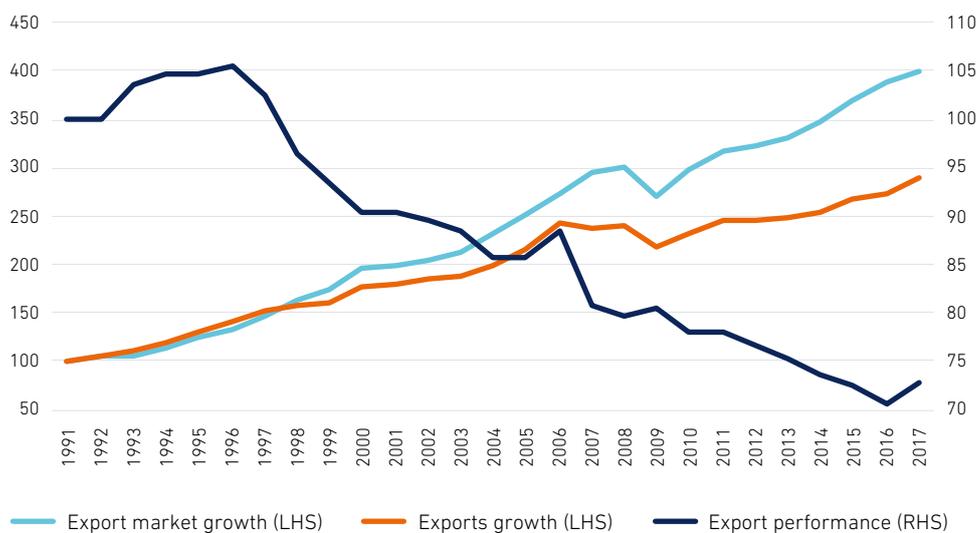
Now is the time to ensure that businesses have all the tools they need to succeed internationally.

## The challenge

The UK has many successes as a trading nation. The UK brand is known overseas as high quality, innovative, reliable, and of good value. There is demand for British goods and services all over the globe and the ability of business to meet that demand is often world-leading.

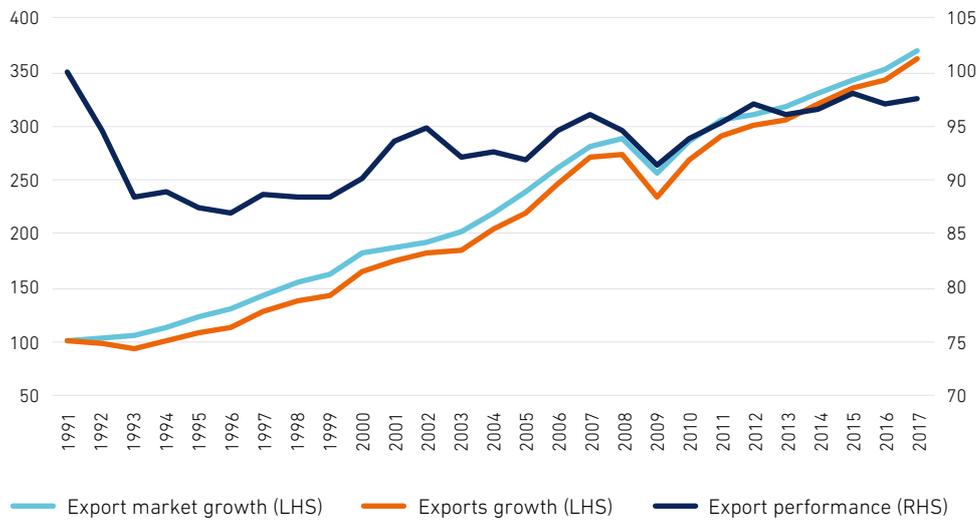
However, less than 10% of businesses engage in exporting activity<sup>3</sup> and there remain up to 15% of firms in every region that could be exporting but are yet to do so.<sup>4</sup> This untapped potential sits in the context of the UK steadily increasing its trade deficit over the last 20 years, continually importing far more than we export. As figures 1 and 2 demonstrate, the UK has performed far worse than Germany over the last twenty years. Export growth has lagged behind growth of the global market, seeing export performance steadily decline, albeit with a welcome short-term improvement recently.

Figure 1: UK's export performance (goods & services volumes, 1991=100)



Note: Export performance is measured as actual growth in exports relative to the growth of export markets.  
Sources: OECD, Economic Outlook; CBI.

Figure 2: Germany's export performance (goods &amp; services volumes, 1991=100)



Note: Export performance is measured as actual growth in exports relative to the growth of export markets.  
Sources: OECD, Economic Outlook; CBI.

Although this challenge started long before the EU referendum, the uncertainty of the future relationship with our closest trading partner means that many companies are reassessing whether their clients of today will still exist tomorrow. Firms that do not sell overseas are starting to look at the option more closely as domestic demand becomes less predictable.

The CBI has been clear that maintaining a frictionless trading relationship with the EU is the number one priority for UK trade negotiators, while recognising the many opportunities that exist to grow our trade profile elsewhere in the world.

### Report objectives

Many successive governments have attempted to challenge UK business to achieve more in exporting through short-term initiatives and campaigns. They have had limited success and many businesses believe that the continual changes to government policy have been a major factor in stalling progress.

Increasing export activity to help turn around the UK's trade deficit requires a long-term plan which sticks, providing businesses with certainty and continuity of what government can and can't do to help them to sell abroad. In the words of one former Trade Minister, "success is one-part strategy, nine parts execution and government often does things the other way around".

This report sets out a four-step long-term plan to improve the UK's export performance, supported by a set of practical recommendations where the CBI would like to see action immediately as the government publishes and implements its Export Strategy.

## Step 1: Start at home

A progressive, pro-enterprise environment is the single most important driver of trade.

**Industrial strategy** and export strategy must be brought together as the UK develops a vision for its post-Brexit economy to ensure that every sector is developing and internationalising to its potential. Greater collaborative working will be needed at all levels between the Department for International Trade (DIT) and Department for Business, Energy and Industrial Strategy (BEIS), and government must complete its work to ensure business has a stake in delivery of the Industrial Strategy.

**Innovation** is fundamental to the UK offer overseas, so continued focus on R&D will be pivotal to ensuring firms continue to provide cutting-edge goods and services. If the UK is to increase its export profile, it must stay competitive by driving R&D spend to 2.4% of total GDP by 2027, with a long-term ambition of 3%, and incentivise private sector investment.

**Infrastructure** has to be fit for purpose for the transactions of trade to work. Government must implement a long-term aviation strategy that better links the whole of the UK to international markets to increase export capabilities and develop an efficient freight system that recognises the multimodal nature of the sector and its importance in moving goods both in the UK and abroad.

**Access to finance** is critical for any business looking to start or expand international activity. The offer of UK Export Finance (UKEF) has improved significantly in recent years, but more work is needed to ensure SMEs are aware of its products and to stay aligned with the practices of other export credit agencies in competitor countries.



## Step 2: Put people at the heart of trade policy

Trade is ultimately about people, but too often our approach to mobility and trade are not joined up.

**Mobility of staff** is at the core of trade, particularly for services exports. To enable the free flow and delivery of these services, UK policy must focus more on liberalising the process of moving personnel between countries in areas like mutual recognition of qualifications.

**Migration** and trade are inherently linked. Being open to negotiating immigration rules will help to secure the best trade deals and agreeing an improved visa system will make the UK a more attractive destination for global talent, who will in turn drive export activity.

**Foreign languages** are an important tool in operating internationally and securing new opportunities. Government must work with businesses to review foreign language curricula and replicate the success of pilot projects like the Mandarin Excellence programme.

**Skills taught at school** must be focused on ensuring the workforce of tomorrow have the practical ability to build international businesses. The government will need to work with employers on elements of the curriculum to effectively transfer knowledge on artificial intelligence, digital literacy, numeracy, and science and engineering.

**International exposure at university** level is a core discipline that builds the UK's ability to perform as a trading nation. Government can do more to support initiatives such as Erasmus+ that enable UK students to experience living and studying abroad, and to place more emphasis on drawing foreign students to our universities as a leading export in itself.



### Step 3: Play to the UK's strengths

'Brand UK' has huge global reach which has been successfully harnessed by government initiatives such as the GREAT campaign. But there is more that can be done to build on these strengths.

**Commercial diplomacy** is government's most effective tool in supporting companies to export wins. While often doing excellent work, there remain areas to standardise practice across the UK's foreign posts to provide consistently world-class assistance to British business overseas.

**Trade envoys and trade commissioners** provide a vital link in championing UK business across the globe and connecting different parts of government with what is happening in markets overseas. Government must continue to expand their coverage to every emerging market and draw in more business people to a similar model to champion the benefits of exporting, as well as maintaining links with visiting international delegations in the UK.

**Individual support to leading exporters** is an essential component to ensure an individual in government is drawing together all necessary parts of Whitehall to support complex and high-value deals. DIT must expand this popular support service to more of the nation's most valuable firms and focus other resources on diagnosing smaller exporters' needs where personalised support is not practical.

**Market insight** remains a much-valued function which government is well-placed to provide to businesses with international ambitions. DIT must continue its restructure to focus on providing insight by specific country so that officials are well placed to advise firms on market conditions.

**Business intelligence** around market conditions, opportunities and barriers is an under-utilised resource. The government must expand its efforts in setting up permanent country-specific working groups to improve the quality of information about business challenges in those markets.

**The international development agenda** is a huge strength of the UK offer where business could play more of a supporting role. DIT, FCO and DfID must set up new structures to not only align their respective efforts around common objectives, but also draw in business support for implementation strategies on a region-by-region basis.

## Step 4: Create a long-term partnership between government and business

Providing consistency and focusing on delivery with extensive business input is crucial. The Export Strategy must be business-led, opportunities through trade missions and trade shows must be exploited and the business community needs to recognise its role in the export drive.

**Cross-government collaboration** and strategic planning alongside business will be essential to the implementation and future success of the Exports Strategy. Government must take steps to create a structure that instils collective ownership of trade across Whitehall departments and regular opportunities to assess and co-design adaptations to the strategy with business leaders.

**Trade missions and trade shows** lie at the heart of finding and winning new opportunities abroad. Business and government must work together to increase the frequency, capacity and effectiveness of these tools to support more of the UK's best businesses in reaching new customers overseas.

**Locally-driven export promotion** is key to engaging SMEs who are the untapped potential exporters of the future. DIT regional offices, Local Enterprise Partnerships (LEPs) and other regionally-focused bodies must do more to demonstrate their strategies for sharing best practice on export promotion between one another, as well as a framework for local business engagement that is efficient and evidence-led.

**Peer-to-peer business support** is another decisive factor in encouraging more business into export activity. Working with business organisations, the government should identify and accredit leading export business leaders to take a more direct role in the Exporting is GREAT campaign across the country.

**Supply chains** present a useful means of pulling more UK firms into international trade. The government must not shy away from expecting quid pro quo from major exporters, welcoming their input on trade strategy going forward in exchange for championing export activity and a concerted effort to seek out new UK suppliers for their international contracts.

## Step 1: Start at home

For the UK to succeed and seize opportunities globally, firms must be producing goods and services the world wants to buy. This requires government policies which allow businesses to grow, compete and become more productive. Through its Prosperity Agenda, the CBI has identified five pillars that support UK competitiveness. That must be the foundation of the UK's export drive. Ultimately, strength in the first four pillars of the Prosperity Agenda leads to success in the fifth.



The Government has rightly recognised these components as the catalysts of success – a significant portion of the ten pillars of the Industrial Strategy are related in some way.

This chapter provides an outline of domestic needs of business to ensure that they have the tools to compete internationally. Fundamentally, an export drive must start at home.

### Industrial strategy and cross-government collaboration

The Industrial Strategy has been widely welcomed by CBI members as an ambitious and sensible approach to supporting business in the 21st century. The recognition of wide-ranging factors firms rely on to be competitive is absolutely right to increase productivity in the UK. The CBI calls on the government to focus all efforts on implementation, to successfully deliver the strategy.

Trade and investment are clear drivers of increased productivity, with unexploited potential in every region and nation of the UK, as highlighted in analysis published by the CBI and McKinsey.<sup>5</sup> The Exports Strategy must therefore be fully integrated with other government initiatives aimed at improving the UK's productivity performance, including the Industrial Strategy.

To ensure that the Industrial Strategy and Export Strategy work in harmony, the CBI calls for a new joint taskforce, led by the senior officials with oversight of each strategy. This framework will allow government resources to work effectively in promoting exporting activity, which relies on many of the components in the Industrial Strategy.

**Recommendation:**

Industrial Strategy and export strategy must be brought together as the UK develops a vision for its post-Brexit economy. This requires stronger political leadership and collaborative working at all levels between DIT and BEIS, starting at the top with a DIT/BEIS taskforce led by the Industrial Strategy Director and the Director General for Exports.

**Business input**

The CBI welcomes the intention to set up an Industrial Strategy Council.<sup>6</sup> The needs of business must directly feed in to the government’s work in delivering the strategy, particularly in recognising that the UK’s trade performance is integral to success. The council must be set up as soon as possible to inform policy and give impetus to delivery.

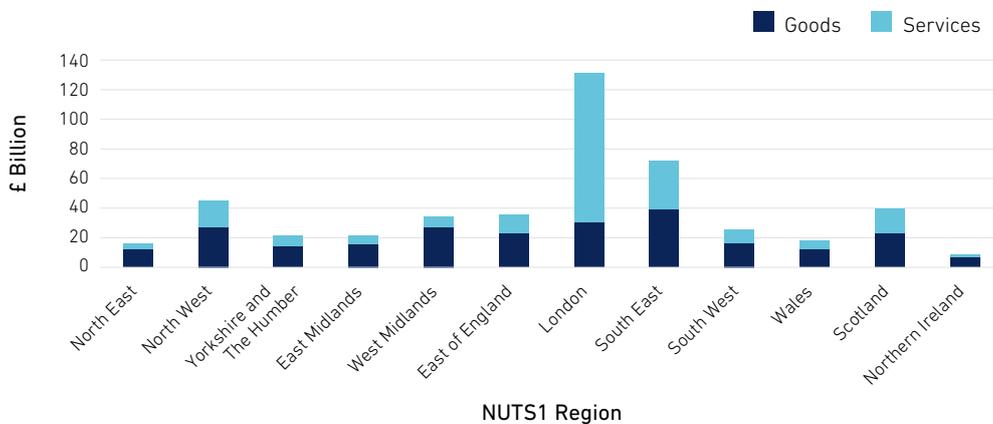
**Recommendation:**

The Industrial Strategy Council must be set up by the end of 2018 and regular meetings convened to drive the delivery of strategy and make sure the business voice is heard.

**Growth in exports across the whole of the UK**

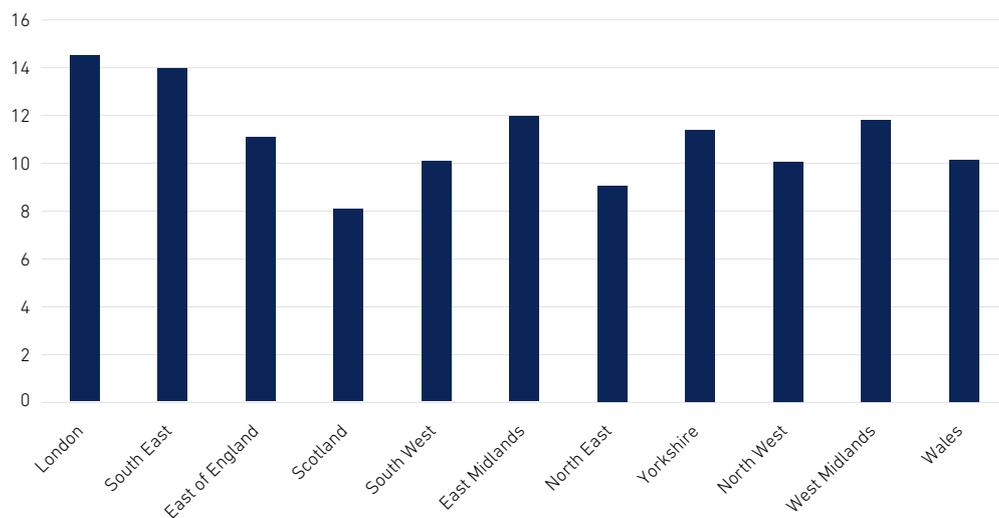
Business needs vary across the country, and by size and sector. The development of local industrial strategies is a good way of maximising regional growth and organisations such as Local Enterprise Partnerships (LEPs) have a crucial role in making sure that they cater for business needs. A place-based approach must be implemented so that firms have the necessary local infrastructure and skills to fulfil their exporting potential.

**Figure 3: Goods and services exports by UK region**



For a significant increase in national exports, all parts of the country must step up to improve their competitiveness. However, UK exports are concentrated heavily on London and the South East, as highlighted in figure 3. The government must therefore provide the necessary regional support to businesses across the country to see economic growth spread across all regions and devolved nations of the UK. The opportunities of this approach are real, with the estimated potential exporters in each region shown in figure 4.

**Figure 4: Proportion of non-exporting firms that are “potential exporters” by NUTS1**



## Sector deals

The CBI welcomes the government’s approach to sector deals announced in the Industrial Strategy. Partnerships and collaboration between the government and industry on sector-specific issues can create significant opportunities to boost productivity, employment, innovation and skills. But as well as pointing to specific measures on how a sector will become more productive, a good sector deal includes a framework of how the sector can be promoted globally – helping to increase the UK’s overall export performance.

Good initiatives can be highlighted in already announced sector deals. Similar commitments should be embedded in future sector deals where applicable.

- The Artificial Intelligence sector deal included a commitment from government to work closely with the new AI council to expand export and investment support for AI business in the UK, including through trade missions.
- The Creative Industry sector deal announced a new Creative Industries Trade and Investment Board, which will be established to boost the sector’s export performance with at least £4m from existing DIT budgets to support exports in 2018/19 (3-year export strategy to increase exports by 50% by 2023).

**Recommendation:**

BEIS must ensure that all sector deals have explicitly considered and defined which initiatives within sector deals will have a positive impact on supporting businesses to export.

**Innovation driving exports**

Innovation is key to UK export performance. Innovative companies are more likely to try to export, more likely to export successfully, and more likely to generate growth and scale from sales overseas than non-innovating firms.

CBI members confirm that investing in R&D has made the difference in beating international competitors and is often a necessity to maintain market share overseas. Encouraging businesses to invest in R&D so that they can continue to lead the way in a wide range of sectors is ever more imperative. However, the UK's R&D spend falls below international peers and the levels that are sufficient to harness the rich culture of creativity in this country.

The UK's innovation ecosystem is already well-developed, but both government and business will need to support those areas where we lag behind international leaders to ensure the UK can compete on the international stage. The UK has first-rate universities, cutting-edge businesses and attracts talent from across the globe but our spending on R&D has stagnated at just 1.7% of GDP (against an OECD average of 2.4%), with both public and private sectors under-investing.

**Recommendation:**

Business welcomes the government's commitment to reach 2.4% of GDP on R&D investment and the long-term ambition of 3%, as laid out in the Conservative Party's manifesto. To deliver this ambition and effectively crowd in private investment, government should set out a pathway to reach 2.4% of GDP on R&D by 2027. This should include increased grants funding for Innovate UK.

International collaboration on innovation can help companies innovate more successfully and build deeply entrenched trading relationships. Efforts to grow innovation collaboration agreements outside of the EU are supported by business, and companies are keen to engage across a range of international collaborations. Indeed, the CBI has been involved in the development of a memorandum of understanding on science and innovation with Chinese businesses.

To grow this kind of collaboration, there are a number of actions government could take, including telling a more joined up story about areas of UK strength, for example through industrial strategy; ensuring domestic funders are flexible enough to enable a proportion of the funds they allocate to be spent abroad; and keeping sight of opportunities to work with countries once they progress from Official Development Assistance status.

However, broader international collaborations cannot replace the close relationship the UK has with the EU on science and innovation, which is facilitated through the EU's Framework Programmes (FPs), as well as EU bodies such as the European Institute of Technology (EIT).

The FPs are unique in scale and ambition, and the UK is already well integrated into European ecosystems. For many businesses their first international collaboration on innovation may be with a European company or university supported by FP funding. This can provide useful experience before engaging in collaborations beyond the EU, which can be more complex. Even with modern tools, the distance can make it much more difficult to communicate, and administrative burdens are often much higher.

**Recommendation:**

The CBI supports the government's ambition to associate to the EU's next Framework Programme, Horizon Europe, and the government should pay a fair price for fair access. Collaboration with the EU should form a central pillar of a future International Research and Innovation strategy.

Finally, it is not just cutting-edge innovation that drives productivity and supports businesses' ability to export. The CBI's report *From Ostrich to Magpie* shows that the UK lags behind on the adoption of technologies such as e-sales, which can play an important role in facilitating exports. The government can help in tackling the failure to adopt tried-and-tested technologies and management practices, which have the potential to unlock the benefits of innovation across the country.

**Recommendation:**

The CBI welcomes the newly-introduced Business Basics scheme, which will pilot new approaches to raise technology and management uptake. The Government should scale up successful schemes to ensure their benefits are felt across the UK.

**R&D tax credits**

R&D tax credits have been a great support mechanism for firms to innovate. If designed well, reliefs can be an important lever for governments to deliver national economic policies and the UK's R&D tax expenditure credit is an example of this. Providing relief to profitable as well as loss-making businesses, it can help to encourage investment activity that may not have otherwise taken place. Data from HMRC shows that in 2015-16, £22.9bn of R&D expenditure in the UK was used to claim R&D tax credits, of which 20% was by SMEs and 40% was claimed by businesses under 10 years old. With innovation being such a driver of exporting, this initiative is significant.

The 2017 Budget announced that the R&D tax expenditure credit would be increased from 11% to 12%. In addition, a new Advanced Clearance Service is to be introduced to provide businesses with the confidence to make R&D investment decisions more quickly. Both these measures were called for and welcomed by the CBI. The government must continue to support businesses investing in R&D.

### Case study: Innovating to beat international competitors



Whale Pumps operate in Bangor, Northern Ireland, and are a well-known brand with a hard-earned reputation for excellence in innovation, built on high quality design expertise. Today, Whale supply the marine, caravan and motorhome, shower drainage and industrial markets around the world with innovative freshwater, bilge and waste pumps, as well as water and space heating systems. Whale operate in over 40 territories and rely on their ability to continually innovate in order to maintain international market share.

R&D tax credits have been pivotal in allowing Whale to invest in the business and to ensure that their products are best in class, beating international competitors. Without investment in R&D, Whale would not have seen longstanding success around the world over many decades, highlighting just how significant innovation is in their export success. In addition, a focus on the quality of service provided strengthens their brand and reputation, allowing Whale to maintain market share and grow their customer base.

## Infrastructure and connectivity

Infrastructure has to be fit for purpose for the transactions of trade to work. Government must implement a long-term aviation strategy that better links the whole of the UK to international markets to increase export capabilities and develop an efficient freight system that recognises the multimodal nature of the sector and its importance in moving goods both in the UK and abroad.

From international gateways to domestic connections, UK firms must compete internationally. Yet in a recent CBI/AECOM infrastructure survey, around three quarters of businesses and the public are not confident that infrastructure will improve during the course of this parliament. When asked to consider the infrastructure priorities to improve the UK's capacity and capabilities for international trade, improvement of road and rail access to ports and airports was cited as the most essential issue, with 45% of respondents seeing it as critical. This highlights the need to take a holistic approach when considering the role of infrastructure and connectivity in supporting UK trade.

Businesses recognise more than ever the need to link the whole of the UK to international markets to increase export capabilities and see improving and maximising UK freight capacity as important to facilitating trade. The economic value of this sector is substantial, with recent data showing logistics contributing £301bn value of goods exported and £436bn value of goods imported from the EU and non-EU countries, making the UK a global leader in logistics, ranking in the World Bank's top 10 countries.<sup>7</sup> Key to ensuring that all businesses have access to international supply chains and markets in continental Europe and beyond is access to and from the UK's ports and airports.

### **International connectivity and freight**

Creating new routes to emerging markets opens doors to trade, boosting growth, creating jobs and driving investment right across the country. Independent research conducted by Steer Davies Gleave for the CBI's 2013 report, *Trading Places*, highlights that with the right direct air links, trade will follow, creating a virtuous circle of activity.<sup>8</sup> The analysis demonstrated that on average an additional flight to a high growth market boosts trade by as much as £175,000. This means that for every daily route between the UK and an emerging market economy, UK trade could receive an increase of as much as £128 million a year – or an additional £1 billion a year from eight new routes alone.

For the UK to realise the potential of these new routes the expansion of Heathrow Airport will be critical. With the Department for Transport's demand forecasts suggesting that without action, all of London's airports could reach capacity as early as 2025, building a new runway in the South East is key for the long-term future of our country. New hub capacity at Heathrow is essential if we are to ensure that we provide the best possible level of connectivity from all regions to established markets and new long-haul connections. With plans for at least 14 domestic routes from Heathrow from 2030, all parts of the UK could grow their export potential, taking advantage of new domestic routes to the country's only hub airport and biggest port by value. Parliament's approval to build the new runway at Heathrow was an important and historic step. Now that the key decision has been made, progress must be made to ensure that we stick to timetables on delivery, with construction beginning as soon as possible.



### Case study: New airport routes driving exports

Manchester Airports Group (MAG) is a story of regional success in connectivity that has been pivotal to trade – encouraging nearby firms to export for the first time and helping exporters tap into new markets. Independent research showed that, in the first full year of the Beijing service, UK export values for the North West region soared 265% to £200m per month, demonstrating the power of direct connectivity.

*“Our direct connections to both Beijing and Hong Kong have led to substantially higher volumes of exports and inward investment, while the North’s universities have thrived on increased international student numbers and research collaborations with Chinese institutions.*

*Importantly, the routes stimulated a 40% rise in new demand for travel between the UK and China, getting business people on both sides to where they need to be to complete fresh deals. A new national aviation strategy must address the urgent need to bolster our direct connectivity to the world’s most important markets, allowing all of the UK to capitalise on this export potential.”*

**Andrew Cowan, Chief Executive of Manchester Airport**

The decision to expand capacity at Heathrow must not be the end of the debate and should be the start of a broader discussion to enable a thriving network of airports in the UK. Allowing regional airports to meet the needs of businesses is the right approach to see an export drive supported in every corner of the UK. The CBI therefore welcomes the recent Department for Transport support for airports making best use of existing capacity, leaving it to local authorities to consider planning applications from airports on their individual merits. To create the right environment for all airports to fulfil their strategic potential for UK plc, there is a need for a long-term aviation strategy which works for all parts of the country, building on commitments to make full use of existing capacity.

#### **Recommendation:**

Alongside the delivery of Heathrow expansion, the Department for Transport must work with business to deliver a long-term aviation strategy that better links the whole of the UK to international markets to increase export capabilities.

Whilst air freight is critical to the movement of perishable and high value to weight goods, sea ports are also key international gateways for the whole country, handling an estimated 95% of the UK’s trade in goods.<sup>9</sup> But the potential of both air and sea ports are currently hindered by pinch-points across the road and rail network. In response to the CBI/AECOM Infrastructure Survey 2017, rail and road access to ports and airports was ranked as the highest priority for improving the UK’s capacity and

capability for international trade with 94% of firms calling it 'critical' or 'important'. This point was further echoed in the CBI's Shaping Regional Infrastructure report, coming up as a recurring theme across the English regions.<sup>10</sup>

To ensure businesses have access to international supply chains and markets in Europe and beyond, developing an efficient freight system will be vital to boosting UK trade and exports.

**Recommendation:**

The Department for Transport must work together with business to develop an efficient freight transportation system that recognises the multimodal nature of freight and its importance in moving goods safely and securely both in the UK and abroad.

**Regional connectivity**

For the opportunities of exports to be realised in all parts of the country, there will need to be improvements in domestic, as well as international, connectivity. Over £240 billion of planned public and private investments are in the pipeline over the next four years, including record levels of public investment in transport.<sup>11</sup> Yet when responding to the CBI/AECOM Infrastructure Survey 2017 around three quarters of businesses are not confident that infrastructure will improve over this parliament.<sup>12</sup> With the majority of regions showing a negative balance regarding their satisfaction in the infrastructure in their region, it is clear that improvements are needed in all parts of the country.

Businesses across the country cite the need to improve connectivity within and between regions as a priority. Improving links between the UK's largest cities can help drive growth and productivity through agglomeration, whereby businesses have access to a broader labour market pool, a wider range of markets and better connections to supply chains.

The CBI's analysis has found that for every 1 million increase in population that are within 60 minutes of travel time of a postcode area, an additional £0.50 in Gross Value Added (GVA) per hour is generated. For example, reducing travel times between cities in the North of England, via the best mode of transport, could provide access to a working population of up to 16 million, matching the number within an hour of London today. There are also productivity gains to be made by shortening travel times within local areas. Indeed, increasing the speed of travel within cities by 50% can increase productivity by up to 14% in some instances.<sup>13</sup>

## Tax and regulation

Having an efficient and cost-effective business environment is not only essential for inward investors but also to ensure domestic firms have the available resources they need to invest in scaling up and expanding internationally. A burdensome system will see firms focused predominantly on compliance, rather than on capital investment and growing their international sales.

The introduction of new policies over the past few years has meant that the cost on businesses has risen, which has a large impact on the bottom line. CBI analysis shows that business in the UK continues to contribute significantly towards government revenues and data published by the Office of National Statistics indicates that UK firms paid £186bn in taxes in 2017/18. Receipts are now at pre-crisis level – and have continued to grow despite relatively subdued economic growth. And while the traditional large taxes of corporation tax, NICs and business rates continue to be the main drivers of the business tax contribution, firms operating in the UK are continually facing a host of other taxes which drain capacity to grow.

Over the past few years, the bank levy (2011) and the apprenticeship levy (2017) have been introduced, increasing the tax burden businesses face. Crucially, the level of “other” taxes paid by business has more than doubled since 2009/10.<sup>14</sup> Investing in export activity is a costly and risky endeavour, and continual increases in the tax burden will drain the available resources of firms to undertake this activity.

## Finance

Access to finance is important for any business, large or small, when looking to export for the first time or expanding their international reach. Whether it's initial consultancy and travel costs to scope out new opportunities, or multimillion pound financing plans for overseas procurement projects, every export deal will depend heavily on a firm's ability to secure finance on fair and competitive terms.

### SMEs

For SMEs, finance for trade activity has long been a challenge, dating back to the financial crash of 2008 after which the CBI Industrial Trends Survey found that almost 20% of businesses – nearly all of which were SMEs – were seeing export orders fail due to lack of finance. Since then, the availability of credit within the private banking sector has substantially recovered to a point where most firms should be able to access lending facilities.

Yet there remains a disconnect between the amount of credit available and the uptake of those facilities. Many SMEs are ill-equipped to navigate finance applications which require them to sufficiently explain the detail of their full export profile, demonstrate due diligence on emerging markets, and provide evidence on risk mitigation; all of which they may never have done before. Moreover, the compliance cost of 'onboarding' these SMEs for banks can often equate to a quarter or even half of the export contract value, meaning that many of these contracts are not profitable for private banks.

The CBI has welcomed the government's recognition of this problem and the nature of exporting risk being inherently more difficult for the private sector to cover. UK Export Finance (UKEF) has radically expanded its outreach to SMEs in recent years to support their export contracts and their long-term viability as exporters. From guarantees on lending facilities to assistance with working capital needs to insurance against non-payment, UKEF services have provided a vital compliment to the private finance sector to help hundreds of SMEs in their exporting activity. Most recently, delegating authority to banks to issue UKEF-backed products with less delay and expanding services to SMEs that supply exporters (rather than exporting themselves) are sure to build on this success.

### Case study: UKEF making the difference

SC Group, based in Devon, is a holding company for a number of international businesses providing global, cross-sector products and services. Over the last three years Supacat, one of the world's leading specialists in high mobility vehicles and part of SC Group, has seen overseas sales rocket from £2.5 million to over £32 million.

This great exporting leap, sparked by an initial order for its elite Special Forces vehicle from the Australian Government, utilised UKEF's bond support scheme which secured financial cover on the high value order.

*"UKEF's support for our largest overseas order to date was key not just in financing the initial contract but also as a building block for our future export success. Working with private banks and UKEF to find financial solutions to tricky projects has meant our company and our supply chain can break ground in new markets and reap the rewards of international expansion."*

**Shaun Mitchell, Finance Director of SC Group**



There remains more to be done for SMEs on finance, however, if UKEF support is to move from a few hundred firms to a few thousand firms. Awareness of UKEF products remains very low and is too often reliant on web advertising or banks to alert SMEs to the options available. In addition, while delegated authority to banks is positive, the process remains complicated for SMEs to understand and the incentives to push the offer are not always present for the banks.

More attention in future should focus on the British Business Bank's remit and non-bank lenders and their potential role with UKEF products, as they understand the SME market more and have the right incentives to push these options where the market fails. The government should also look toward international examples of new export credit agency-backed loans or export vouchers focused on export start-up costs to address the resistance of firms to seek private sector advice on making their company export-ready before bidding for work overseas.

**Recommendation:**

UKEF should collaborate with business organisations, export consultants and banks to co-design a simple guide to finance options for SMEs, while the private sector must take on more of a responsibility to act in sign-posting firms to this guide and UKEF support.

**Big export wins**

Finance for larger contracts, particularly overseas procurement projects, will remain a key area of focus for UK trade competitiveness abroad. With many of the world's leading engineering, energy, aerospace, tech and professional services firms, the UK is uniquely placed to compete in the final stages of the biggest contracts on offer. However, these contracts will nearly always be a bundle of services, delivery and finance components where the cost of inputs and finance will make or break the deal. Very often these contracts are of a size and complexity which no single or even multiple private lenders will bear the risk at an affordable rate, which makes UKEF support – which can guarantee as much as 80% of credit facilities – an integral part of these deals.

Through finance guarantees and de-risking of export payments, UKEF remains a highly competitive export credit agency globally which supports UK companies toward major contract wins every year. Recent developments such as extension of support to financial instruments in 62 world currencies have been very welcome adaptations in approach to help UKEF stay relevant for modern export conditions. Nevertheless, more needs to be done to make UKEF the leading export credit agency which ensures that UK firms have the best possible support as compared to American or European counterparts.

While the CBI welcomes UKEF's ambitions to modernise and ensure its operations are as efficient as possible, there remain several areas where it lags behind other export credit agencies. UK companies continually struggle with the complexity and timeliness of UKEF application processes and decision-making structures, often watching foreign competitor firms moving ahead on finance terms at greater speed. For example, when bidding for procurement contracts, an essential part of the process is securing a UKEF Letter of Support which is a non-binding document simply indicating whether a project could be eligible for UKEF support subject to certain conditions. Yet despite these letters not posing any obligation on UKEF, the process to query, apply, engage on the detail and secure such a letter will often run weeks or even months when French or German counterparts can provide them in well under a week.

The CBI also supports the recommendations of the British Exporting Association (BExA), particularly in simplifying UKEF processes. The 2017 BExA ECA Benchmarking report<sup>15</sup> found that UKEF procedures and documentation continually fall below the expectations of exports, often frustrating commercial deadlines and adding a layer of complexity which can turn off some firms entirely. One of many comparisons shows that UKEF documentation for a simple short-term insurance policy runs nearly 60% longer than its Canadian equivalent, creating an extra access barrier for firms.

In its mission to stick closely to global export credit guidelines, UKEF has fallen out of step with some of its comparators to the disadvantage of UK firms. While the OECD rightly points out<sup>16</sup> the problems with local content requirements when countries put out contracts and suggests a top cap of 30% of content for export credit agency support, it misses the practical reality that most developing countries still operate with requirements at or around 50%. UKEF's rigid application of this guideline means that many UK firms fail to find finance for essential projects in developing nations, whereas other export credit agencies are more flexible in allowing the 30% to be added on top of the financed amount to allow for these contextual differences.

Similarly, UKEF's requirement for support on financed projects is 20% UK components in the total value of the project, even as comparator export credit agencies require higher levels up to 50% to provide this taxpayer-funded support. While this lower threshold can allow more projects to qualify for UKEF support in theory, in practice it more often requires UKEF to be studiously neutral in its support of two or more competing bids for a project despite only one having majority UK firms involved and others only token support. As the government moves increasingly to a consortia-based bidding strategy for export projects, it is essential that larger firms are incentivised to draw in UK firms into their supply chain for big projects, yet this low threshold does nothing to support that aim.

**Recommendation:**

UKEF must urgently review its application of local content rules to allow flexibility in developing countries, and its rules qualification for support to ensure that UK taxpayer-funded support is focused on projects which are predominantly made up of UK exporters.

## Summary of recommendations

### Industrial strategy

- Industrial Strategy and export strategy must be brought together as the UK develops a vision for its post-Brexit economy. This requires stronger political leadership and collaborative working at all levels between DIT and BEIS, starting at the top with a DIT/BEIS taskforce led by the Industrial Strategy Director and the Director General for Exports.
- The Industrial Strategy Council must be set up by the end of 2018 and regular meetings convened to drive the delivery of the Industrial Strategy and make sure the business voice is heard.
- BEIS must ensure that all sector deals have explicitly considered and defined which initiatives within sector deals will have a positive impact on supporting businesses to export.

### Innovation

- Government should set out a pathway to reach 2.4% of GDP on R&D by 2027. This should include increased grants funding for Innovate UK.
- The CBI welcomes the newly-introduced Business Basics scheme, which will pilot new approaches to raise technology and management uptake. The Government should scale up successful schemes to ensure their benefits are felt across the UK.
- The CBI supports the government's ambition to associate to the EU's next Framework Programme, Horizon Europe, and the government should pay a fair price for fair access. Collaboration with the EU should form a central pillar of a future International Research and Innovation strategy.

### Infrastructure

- Alongside the delivery of Heathrow expansion, the Department for Transport must work with business to deliver a long-term aviation strategy that better links the whole of the UK to international markets to increase export capabilities.
- The Department for Transport must work together with business to develop an efficient freight transportation system that recognises the multimodal nature of freight and its importance in moving goods safely and securely both in the UK and abroad.

### Finance

- UKEF needs to collaborate with business organisations, export consultants and banks to co-design a simple guide to finance options for SMEs and the private sector must take on more of a responsibility to sign-post firms to this guide and UKEF support.
- UKEF must urgently review its application of local content rules to allow flexibility in developing countries, and its rules on qualification for support to ensure that UK taxpayer-funded support is focused on projects which are predominantly made up of UK firms.

## A spotlight on China

In 2017, UK exports to China amounted to £22.2bn (a 32.2% increase from 2016). Of all UK exports to China in 2017, £18.5bn (83.3%) were goods and £3.7bn (16.7%) were services.

Figure 5: Top five UK product exports to China (£ bn)

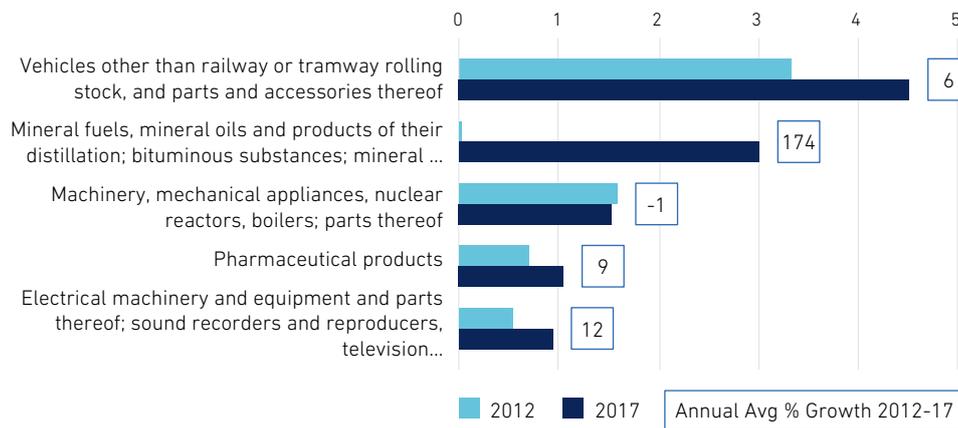


Figure 6: Top five services exports to China, 2016 (£ mn)



Note: Excludes the activities of travel, transport and banking industries. Source: ONS.



### Key opportunities

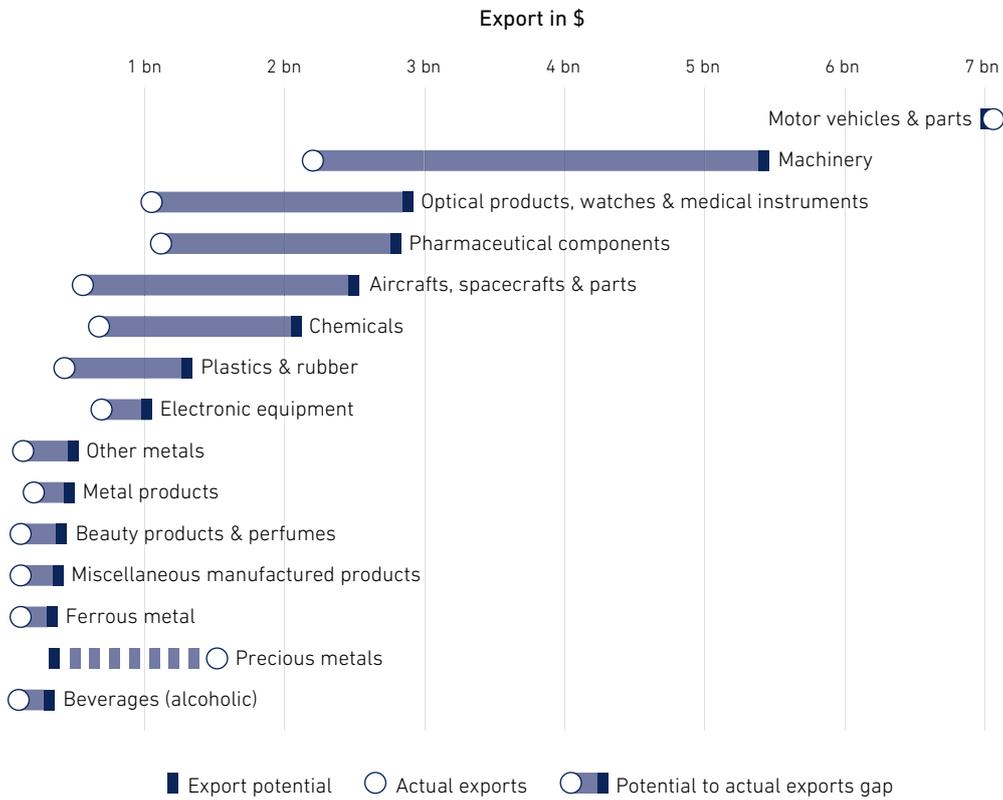
**Education:** The UK leads the way in the education sector and China’s middle class is eager to benefit from high quality English education.

**High tech:** China’s ‘Made in China 2025’ plan lists a number of sectors where the UK thrives. UK companies should look to attract government and private funding in these sectors while China looks to improve its domestic technology.

**Elderly care/healthcare:** China’s population is ageing rapidly and there is currently a lack of high quality private healthcare and/or elderly care.

**E-commerce:** China has the most robust ecommerce ecosystem in the world. UK companies should look for new routes to market through China’s e-commerce platforms.

Figure 7: United Kingdom’s products with potential to China



## Key challenges

### Market access

China's market environment is unlike most other economies in the world with a level of complexity which is not comparable elsewhere, making it difficult to take the first steps into market. It is estimated that 37% of products that pass for the US market fail in the China market. The Chinese government also keeps a tight grip on many 'sensitive' sectors, not allowing foreign companies any access at all.

### Consumer preference

There has been a sizeable class shift in China over the past few decades, and the consumer environment is far more diverse than it once was. Because of its unique market dynamics, many companies have failed simply because they did not consider demographics and consumer preference trends.

### Bureaucracy

Overseas firms often struggle with laws and regulations in China, with 31% of respondents in a recent business survey listing bureaucracy as their number one concern when expanding into the country.<sup>17</sup> Most common complaints revolve around obtaining the required licenses and permits, with many respondents bemoaning the laborious processes.

### Government challenges

The lack of transparency of government procedure and corruption are chief concerns of companies moving into China. Complicated and heavy-handed rules stating how products are designed, manufactured, sold, used and disposed of exist in China which all products must comply with before entering the market. This type of complexity of compliance is foreign to most companies and impacts the initial appeal and ease of doing business in the country.

### Intellectual property

Intellectual property is an area that has been notoriously difficult in China, although recent reports suggest this is an area that is beginning to improve. Gary Locke, America's ambassador to China, recently said that "for every foreign company calling for stronger IP protection, there are more Chinese companies calling for the same," suggesting that there may be a tide turning here.

### Competition

Many Chinese companies are looking to improve the quality of their products and services so they can sell them abroad, which has increased competition as a result. Additionally, consumers can, in some cases, give preference to native companies over those from abroad. The government can also give preference to domestic firms, which makes disrupting the market rather difficult.

### Case Study: Success of the UK film industry in China

The Oscar and BAFTA nominated UK/Polish animated feature, *Loving Vincent*, was released in China at the end of 2017. It ran in cinemas for three months and grossed RMB69m (approx. £8m), making China the most successful territory for the film. The Chinese seem impressed by British (and European) creative and technical skills, and on visiting China the success of the film certainly opened a lot of doors.

While challenges remain in navigating differing social and business practices and protecting rights and entitlements, there are strong opportunities for European film makers to work with local partners on projects which can stand out in the vibrant and lucrative but extremely crowded Chinese audio-visual marketplace.

### Seizing the opportunities

With the number of middle class consumers estimated at 109 million and growing, the prospects for increased demand in British products are high. A whole raft of British brands are well-established already, and with strong economic growth and changing attitudes among younger age groups, the Chinese market represents an excellent opportunity to businesses across a variety of sectors.

China is the world's fourth largest country by land mass with 23 different provinces and 160 cities with a population of over one billion. This can mean that companies experience varied regulations and local laws across different destinations. Businesses should treat China as one country, but many locations.

For those companies entering the market it is often worth engaging local advisors with deep knowledge of the local landscape, regulations and culture. These individuals can help companies to overcome some of the challenges that businesses may face around the predictability and timing of doing business when first establishing themselves, as well as introducing companies to relevant contacts. Business relations are highly embedded in China, with *guanxi* (inter-company relationships, put simply), playing a central role in the development of business operations.

## Step 2: Put people at the heart of trade policy

People make trade happen. Whether that's international cultural intelligence, possessing foreign language skills, or being able to temporarily move key people from one country to another within a business, people must be at the heart of trade policy and the push to increase exports.

Developing a new approach to migration and mobility after Brexit is an opportunity to build a strong link between people and trade. A new approach must also restore public confidence that immigration is controlled and meets business needs. The CBI will set out how to achieve these equally important objectives in a separate policy paper this summer.

### Easy mobility of staff directly underpins trade in both services and physical goods

The movement of people underpins much of the modern-day trade in services – with workers based in the UK travelling frequently, and at short-notice, to service international clients on a temporary 'fly-in-fly-out basis'. First securing the right to send people to provide services, and then making that travel as easy as possible, are critical for boosting UK exports in our world leading services – from management consulting, to architecture and legal services. The professional qualifications of UK-based service providers must also be officially recognised in the country to which they are exporting services.

Easy mobility of people is equally important for boosting exports in physical goods, as well as service-only exports. For example, if a UK manufacturer is successful in securing a deal to export an offshore wind turbine or jet engine, then a British engineer is likely to need to travel to carry out the installation. Following the initial sale of a product, much of the potential export value is in provision of bespoke support services to keep the product running smoothly over its life-span. More than a third of the value of UK manufacturing exports reflects service sector value added.<sup>18</sup>

The ability of companies to move their own staff across borders on intra-company transfers (ICTs) is vital in supporting exports and wider inward investment to the UK. Today's businesses operate globally, meaning skills and knowledge transfer across global operations is critical. The leaders of the UK operations of foreign owned companies repeatedly stress the benefits of being able to easily bring senior executives to the UK. When this process is smooth and positive, it boosts investment in UK operations. Encouraging this inward investment by global companies into the UK in turn boosts our ability to export – for example, British made cars exported to Europe and beyond by Japanese automotive manufactures that have invested in UK production sites.

**Recommendations:**

- The government must seek to bilaterally negotiate the simplest possible arrangements for temporary business visits so that UK businesses can host and visit international customers and clients.
- The government must also prioritise the conclusion of reciprocal agreements on intra-company transfers and temporary postings to support foreign direct investment and UK exports.

## Access to longer term international skills and overseas experience boosts UK exports

The UK needs a migration system that reflects its ambition to both maintain extensive trade with Europe and expand trading relationships with the rest of the world after Brexit. Exporters consistently cite the exporting benefit from hiring international staff. They bring a wide range of innate skills which British workers cannot acquire through training – from unique market awareness, to cultural understanding and fluency in a native language. These are all key skills that help British firms expand overseas and break into new markets. A new migration system after Brexit must facilitate easier access to workers from around the world – from Austria to Argentina to Australia – so that UK exporters can maximise the opportunities on offer worldwide.

As well as designing the immigration system in a way that is accessible and open, it is essential the UK is an attractive destination for professionals from overseas to want to work and settle in the UK. The way UK politicians and the media speak about immigration to a domestic audience is heard by people around the world and influences the perception of the UK. Now is the time to position the UK as a welcoming country and one in which to build a career. The net migration target and arbitrary fixed caps on overseas workers is a large part of the problem – driving a narrow and negative debate around immigration which is both felt by international workers who are already here and potential global talent considering a move to the UK.

**Recommendations:**

- The government needs to simplify the process for obtaining a visa so that it is manageable for small companies, by making it easier to become a licensed sponsor or removing the requirement altogether.
- Reform of the Tier 2 visa route must be a priority so that employers can access the range of skills that they need, and not only graduates earning £30,000 or more.

## The domestic skills base

Any strategy for ensuring long-term prosperity and competitiveness must have education and skills at its heart. UK businesses face a wealth of opportunity spanning global markets, but this can only be achieved if they have the capacity to respond effectively.

If the UK is to be successful as an open trading nation, a culture shift is needed to make the workforce more globally-orientated by default. This fundamentally requires more of its people to be able to communicate adequately in new markets and understand overseas environments and cultures.

The CBI recommends a two-pronged approach: a focus on domestic education and skills development, while ensuring a continuous international outlook through our educational institutions.

### The UK must get the national skills framework right

Skills matter for growth and innovation, particularly on a global scale. The CBI's report, *Unlocking Regional Growth*<sup>19</sup>, provides evidence that confirms a fundamental driver of economic performance is education. In response to the Industrial Strategy, the CBI report *In Perfect Harmony*<sup>20</sup> called for a stable national framework for skills which supports locally tailored investment, encouraging responsiveness to changes in business needs, and clusters of local innovation which all support business in exporting.

For example, the Essex Employment and Skills Board brings employers, education institutions and employer bodies together to advise on decision making on funding and areas of priority across the region, based on evidence regarding local economic needs and accurate labour market intelligence.

Part of these skills reforms include ensuring the UK has a world-class technical education system. The UK has traditionally fallen behind our European and OECD counterparts, such as Germany, which has a firmly established system of academic and vocational learning with an emphasis on industry experience. Knowledge of industry within the workforce is a central element of the German system which sets it apart from the UK's and allows German businesses to export more effectively. Initiatives such as T-Levels and ambitious targets for growing the number of apprenticeships offer an opportunity to correct this – but challenges remain in delivery.

## T-Levels

The CBI campaigned for the creation of a high-quality technical route of equal value and prestige as the academic A-Level. Unlike previous reforms, the T-Level pathways are being designed by businesses and government collaboratively, in subjects including construction, engineering and manufacturing, transport and logistics, and digital. T-Levels rightly include a workplace element of at least 45 days which requires careful consideration and sustained engagement with employers and businesses.

The CBI recommends monitoring the T-Level pilots to ensure content and curriculum is tied to changing labour markets and business needs, thereby ensuring the UK remains competitive on the global skills stage.

Getting the T-Levels pathways right could also secure this model as a global export in itself as other countries develop technical educational routes, thereby improving the UK's position as a world leader of skills.

## The UK must have the right skills to ensure future competitiveness

Technology and automation are transforming workplaces and disrupting traditional paths into work, and this is no less true in the areas of UK exporting excellence. Over the coming decades, businesses' ability to adopt and benefit from these rapidly advancing technologies, and changing global labour markets, will determine the success of the UK economy. The government must ensure the UK remains internationally competitive and that people are ready – skilled and equipped to take advantage of the opportunities. Vital to future prosperity and export performance are science, technology, engineering and maths subjects (STEM), as well as language skills.

## Foreign languages

The Education and Skills Survey published by the CBI last year shows that only a third (34%) of businesses rate the foreign language skills of school and college leavers entering the jobs market as satisfactory.<sup>21</sup> The major European languages of French (51%), German (47%) and Spanish (45%) are most commonly cited as in demand by CBI members. Moreover, the British Council predicts that the top five languages needed for the UK to remain competitive globally are: Spanish, Mandarin, French, Arabic and German. If there is a lack of wider provision of foreign languages for children, UK business will suffer and will be unable to exploit global opportunities effectively.

The building blocks of an effective language system are in place – languages are compulsory in schools at Key Stage 2 and 3, and study of a language is included in the English Baccalaureate (EBacc) which the Department for Education aims to have 75% of all pupils partaking in by September 2022. The CBI welcomes initiatives such as the Mandarin Excellence Programme, which aims to put 5,000 pupils on track to fluency in Mandarin Chinese by 2020. It demonstrates the government's commitment to ensuring the UK has vital language skills needed to conduct future business. Mandarin will become increasingly useful for businesses operating internationally over the coming years.

Foreign language study should also consider the cultural aspects of countries abroad and their related business conditions. Developing an awareness of the language of business can significantly improve the ability of UK firms to operate overseas in the years to come.

#### **Recommendations:**

- Programmes such as the Mandarin Excellence programme must be maintained and expanded after 2020 if impact and success can be shown. If successful, similar programmes promoting other languages should be explored.
- The Department for Education must work with businesses to review foreign language curricula, ensuring content is reflective of the language of business and meets the needs and demands of employers.

#### **STEM subjects**

There is a shortfall in STEM subject uptake which filters through to an insufficiency of talented graduates to push firm's export activity. The Gatsby Foundation estimates that the UK will need 700,000 additional STEM technicians to meet employer demand in the decade to 2024.<sup>22</sup> Research shows that from primary school onwards, levels of interest in STEM subjects drops alarmingly, and fewer than 1 in 7 students are choosing STEM subjects at A-Level or equivalent. This is particularly acute for girls and will continue to be a drag on business' ability to employ the right people to meet demand overseas and expand accordingly.

The CBI welcomes the EBacc recognition of the importance of STEM subjects but recommends:

- The government must listen to employers and support organisations like the Careers and Enterprise Company to improve the way they promote collaboration between businesses and schools on elements of the curriculum that deal with artificial intelligence, digital literacy, numeracy, science and engineering.
- The government should ensure STEM employer engagement in schools is effective. Business-school engagement can help inspire young people about the opportunities of studying STEM subjects and help bring a real-world context to the classroom.

## Building on the success of UK universities

### Promoting UK higher education for students and academics alike

A key quality measure for the higher education system is its international recognition, notably its popularity with students from other countries – one continually overlooked national export. The UK is the second most popular destination in the world for international students with one in ten of all international students at a UK university, only topped by the US.

British academic life has been enriched by eminent researchers from many countries including China, bringing with them a cultural diversity which contributes to the vitality of UK universities.

International student numbers have grown strongly, up from 187,000 in 2000 to over 442,000 in 2016/17, reflecting growing awareness of the quality of the UK university experience for international students. In the ‘international outlook’ indicator in the Times Higher Education World University Rankings for 2018, the UK is in pole position, with 37 of the highest-ranking 100 universities.

### Harnessing the ‘soft power’ of our international alumni

The UK benefits significantly from the ‘soft power’ generated by the UK’s alumni of international graduates across the globe. As research by the then Department for Business, Innovation and Skills emphasised, the international professional networks, developed through the UK’s diverse higher education system, offer the possibility of future business transactions and collaborations which are of substantial economic value to the UK.<sup>23</sup>

The report highlights the case of an Indian graduate who, as the manager of his family’s steel manufacturing firm, selected a major supplier based in the UK, based on a contact he originally met while a student in the UK. There are multiple examples of these interactions taking place across business because of connections formed while at university.

CBI members are clear that international students and graduates can often bring unique cultural understanding or specialist knowledge that domestic students, even when highly educated, cannot provide. Overseas students at UK universities can help extend UK influence across the globe, with every satisfied student becoming an ambassador for the UK and providing the opportunity for better political, economic and cultural relations between the UK and the rest of the world. This all feeds into the potential for stronger trade relationships with international partners.

### Developing international skills and networks

Another key element of the higher education system are the links forged with other nations around the world – whether this is through the establishment of satellite campuses, work placements or Erasmus+ programmes.

### Case Study: An international focus benefiting universities



Coventry University operates as a global institution, with activity right across the world supporting more student experiences overseas than any other UK university.<sup>24</sup> As well as the recruitment of overseas students from over 130 countries, the university delivers knowledge through trusted partners, joint research collaborations with some of the world's strongest universities and provides services to business and other partners in solving problems. This supports the employability of their student base and generates impact from their research.

As a university, Coventry thinks globally and acts globally, with people in their most important markets building relationships and extending their reach. Support is provided to students to have international experiences through student mobility and they celebrate the multi-cultural nature of the faculty and student body.

Their international work is a core pillar of the strategic corporate plan, which drives activity and generates benefits right across the institution through students, research and their enterprise work. The university has over 70 partners in more than 30 countries in the world, supporting over 15,000 students to work towards a Coventry degree. Understanding their markets, international partners and diverse student population is key to success in this area. Coventry recognise that they would be a much weaker institution without this global reach.

In addition, Universities UK International run a campaign called Go International: Stand Out which aims to double the percentage of UK students who study, work or volunteer abroad during their degree from 6.6% to 12% by 2020.

Their most recent report Gone International: expanding opportunities<sup>25</sup> shows an overall increase in the numbers of students going abroad, including the percentage of students from less-advantaged backgrounds, and Black and Asian students. Most of these instances were undertaken for study (74.5%), followed by work (22.7%), and volunteering (2.8%). These figures represent a positive step in the right direction.

### **UK universities are good at collaborating with business – and continue to get better**

Effective collaboration between the higher education sector and business has an important contribution to make, not only to individual firms' international competitiveness but also to wider economic growth. In the UK, more business-university collaborations are taking place, fostering the right conditions for innovation and developing solutions to skills challenges to ensure the UK retains a competitive edge. This is reflected in the UK's high ranking for industry-university collaboration in the Global Competitiveness Report<sup>26</sup> and is set out in more detail in the CBI's guide to these partnerships, Best of both worlds.<sup>27</sup>

These collaborations reap benefits for both in the partnership. For businesses this opens new networks, sources of ideas and innovation, while for higher education institutions working with a business it may give their research greater impact, as well as give them access to additional expertise. In 2014-15, the value of university earnings through services for business topped £1bn for the first time.

### **Office for National Statistics measuring higher education exports**

Higher education exports are a crucial area to focus on to increase UK trade overall, but there remains insufficient data in this often-overlooked sector. The CBI calls for the Office of National Statistics to begin measuring higher education exports in their annual International Trade in Services (ITIS) survey. Inclusion in the survey would go some way to quantifying the value of the UK higher education system and the revenue it generates for our national economy.

#### **Recommendations:**

- The government must ensure international, provider-led programmes and initiatives such as Erasmus+ remain an option for UK universities following Brexit.
- The Office of National Statistics must begin measuring higher education exports in their annual International Trade in Services (ITIS) survey.

## Summary of recommendations

### Mobility of staff

- The government must seek to bilaterally negotiate the simplest possible arrangements for temporary business visits so that UK businesses can host and visit international customers and clients.
- The government must also prioritise the conclusion of reciprocal agreements on intra-company transfers and temporary postings to support foreign direct investment and UK exports.

### Access to international skills

- The government needs to simplify the process for obtaining a visa so that it is manageable for small companies, by making it easier to become a licensed sponsor or removing the requirement altogether.
- Reform of the Tier 2 visa route must be a priority so that employers can access the range of skills that they need, and not only graduates earning £30,000 or more.

### Domestic skills base

- Programmes such as the Mandarin Excellence programme must be maintained and expanded after 2020 if impact and success can be shown. If successful, similar programmes promoting other languages should be explored.
- The Department for Education must work with businesses to review foreign language curricula, ensuring content is reflective of the language of business and meets the needs and demands of employers.
- The government must listen to employers and support organisations like the Careers and Enterprise Company to improve the way they promote collaboration between businesses and schools on elements of the curriculum that deal with artificial intelligence, digital literacy, numeracy, science and engineering.
- The government should ensure STEM employer engagement in schools is effective. Business-school engagement can help inspire young people about the opportunities of studying STEM subjects and help bring a real-world context to the classroom.

### Higher education

- The government must ensure international, provider-led programmes and initiatives such as Erasmus+ remain an option for UK universities following Brexit.
- The Office of National Statistics must begin measuring higher education exports in their annual International Trade in Services (ITIS) survey.

## A spotlight on the US

In 2016, UK exports to the United States amounted to £99.6 billion. Of all UK exports to the United States in 2016, £47 billion were goods and £52 billion were services.

Figure 8: Top five UK product exports to the US (£ bn)

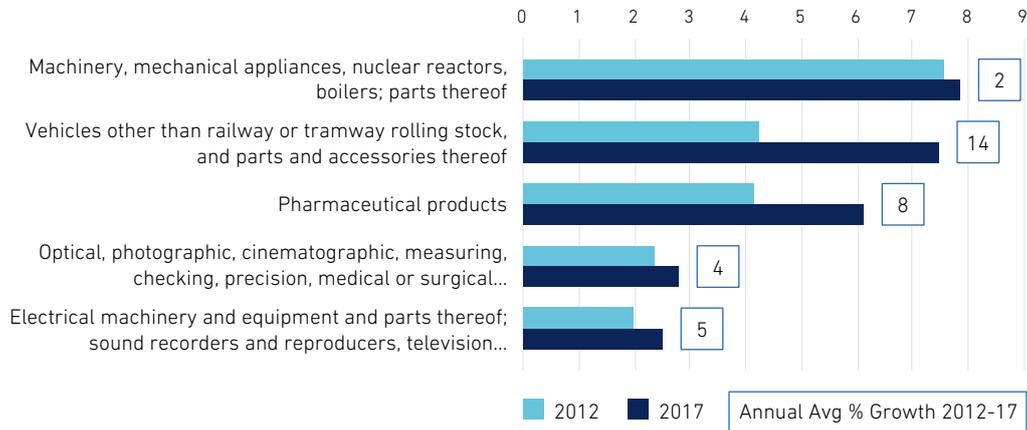


Figure 9: Top five services exports to the US, 2016 (£ mn)



Note: Excludes the activities of travel, transport and banking industries. Source: ONS.



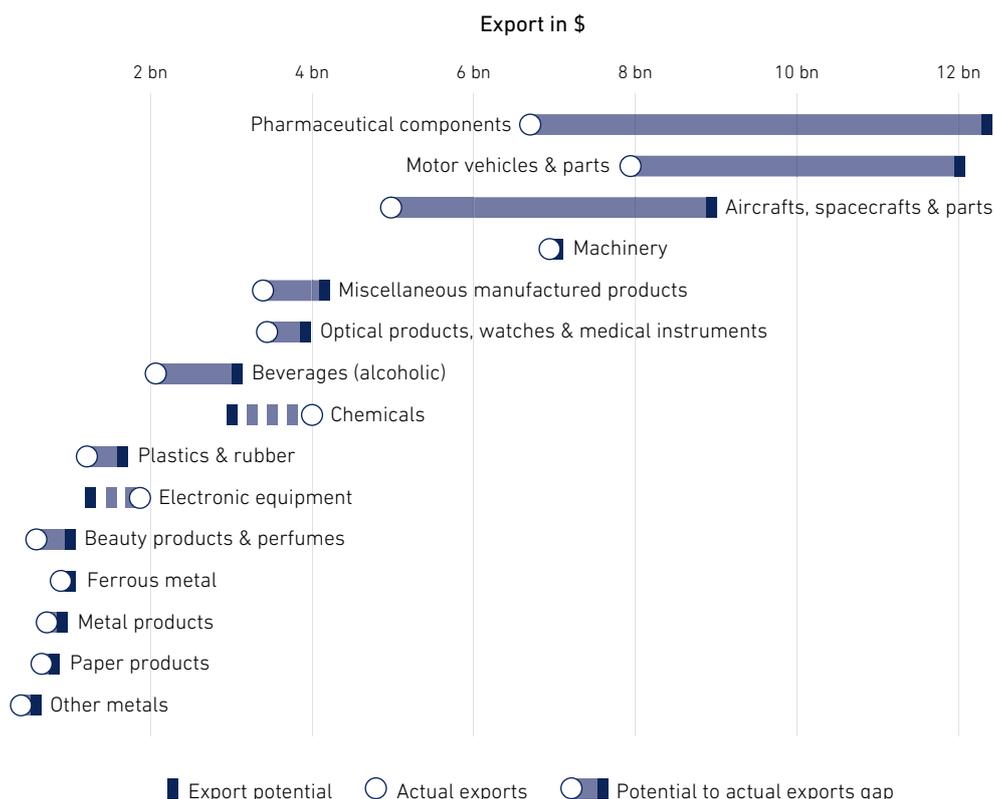
## Key opportunities

**Infrastructure:** An infrastructure reform package could provide opportunities in multiple sectors for British business in America. President Trump announced plans for a major infrastructure overhaul at the start of 2018, attempting to follow up the successful tax reform package Republicans narrowly pushed through Congress and onto Trump’s desk at the end of 2017. Trump frequently talked about infrastructure reform on the campaign trail and the White House revealed a plan of \$200 billion in federal funds that would be part of a larger \$1 trillion public-private initiative.

**Research and development:** The United States is one of the most highly-innovative and adaptive economies in the world and British companies invest billions in research and development fields in the US. According to Sterling Assets 9<sup>28</sup>, British subsidiaries in America invested \$7.3 billion in R&D in 2014 – supporting over 25,000 American jobs. This accounted for 13% of all foreign R&D investment in the US that year (around \$57 billion). Almost 70% of this investment was in pharmaceutical and medicines, a field in which the UK and US are global leaders in providing high quality products.

**Information technology:** Opportunities abound for the US and the UK to lead the charge in the new digital economy. Both nations have an established, pro-tech startup culture that promotes innovation across every category – such as cloud computing, artificial intelligence, virtual reality, biometrics, and blockchain structures. Tech giants such as Fintech, Amazon, Apple, and IBM employ thousands of people in each nation and are enabling the US and UK to set global trends and standards in these new industries for the foreseeable future.

Figure 10: United Kingdom’s products with potential to the US



## Key challenges

**Financial services / Dodd-Frank reform:** The US recently reformed the 2010 Dodd-Frank Act, with the threshold for banks being subject to oversight and regulation from the Federal Reserve being raised from \$50 billion to \$250 billion. The aim was to roll back potentially unnecessary and expensive regulations for smaller banking institutions

However, the new law makes foreign banks ineligible for some of the new deregulations. While there is potential that further exemptions for foreign banks are still to come, this new law potentially puts foreign banks at a competitive and cost disadvantage to their US counterparts in the short term.

**Geographic size / regional differences:** Every U.S. state has its own cultural identity and unique business ethos. States have different classifications for business entities, and levy indirect taxes at different rates (since the United States does not use a federal sales / VAT tax system). The sheer size and diversity of the country can force foreign business to focus on regional markets instead of attempting to capture the entire American consumer market.

### Case Study: The value of the US market

Amino is an innovative global provider of modern, scalable media and entertainment technology solutions based in Cambridge. As pioneers of Internet Protocol Television (IPTV) and with over ten million devices sold worldwide, Amino has a proven track record for reliability, software innovation and best-in-class customer care. Over 1,000 of the world's leading service providers, across 100 countries, have relied on Amino to provide a seamless delivery of rich entertainment experiences.

Amino was spun out of Acorn Computers and has flourished as part of the tech cluster that Cambridge is known for. With limited opportunities for IPTV in the UK, exporting is essential to the company, which derives over 99% of revenues from overseas sales.

The US is particularly important for Amino, with that market making up 60% of the business. The company provides solutions to regional network operators and service providers to help them deliver advanced entertainment experiences in both the IPTV and now the cable TV market as it transitions to IP service delivery.

Amino has also gained substantial market traction in Europe and Latin America and is now targeting the Asia Pacific region.

## Seizing the opportunities

The US economy is diverse, vast, and offers opportunity to every level of business in every field. While its consumption-heavy culture and relative ease of doing business makes it a welcoming environment for British business, the size of the country can be overwhelming when considering the US market.

Rather than treating the United States as one economy, it is important for business to view it as 50 distinct jurisdictions with different economic makeups. What works in California does not necessarily work in Ohio or South Carolina, so the CBI encourages its members to streamline their focus on specific regions that play to the strengths of their business.

There are plenty of resources at hand to accomplish this. Every state and even some large municipalities across America have economic development agencies and chambers of commerce designed to attract investment. They can offer tremendous insight on regional issues, local tax regimes, and tips for getting started in their market. The CBI also offers advice through our office in Washington, DC.

## Step 3: Play to the UK's strengths

British firms have seen great success overseas and that is down to a wide range of factors, including an ability to produce high quality and innovative goods and services, matched with a 'can do' attitude. As a result, the UK is home to some of the world's most renowned businesses. Britain's reputation and brand so often wins custom in international markets and that must be enhanced and harnessed to its fullest extent to drum up new international opportunities and drive potential export activity.

The UK's world-class diplomatic network is also a pivotal player in advancing business interests. Through the course of our consultation with companies to put this report together, the feedback about improvements in the commercial acumen and focus at the FCO in recent years has been clear.

### Case study: The strength of 'Brand Britain'

Princess Yachts, based in Plymouth, is one of the biggest employers in the region and its success is built on the appeal of the British brand worldwide. They hand craft some of the finest boats in the world, on a site rich in British maritime tradition, and that story has allowed the company to quickly grow to the point where the order books are full until 2020.

Princess Yachts have built over 17,000 boats in its 53-year history and personalise the customer journey from order consideration to end of ownership. That quality of service, and with the finished product being to a very high standard, strengthens the business' reputation overseas, setting them apart from foreign competition. The British flag and all that it signifies in terms of the quality of products from the UK is a huge benefit to exporters.

The company had some difficulties in recent years and had to take big decisions. Moving production abroad would have cut costs, but the strength of the British brand in supporting sales was identified as a crucial aspect of the business. The decision to continue production in Plymouth has paid off and Princess Yachts remains a fine example of what can be achieved when leveraging the positive reputation of UK business.



## Commercial diplomacy

Business is resolute that the most valuable role government can play in supporting exporting is in-market, using the UK's extensive network of highly professional overseas posts. Forging links with key contacts and being able to call on people with knowledge of the economic and cultural conditions of a potential new market often makes the difference between winning business and failing. Repeated efforts of senior diplomats in opening doors to local politicians, challenging local regulators, or even directly helping to drive contracts over the line, add up to government's greatest export asset.

Government does not have the resource to provide the same level of service in every market across the world, so there must be a conscious attempt to reorganise that resource to provide the most consistent approach in every post as possible. Opportunities are missed when different officials follow different processes of working, do not share best practice, or do not take ownership of where their support role begins and ends. This can sometimes result in variations in service provision across markets, with quality dependant on personalities and people rather than consistent policies and processes.

The former Foreign Secretary, Lord Hague, was instrumental in improving the commercial focus at the FCO, but in the context of Brexit it is essential to redouble our commitment as part of a "commercial diplomacy 2.0" approach.

### Case study: Commercial diplomacy making the difference



Arup is an independent firm of designers, planners, engineers, consultants and technical specialists, working across every aspect of today's built environment. The firm has some 14,500 staff worldwide with revenues of £1.51bn in the year to March 2017.

Arup has been operating globally for more than 70 years and are active in almost 100 countries worldwide, so are more than capable of championing their own interests wherever they operate. However, working alongside the government's commercial team brings a number of obvious advantages. At the higher diplomatic level, for example, being seen as a trusted partner of HMG provides a high degree of reassurance to potential clients in new and developing markets. And on a practical, everyday business level, the teams in post are a source of invaluable intelligence on opportunities, as well as potential political and commercial risks, which helps Arup navigate the commercial landscape far more smoothly.

Clearer lines of communication and accountability need to be drawn to place greater value and reward on commercial acumen for officials in-post, and also to formalise information sharing in a systemic way between Whitehall and country posts. To do so, the remit of Deputy Heads of Mission (i.e. Deputy Ambassadors/ High Commissioners) must change to reflect business needs and take more direct ownership as the face of UK trade in-post. With this new accountability going forward, British companies will more consistently be able to count on government contacts abroad with knowledge, expertise and a determination to support them. Deputy Heads of Mission bring the necessary government-to-government status to support large overseas deals, and will often subsequently become Heads of Mission, ensuring commercial experience is hard-wired into the professional development of our most senior diplomats.

**Recommendation:**

Give Deputy Heads of Mission in foreign capitals a specific remit to support business and trade as part of a new “commercial diplomacy 2.0” approach personally led by the new Foreign Secretary.

## Showcasing the British brand

The British brand has huge global strength. Alongside many global business brands, British culture, including sport, film, music and fashion, are known across the world.

The GREAT campaign has proven success and significant return on investment, highlighting what is best about the UK and getting new buyers to consider the diverse array of UK content and suppliers. It is widely regarded as international best practice, with other nations implementing similar campaigns to compete. The CBI is very supportive of the initiative but sees opportunity in showcasing UK businesses’ products and services further – aligning best practice from market to market, and working with business to strategically target investment toward and monitor implementation of specific in-market campaigns.

### Case study: The UK's reputation winning business



The Lakes Distillery opened in 2014 and is located in the Lake District National Park, in a stunning location near Bassenthwaite Lake. It produces and markets a range of award winning spirits - whisky, gin, vodka and liqueurs - and also operates as a highly successful tourist destination, with more than 100,000 visitors per year. Visitors can enjoy a shop, tours and bistro. The company has recently been given a Gold Accolade by Visit England, one of only 21 in the country.

The main focus is on spirits, and in particular on their single malt whisky. Exports are currently relatively small as they have initially focused on the UK market, but within 5 years expect them to be at least 60% of sales, rising to 80% within 10 years.

The distillery uses its home (the Lake District) in marketing as being one of the UK's leading national parks, as well as now being a UNESCO World Heritage Site. But they also do very much sell 'Brand Britain', and use their British location to underpin their brands. This extends to the packaging of some products, which feature references to the union flag. Their perception is that Britain has a strong reputation especially for spirits, and this is a strong message to push. In particular the union flag in some markets is a fashion design.

### Championing Britain and the value of exports

Business people also have an important role to play in showcasing 'Brand UK' overseas and the CBI welcomed the recent efforts to get more people with a background in the private sector in to the executive team at DIT. To build on this and champion the business benefits of exporting, there is an opportunity to create a new role, HM Chief Export Ambassador, someone with rich private sector experience in operating overseas that can champion the need to increase exports across government, the business community and international investors.

Much like Jurgen Maier's influential interventions in promoting the need for the UK to continue to innovate, a Chief Export Ambassador can work in the business community to raise the profile of trade, as well as being a senior figurehead for inward visits of foreign delegations. These delegations are as important as outward foreign visits in securing investment and so often the UK misses a trick where other countries would roll out the red carpet in a much more welcoming manner. Ministers understandably have many competing priorities and a senior representative of business can help in meeting the need to be proactive on the trade and investment agenda.

The role would not overlap with those of Ministers or senior officials, with the new Chief Trade Ambassador being a representative of business and not being involved in the day-to-day operations of government.

**Recommendation:**

Appoint a new role – HM Chief Export Ambassador – operating on a national level, at arms-length from government. This should be an influential individual with extensive commercial experience to champion the benefits of exporting and maintain links with international delegations visiting in the UK.

## Trade Commissioners, Envoys and Government-to-Government dialogues

The CBI has welcomed the appointment of the nine new Trade Commissioners. This shows a strong level of ambition in supporting British business overseas and there is enormous potential for these individuals to make a real difference in supporting the growth of UK exports. If there is a renewed focus on commercial diplomacy in country posts and officials work closely with Trade Commissioners, the valuable work on the ground in overseas markets can be strengthened significantly. Trade Commissioners can also play a key role as conduits between Whitehall and officials worldwide.

Business also supports the work of the Prime Minister's Trade Envoys, with the programme expanding and various MPs and Lords from across the political spectrum taking on responsibility for developing relationships in emerging markets where Ministerial visits are not prioritised. With 32 envoys covering 63 markets, foreign partners are receiving the right message that the UK is open to trade and investment. The association of the Prime Minister's name on envoy visits opens doors and allows envoys to both promote British business with senior figures and help firms get contracts over the line.

Formal bilateral government dialogues on trade, such as the Joint Economic & Trade Commission/Committee (JETCO) or Economic & Financial Dialogue (EFD) for China and India, are welcome models for ensuring continual and incremental changes to policy which enhance economic cooperation. British business greatly values the formal and regular process of preparing for these summits, and the accompanying discipline of engaging business on a sector-by-sector basis to gather data and evidence on market access challenges. There remains an opportunity for the UK to exploit this diplomatic strength further by opening similar dialogues across more emerging markets.



### Case study: The value of trade envoys to British business

BAM Nuttall is a construction and civil engineering company headquartered in Camberley. They have been involved in a range of road, rail, nuclear and other major projects worldwide.

The firm is working with three trade envoys in three different markets, one being in Africa and two in South East Asia. In all three cases, the role of the trade envoy has been invaluable, standing in for the Government in areas seen as a lower priority. Envoys are able to directly engage on a government to government level where business alone would fail to make inroads. In one case, a tax issue is complicating a contract and only a trade envoy would be able to step in without interfering with the procurement process.

BAM Nuttall has also benefitted from trade envoy support due to the individuals being able to overstep diplomatic lines, where perhaps Ambassadors or High Commissioners are unable to tread.

The firm sees trade envoys as playing a key role in emerging markets across the globe and would like to see the programme continue to be supported and grow.

#### Recommendation:

The Trade Envoy programme must continue to expand and cover every emerging market to ensure British representatives are championing UK business across the globe on a regular basis, providing a key link to Deputy Heads of Mission with their new commercial remit.

## Government's practical support

### Major strategic accounts

Some of the UK's biggest exporters in value are rightly given high levels of access to government officials, with focused advice, connections to other officials and practical assistance in maintaining and growing their export profiles. This has proved to be a great success and leads to many of the UK's world-renowned businesses sustaining international market share. With this model being such a good use of government resource, the account manager function should be extended so that more businesses can benefit from focused support and a personalised interlocutor working across Whitehall.

#### Recommendation:

The Department for International Trade must expand the individual strategic account manager function so that at least the top 100 most valuable exporters benefit from this important support resource.

### Connecting business to opportunities

The online platform on GREAT.gov.uk is a start, but businesses have found the resource requiring much improvement. Contracts are sometimes detailed in foreign languages, while support is often unclear or lacking when firms try to progress a bid for a contract. The government should invest resources in tailoring the function to business needs and provide adequate assistance to businesses that need support in winning contracts abroad.

#### **Recommendation:**

DIT must, in collaboration with business, co-design and develop an online diagnostic tool which will allow contracts overseas and export support services to be tailored to a firm's size, sector and maturity.

### Providing the right knowledge and guidance to business

The Foreign and Commonwealth Office country desks provide an important function, with invaluable insights into the economic and political circumstances of nations across the globe. The CBI welcomes the setting up of regional desks at DIT to coincide with the appointment of Trade Commissioners, but these need to be as specific as the setup at the FCO. Growing country-specific intelligence on business conditions is crucial if firms are to be aware of where opportunities lie and challenges that must be overcome in specific markets. Having individuals analysing specific nations and being able to signpost to useful contacts in-market would be extremely valuable. This requires a continued restructuring and reprioritisation of resources in DIT and in its approach, but one which would provide a key business ask which is often lacking at present.

#### **Recommendation:**

DIT must continue its restructure to focus on insight by specific market, fully replicating the country desks of the Foreign and Commonwealth Office, to improve collaboration between the two departments and Whitehall, as well as ensure that officials are well placed to practically advise business on market conditions.

### Market insights

The UK should also draw on international best practice in terms of supplying market information to businesses. The US is a good example, with information on economic conditions from around the world being gathered and then tailored to specific sectors. Using the business community to gather more insights would be extremely worthwhile and allow for greater information-sharing around where opportunities lie.

As further detailed in chapter four, the business community is uniquely placed to assist in the export drive. Using this network and intelligence is vital and the government should set up country-specific working groups to inform both Whitehall and foreign missions as to business challenges in those markets. This should be collated into far more detailed analysis, refreshed every six months in a systematic and formalised way, for the benefit of UK business and government strategy.

**Recommendation:**

Using the business community's intelligence is vital, so the government must expand its efforts in setting up permanent country-specific working groups to inform both Whitehall and foreign missions as to business challenges in those markets.

**Trade as a driver of economic growth in developing countries**

The UK has a proud history of supporting countries out of poverty and the CBI recognises the opportunities for business to play a major role with both aid and trade in developing countries.

Traditionally, aid and trade have been dealt with as very separate agendas, managed by the Department for International Development (DfID) and DIT respectively. The recent announcement from the International Development Secretary, Penny Mordaunt, on developing “a bold new Brexit-ready proposition to boost trade and investment with developing countries and promote sustainable economic development and job creation” alongside DIT is very welcome. By working more in collaboration in developing economies, DfID and DIT have the potential to create a united UK front which showcases the joint capacity-building power of aid and trade working in concert toward sustainable development goals. Moreover, while the Government has done some good work with business to look at development opportunities across some areas (e.g. Africa), there is room for more regular and more regionally-focused engagement with business on delivery of development goals.

As the DfID Economic Development Strategy rightly notes, there is a role for UK regulatory authorities, such as the CMA, and leading UK companies in key advancing sectors like financial services, to be involved in developing a resilient regulatory framework for developing economies. There are clear benefits for the recipient country in receiving advice on planning for a modern complex economy, but UK firms will also benefit in future as more economies operate with easy to understand regulatory landscapes that are similar to the UK.

The CBI also fully endorses the Government's post-Brexit commitment to continue supporting developing countries through preferential access agreements for developing countries and unilateral preference agreements for Least Developed Countries (LDCs), which reaffirms the role of trade in reducing poverty in these countries. CBI members are clear that maintaining these zeroed or minimal barrier arrangements will be important to the future growth of these countries and ensuring continuity of the products that UK consumers enjoy. Any disruption to the current terms after leaving the EU would damage the advancement of these countries, and impact affordability and availability of goods for UK consumers.

**Recommendation:**

The creation of new permanent joint government-business taskforces looking at specific developing regions of different continents, which will harness the collective impact and expertise of officials and business people and implement practical strategies which bring together all elements that impact development.

## Summary of recommendations

### Commercial diplomacy

- Give Deputy Heads of Mission in foreign capitals a specific remit to support business and trade as part of a new “commercial diplomacy 2.0” approach personally led by the new Foreign Secretary.

### Championing UK trade

- Appoint a new role – HM Chief Export Ambassador – operating on a national level, at arms-length from government. This should be an influential individual with extensive commercial experience to champion the benefits of exporting and maintain links with international delegations visiting the UK.
- The Trade Envoy programme must continue to expand and cover every emerging market to ensure British representatives are championing UK business across the globe on a regular basis, providing a key link to Deputy Heads of Mission with their new commercial remit.

### Practical government support

- The Department for International Trade must expand the individual strategic account manager function so that at least the top 100 most valuable exporters benefit from this important support resource.
- DIT must, in collaboration with business, co-design and develop an online diagnostic tool which will allow contracts overseas and export support services to be tailored to a firm’s size, sector and maturity.

### Whitehall structures

- DIT must continue its restructure to focus on insight by specific market, fully replicating the country desks of the Foreign and Commonwealth Office, to improve collaboration between the two departments and Whitehall, as well as ensure that officials are well placed to practically advise business on market conditions.
- Using the business community’s intelligence is vital, so the government must expand its efforts in setting up permanent country-specific working groups to inform both Whitehall and foreign missions as to business challenges in those markets
- The creation of new permanent joint government-business taskforces looking at specific developing regions of different continents, which will harness the collective impact and expertise of officials and business people and implement practical strategies which bring together all elements that impact development.

## A spotlight on India

In 2016, UK exports to India amounted to £5.7 billion. Of all UK exports to India in 2016, £3.7 billion were goods and £2 billion were services.

Figure 11: Top five UK product exports to India (£ bn)

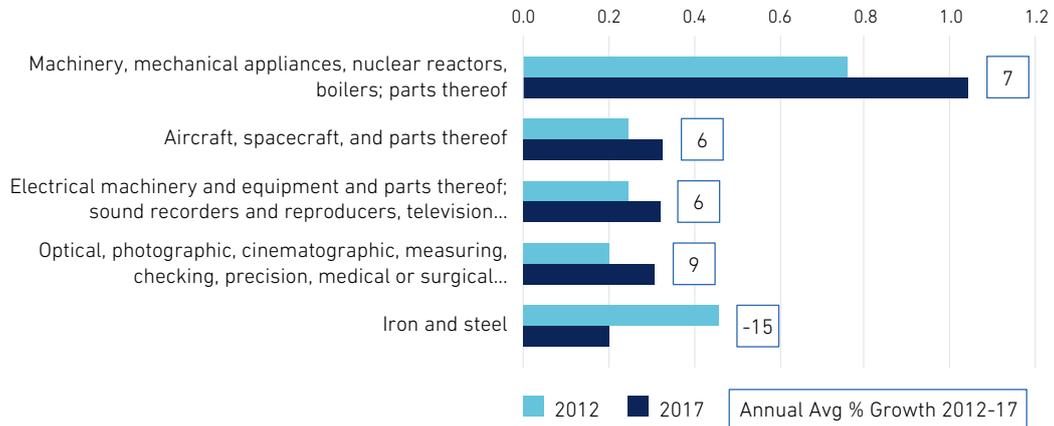
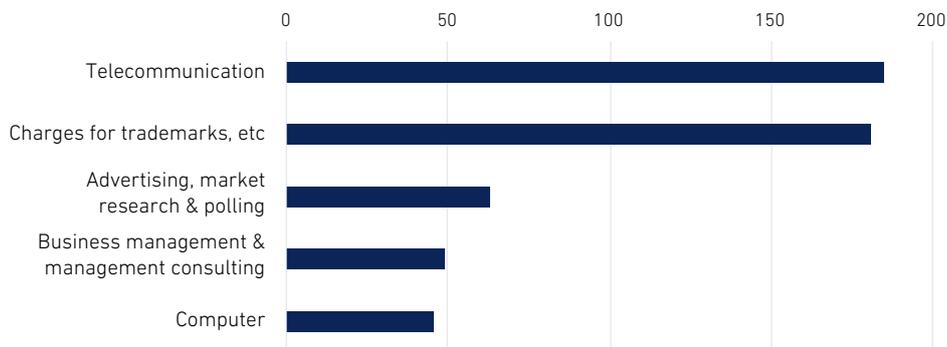


Figure 12: Top five services exports to India, 2016 (£ mn)

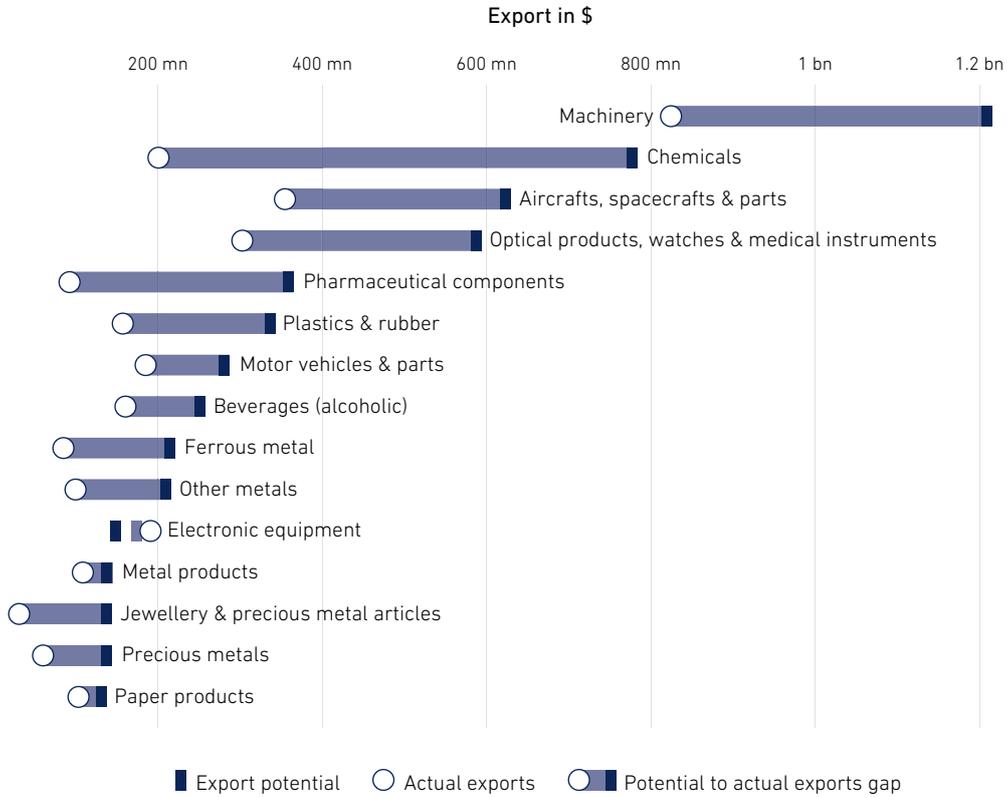


Note: Excludes the activities of travel, transport and banking industries. Source: ONS.



## Key opportunities

Figure 13: United Kingdom’s products with potential to India



### Case study: The untapped potential of the Indian market

A UK manufacturer has been successful in exporting to India for 20 years. The company sees the sheer scale of the market as an attractive destination for exports.

However, there are challenges on the horizon that would jeopardise their sales to India, and those of other UK companies. These include the “Made in India” initiative, promoting a more protectionist stance and to boost manufacturing in the country, as well as intellectual property issues. The intellectual property issues are a serious barrier to setting up joint ventures with Indian partners.

The company’s experiences are similar to those of many UK firms that the CBI has engaged with in recent months. The threat of the loss of IP is a serious concern and puts businesses off exploring the viability of exporting. This shows the value that the UK government can bring in engaging with foreign counterparts. If market access barriers can be addressed, the size of markets such as India can be a major contributor to the UK’s trade performance.

## Key challenges

**Public procurement:** Local Content Requirements (LCRs) act as a major hurdle with foreign business often having an obligation to source all or part of the components/ intermediate inputs from domestic suppliers.

**Intellectual property protection:** While India seeks to become a more digitally and technologically advanced economy, it still lacks adequate data protection laws. This has often held back foreign players from using India as a manufacturing hub, especially, with concerns about IP protection. This in turn has reduced technology transfers and impacted business in the sectors such as Advanced Engineering and IT.

**Free movement of professionals:** It is very difficult for global companies with facilities in both the UK and India to move skills and knowledge around. These restrictions on temporary movement of skilled professionals for business reasons, to either learn or deploy new skills across the business, is detrimental to development and investment.

**Data privacy:** India wants to be known as a data secure nation but lacks data protection laws. While the Indian government is currently considering a Data Protection Law, it needs to speed up the process to sustain business confidence and ensure that foreign business feels secure about their data in India.

**Import tariffs:** More commonplace tariffs set at prohibitively high rates to discourage imports, such as the tariff on Scotch Whisky of up to 166% of imported value.

Other hurdles that have plagued trade and investment include the scrapping of the Bilateral Investment Treaty (BIT) between the India and the UK in 2016. The existing bilateral treaty had worked well for both countries, seeing the UK as the largest G20 investor in the country from 2000-2016.

## Seizing the opportunities

The scale of the Indian market offers a great opportunity for exporters. However, companies should note that India should be viewed as a network of linked state markets instead of a uniform national market. The business environment often differs based on the state market that firms plan to operate in. One of the best places to start is to contact the Department of International Trade. DIT, with their wide network of overseas posts and UK-based trade advisers, as well as DIT sector-specific teams in India, can provide specialised information to exporters.

A few practical considerations for exporting to India:

- 1. Paperwork:** Exporting to India will require at least basic paperwork covering transport, customs, insurance and payment. The British Chambers of Commerce states that on average, companies need to complete at least 11 documents to export to India.
- 2. Export licenses:** Some goods require the receiver to hold special import permission or a license from the Indian government. The full list of these goods is available on <http://dgft.gov.in>
- 3. International standards and certifications:** Most Indian product standards are aligned with those of the International Organisation for Standardisation (ISO). However, imports of around 110 products require certification from Bureau of Indian Standards (BIS) before exporting to India.
- 4. Tariffs:** The Central Board of Excise and Customs provides information on Indian customs tariffs.
- 5. Local partnerships:** It is often important to work with local partners while selling and distributing in India. It is imperative for exporters to do their due diligence on local partners in India to make the most of the opportunities the market has to offer.

## Step 4: Create a long-term partnership between government and business

### Business and government collaboration

Ultimately, it is businesses that trade, not government. That is why it is vital that as the Export Strategy is implemented and evolves, the business community is at the heart of guiding the approach. Ensuring that business needs are addressed in a focused and adaptive way must be the priority, building on the strong track record of positive engagement between DIT and business organisations, including the CBI, thus far. Moreover, as evidenced in previous chapters, for the Export Strategy to work, there will need to be direct engagement from across Whitehall to implement the broader vision in a practical way.

The next logical step in this process will be setting up an Export Strategy Council, made up of officials from across government departments and business representation of all sizes, sectors and regions. This new body should be a top priority for civil servants and should have two main focus points: firstly, to test the effectiveness of the Export Strategy in driving UK exports and secondly, to put forward new ideas as to how government support and business collaboration can be strengthened in an incremental way to maintain year-on-year improvements. Business has a unique and practical perspective of trade on the ground, meaning the more firms can inform government policy in its design stage, the more policy initiatives will be properly targeted toward their intended outcome.

#### **Recommendation:**

An Export Strategy Council, comprising officials from across government to include DIT, BEIS, FCO, DfID, DEFRA and DfT, as well as business representative bodies must be set up to ensure the strategy is working to its full potential. Moving forwards, these can adopt a sector-specific approach to various meetings.

## Trade missions

Trade missions are a useful tool to introduce companies to new markets, find new contacts and to show foreign partners that the UK government is serious about strengthening economic ties globally. Firms see great value in the Prime Minister or other Cabinet ministers leading business delegations around the world to drive new custom across different markets, but the UK still lags behind competitor countries in the frequency and precision of these trips.

Feedback from CBI members has been consistent in arguing that trade missions should be as focused as possible, matching particular UK sectors to specific markets where there is previously identified, rather than speculative demand, for the goods or services in question. Trade missions are expensive and time-consuming exercises (albeit very productive) and so must be used in a way that maximises business development opportunities rather than simply building the UK brand abroad.

### Case study: Trade missions as an invaluable tool for firms



FDF (and the food and drink industry) sees considerable value in focused and sector specific trade missions as well as in bridging the gap in government support around these activities. Their companies find the practical benefits of trade missions and business meetings at trade shows to be invaluable but expensive to fund. Desk research undertaken by FDF found the UK ranks behind EU counterparts in terms of Government support (such as grants and match funding) when it comes to trade missions.

FDF has been a key contributor to recent trade missions in target markets. With Ministers not available to attend, FDF's Chief Executive Ian Wright CBE has stepped in to lead a series of trade missions that have been organised by Santander with the support of the Department for International Trade, helping to raise the profile of UK food and drink overseas.

While always a complex security and logistical process when ministers are involved, there remains room for further transparency and collaboration in the organisation of these missions to gain the best outcomes. Business organisations like the CBI are well placed to work with government in matching businesses to opportunities, even without knowing the specific details that impact on logistics and security. Therefore, the Department for International Trade should rely more heavily on business organisations to support their organisational processes; liaise closely on speculative forward planning, targeting attendees, balancing political and commercial agendas, and tailoring approach based on continuous feedback.

To stay in step with international comparator countries, there is also a need to significantly increase the number of official UK trade missions visiting overseas markets. The regularity of such trips has fallen away in past years and now is the

time to visibly and deliberately demonstrate that Britain is actively looking outwards and is serious about investing its time and resources into strengthening trade and investment links globally.

As ministers cannot devote as much of their schedule to this as they would like and as officials only have so much bandwidth for organisation, this does not need to be solely a government responsibility. The CBI and other organisations are ready to help facilitate, both in supporting government trade missions but to also coordinate separate trips to ensure that firms have as much access to overseas markets as possible. Trade commissioners, as well as key business leaders, are ideally placed to help lead these missions to increase the UK's capacity, as both will have the time and experience to focus on proactively increasing international visits for the most promising British business sectors.

**Recommendation:**

There must be a significant increase in the number of trade missions organised by government and business organisations, with a focus on single sectors and micro markets. The Department for International Trade should co-design this activity with the CBI and other business organisations.

## Trade shows

CBI members are clear in advocating trade shows as a key tool in finding new customers and partners in overseas markets to build up sustainable order books. For many sectors – particularly manufacturing and tech – there is no way to practically convey the utility, ingenuity and value for money of their product other than a live demonstration with potential buyers and suppliers. In the case of highly-innovative firms looking to export for the first time, trade shows often represent their only reliable and efficient means of business development.

UK presence at the world's leading trade shows is nearly always dwarfed by international competitor countries such as Germany, France, Italy or even China. This is a very visual disappointment for UK brand power and almost guarantees that UK firms, particularly SMEs, will miss out on opportunities as they are simply not in the rooms where deals are made. It is important to make clear that Britain is open for business and serious about making commercial deals. Increasing support for trade shows is a key component of that, even if trade shows require months or even a year of follow up to tie down an export win.

A new initiative should be implemented with match funding from government for trade shows and other export activities. This can be administered and sponsored through trade associations, meaning less resource required from government, and more targeted allocation of funding to help only the most deserving and ambitious of firms.

The CBI welcomes the intentions behind the Tradeshow Access Programme (TAP), but because the UK needs a radically improved presence at trade shows worldwide over the long-term, a new scheme and approach is the only way to give that ambition impetus.

**Recommendation:**

A new match funding scheme focused on SMEs must be developed for trade shows and other export-related activity, run as a voucher scheme by sector, with administrative help/delegation to trade associations.



**Case Study: Export promotion for English wine and British gin**

English wine and British gin are going through a period of increased demand domestically and many brands have now found established footholds in the UK market. To expand the categories' horizons, companies are increasingly looking to markets abroad, with gin in particular a rising export star, breaking the £500m mark in 2017 for the first time. In part, this success has been down to a collective industry effort to target global cities with a demand for luxury goods; New York, Madrid, Tokyo, Hong Kong and Singapore.

WSTA believe a review of how the government supports UK companies to export would be welcome. TAP funding, to support wine and spirit companies to attend trade shows has been allocated by Chambers of Commerce, with little consultation or oversight from industry. In some instances, this has resulted in the wrong trade promotion events being pursued, as well as companies who are not 'export-ready' participating. SMEs often benefit from tailored export promotion support in ways that large trade shows cannot accommodate. Specialist events can often promote greater return. Industry bodies, in partnership with DIT, would be better placed to ensure resources are used most effectively, having greater overview of the markets and insight into industry export aspirations.

**Empowering the regions and devolved nations**

Throughout the CBI's engagement with companies around the UK, it has been clear that awareness of the types of support on offer to export is mixed, and on the whole, quite weak. A locally-driven mission to provide this information to firms must be taken up if the government is going to reach the estimated 300,000 companies that could be, but aren't, exporting. For SMEs, having access to information locally is far more straightforward and accessible than navigating centralised government information. The Industrial Strategy committed to working with Local Enterprise Partnership Growth Hubs to provide joined up and easily accessible export and business growth advice. However, progress on this commitment with Local Enterprise Partnerships (LEPs) is unclear.

**Recommendation:**

Government must outline its work to date with Local Enterprise Partnerships (LEPs) and other regionally-focused bodies and how it will work with these organisations to drive exports on a local level, including through regional DIT offices.

The UK should not shy away from the strength of regional and devolved nation identities in winning business overseas. Scotch whisky is a prime example of this and there is a clear role for SDI, InvestNI and the Welsh government to champion the unique products in different parts of the UK.

These organisations and LEPs must also do more to signpost to export support services, whether provided by the public or private sector. SMEs often lack the time and/or resource to research this information in detail and the UK must develop an ecosystem in which it is as easy as possible for companies to access the information and support they need to start exporting. A small business is always more likely to reach out to local contacts first to gauge the viability of selling overseas.

Local and regional organisations also have an important role to play in championing the benefits of trade, linking with DIT offices around the country. Examining best practice, the most effective regional collective work in this area is fostered through close personal ties. Physically sharing offices between LEPs (or related regional organisations) and DIT offices encourages collaboration and information sharing and should be pursued by default in every region. Wherever possible, International Trade Advisers (ITAs) and the 24 UKEF advisers across the UK should also seek to co-locate with regional colleagues or dock into these offices on an ongoing basis. While CBI members greatly value that advice on a local level, there is a responsibility on all to ensure the system is acting in unison.

**Recommendation:**

LEPs and other related organisations on a regional or devolved nation level must outline their own strategies to share best practice, provide knowledge to SMEs on the routes to exporting and collaborate with DIT offices. Each should provide a clear framework of support with set targets for action.

With greater communication and collaboration regionally, the task is then to link in effectively with Whitehall and the international diplomatic network. If that process can improve, businesses will be able to access the information and people they need to reach overseas markets.

## The CBI's role: a spotlight on the benefits of trade

The CBI represents over 190,000 businesses and is well placed to facilitate business to business links, sharing best practice around exporting. In addition, a new International Trade and Investment Council, formed of 25 CEOs from across all sectors, has been launched and will form the basis of steering policy in this area. Setting up this new body reflects the CBI's view that international trade and investment is a top priority for the UK over the coming years, and its work will underpin conversations with Ministers and senior officials in government.

As well as actively supporting trade missions, as outlined previously, the CBI also commits to increasing engagement across the regions and devolved nations, bringing in successful exporters to share their positive experiences of selling overseas and how to break into new markets. Peer-to-peer business links are the best way of sharing experiences and encouraging businesses to consider expanding into new markets. With the CBI's convening power, these conversations will be facilitated to support the government's ambitions within the Export Strategy.

The CBI sees a role for 'export champions', building on the premise of peer support within the Exporting is GREAT campaign. The most powerful incentive for non-exporting firms to consider selling overseas is to hear the positive experiences of other firms in a similar sector. As such, asking for businesses to share those stories is powerful in incentivising firms into exporting activity.

As highlighted earlier in the report, exporting brings multi-faceted benefits to a business. This message must be loud and clear to every enterprise in the UK so that those firms that are not exporting but could reap the benefits if given the right support, scope out the opportunities available to them.

### **Recommendation:**

Alongside the CBI, the government should identify and accredit 'Export Champions' in a range of sectors and regions of the UK to give a fresh impetus to the Exporting is GREAT campaign across the country. These influential individuals will take part in sector-specific regional events, tying in with the work of a newly appointed Chief Trade Ambassador, highlighting the support services on offer and the value that exporting brings to firms.

## Multiplying the benefits of exporting

With large contracts overseas, such as infrastructure projects, British businesses are often well placed to win the initial contracts. As previously outlined, to make the most of this, foreign diplomatic missions must invest in increased commercial awareness to ensure that more of these lucrative opportunities can be secured. Once large contracts are secured, there is a real opportunity for large firms to build in a varied array of component parts of the contract through a British supply chain of companies, and thus, draw more UK firms into overseas markets. Not only would this UK 'consortia' model give more business directly to British firms but also allow them to explore new contacts and opportunities indirectly while undertaking the work in this new market.

There is a responsibility on big business to use trade shows and trade missions to expose smaller British suppliers to international markets and build these UK consortia. Greater coordination is needed on this front and with a revived push on both trade missions and trade shows, we can see greater British presence at key events and on contract bid documents. Visibility and presence internationally is crucial, as it will be down to individuals to drive this change on a personal level.

By way of an incentive to construct and take UK-sourced supply chains out to market, the 20% threshold of British content in contracts to qualify for UKEF assistance should be reviewed, as set out in chapter one. There may be cheaper, non-UK options for a large contract bid in many instances, but taxpayers have a reasonable expectation that government financial support incentivises big companies to look beyond reductive cost analysis alone.

### **Recommendation:**

It is incumbent on business to identify opportunities for British suppliers within their supply chain to multiply the benefits of exporting. To take part in the new working groups suggested above and the strategic account management function of DIT, businesses must demonstrate efforts to increase British content in their supply chain, or practically champion exports and support smaller firms into exporting.

## Summary of recommendations

### Business input

- An Export Strategy Council, comprising officials from across government to include DIT, BEIS, FCO, DfID, DEFRA and DfT, as well as business representative bodies must be set up to ensure the strategy is working to its full potential.

### Trade missions and trade shows

- There must be a significant increase in the number of trade missions organised by government and business organisations, with a focus on single sectors and micro markets. The Department for International Trade should co-design this activity with the CBI and other business organisations.
- A new match funding scheme focused on SMEs must be developed for trade shows and other export-related activity, run as a voucher scheme by sector, with administrative help/delegation to trade associations.

### Locally-driven exports drive

- Government must outline its work to date with Local Enterprise Partnerships (LEPs) and other regionally-focused bodies and how it will work with these organisations to drive exports on a local level, including through regional DIT offices.
- LEPs and other related organisations on a regional or devolved nation level must outline their own strategies to share best practice, provide knowledge to SMEs on the routes to exporting and collaborate with DIT offices. Each should provide a clear framework of support with set targets for action.
- Alongside the CBI, the government should identify and accredit 'Export Champions' in a range of sectors and regions of the UK to give a fresh impetus to the Exporting is GREAT campaign across the country.

### The role of business

- It is incumbent on business to identify opportunities for British suppliers within their supply chain to multiply the benefits of exporting. To take part in the new working groups suggested above and the strategic account management function of DIT, businesses must demonstrate efforts to increase British content in their supply chain, or practically champion exports and support smaller firms into exporting.

## Conclusion

Having engaged with members in every region and devolved nation of the UK, the CBI has developed an acute understanding of the needs and priorities of business when selling overseas. This evidence underpins a four-step plan to increase UK exports – giving firms the business environment and support structures they need to compete internationally.

The CBI sees a step change in exports starting at home, with a deep commitment to strengthening UK competitiveness. That includes putting people at the heart of trade policy through building the right domestic skills base and tailoring the migration system to attract the best talent from around the world.

If the UK is to succeed in this mission, we must play to our strengths, using the extensive diplomatic network to raise the profile of British business in markets across the world and exploit the value that the British brand brings. And crucially, the government's approach to supporting exports must be directly informed and guided by business itself.

What business needs is a long-term commitment to the exports agenda from government, with a strategy centred on continuity, enthusiastically supported and implemented across all corners of Whitehall.

### Step 1: Start at home

A progressive, pro-enterprise environment with a long-term vision is the single most important driver of trade. Business growing and investing in the UK creates an army of advocates for trade and ensures we are creating products and services the world wants to buy.

### Step 2: Put people at the heart of trade policy

Recognising that access to the right knowledge and skills is key to trade success. That means tailoring the UK's domestic skills base to cater for businesses' international needs and ensuring the migration system allows for the easy transfer and hiring of professionals.

### Step 3: Play to the UK's strengths

Building on the UK's brand of innovative and quality goods and services will be integral to success. The UK must use its outstanding diplomatic network for commercial interests and structure government departments to support business effectively.

### Step 4: Create a long-term partnership between government and business

Providing consistency and focusing on delivery with extensive business input is crucial. The Export Strategy must be business led, opportunities through trade missions and trade shows must be exploited and the business community needs to recognise its role in the export drive.

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