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At your service

Why boosting services trade will open doors for UK prosperity

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Introduction

Services are an often-invisible component of daily life, yet they are essential to UK prosperity. From advertising to architecture, lawyers to lecturers, software to social work, services account for 81% of GVA¹ and employ almost 30 million people across the UK.² And when it comes to trade, services are a major competitive strength for the UK, with its surplus in global services trade totalling £105 billion in 2018.³

The UK is at an exciting juncture, realigning its global trading relationships. As services play a central role in the country's economy, they must also be at the heart of new trading strategies, including ambitious services provisions in every trade deal the UK strikes.

81%

Share of UK GVA accounted for by services



The UK's competitive edge against a backdrop of global services growth should be championed

- **The UK already leads the world in services trade.** The UK outstrips the rest of the G7 when it comes to the importance of services exports, with services accounting for 46% of the UK's exports, compared to 35% of French exports and 34% of the United States' exports. In absolute terms, the UK is the second largest exporter of services in the world after the US.⁴
- **The UK's competitive edge in services trade is significant.** In 2018, the UK's services exports reached £297 billion globally while its imports of services reached £193 billion. This surplus is big enough to offset much of the deficit it has in goods trade.⁵



£297bn

Total UK services exports 2018

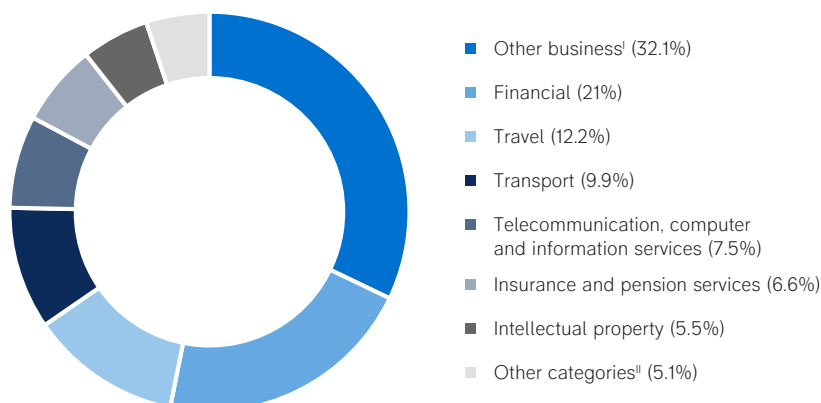
1. ONS Gross Value Added 2018
 2. ONS workforce jobs, September 2019
 3. ONS Pink Book 2019
 4. OECD trade in services
 5. ONS Pink Book 2019

- **The future of trade is in services.** While the share of goods exports in UK GDP has remained roughly stable over the last 30 years (17% in 2018), service exports have more than doubled as a share of UK GDP since 1998 (to 13% in 2018).⁶ This is driven by changes in technology and e-commerce, which the UK is well positioned to capitalise upon.
- **Services will also drive global trade growth.** According to the WTO, the share of services in global trade is projected to increase by 50% in the coming decades, rising from 21% to over 30% over 2018-2040.⁷

One of the UK's main advantages is the unparalleled diversity of the services in which it has strengths

- **Delivering for the Professional Business Services sector in trade negotiations will be essential.** Professional and Business Services – known as 'Other Business Services' and covering legal, accounting, advertising, research & development, architectural, engineering and other professional and technical services – are the UK's strongest exports, making up 32.1% of UK services exports.
- **However, the UK has other major specialisms, not least Financial Services.** Making up 21.0% of the total, Financial Services are the UK's second most significant services export while travel services such as tourism are also very important, accounting for 12.2% of UK services exports.
- **But the UK's expertise in a huge range of tradeable services does not stop there.** The UK also exports significant amounts of insurance, pensions, telecoms and IT services, all helping to deepen the country's coveted international position as a world-leader in services trade. .

Figure 1 Sectoral composition of UK services exports (% of total services exports)⁸



¹ Other business includes legal, accounting, advertising, researching development, architectural, engineering, other professional and technical services.

² Other categories include personal, cultural and recreational services, maintenance and repair, government, construction and manufacturing on physical inputs owned by others.

6. <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-8586>, p.12

7. www.wto.org/english/res_e/booksp_e/executive_summary_world_trade_report19_e.pdf

8. ONS Pink Book 2019

How are services traded?

Example 1: A medium-sized UK-based law firm is currently able to offer its clients UK legal advice using UK lawyers in any EU Member State. It regularly advises clients over the phone and by email, but for major transactions or disputes, clients will often choose to receive advice in person. The firm relies on being able to send its lawyers to provide EU clients or UK clients doing deals in the EU with “fly in fly out” legal advice – requiring lawyers to travel and stay in EU member states on a short-term basis, often for a single day or week.

Example 2: A British company provides an e-learning platform. The learning resources they host can be accessed by customers anywhere in the world if they log in. They rely on the free flow of data in order to process this information across borders easily.

Future trade agreements with a strong services component will help to enable regional growth

In almost all parts of the UK, Financial Services and Insurance are the most important services exports, though a wide range of sub-sectors contribute to regional growth. Further still, in employment terms, service sectors outside of London and the South are major employers and account for almost 18 million jobs.⁹

18m

Service jobs provided outside of London and the South



Regional services export contribution¹⁰



Region



Top three service exports



Region



Top three service exports



North East

- Financial services and insurance (24%)
- Manufacturing services (19%)
- Other services¹¹ (11%)



London

- Financial and insurance activities (34%)
- Information and communication (22%)
- Professional, scientific and technical activities (17%)



North West

- Financial and insurance activities (26%)
- Transport and storage (12%)
- Other services (11%)



South East

- Professional, scientific and technical activities (24%)
- Information and communication (19%)
- Financial and insurance activities (14%)



Yorkshire & Humber

- Financial and insurance activities (32%)
- Other services (13%)
- Transportation and storage (12%)



South West

- Financial and insurance activities (26%)
- Administrative and support services (15%)
- Accommodation and food service activities (14%)



East Midlands

- Financial and insurance activities (20%)
- Other services (14%)
- Administration and support service activities and accommodation and food service (12%)



Wales

- Manufacturing services (32%)
- Financial and insurance activities (28%)
- Other services (9%)



West Midlands

- Financial and insurance activities (29%)
- Other services (17%)
- Information and communication and transport and storage (10%)



Scotland

- Financial and insurance activities (29%)
- Professional, scientific and technical services (16%)
- Transportation and storage (11%)



East of England

- Financial and insurance activities (19%)
- Professional, scientific and technical activities (17%)
- Administrative and support services (16%)



Northern Ireland

- Financial and insurance activities (29%)
- Information and communication (19%)
- Transportation and storage (13%)

10. Services exports contribution represents sectoral % of total services exports for each region. ONS experimental data on UK trade in services 2017

11. Other services include public administration and defence; compulsory social security, education, human health and social work activities, arts, entertainment and recreation and other service activities, as well as unknown/unallocated industries.



Negotiating a trade deal with the EU which provides for ease of services trade is essential

It is essential to negotiate deep access to the EU if the UK wants to remain a world leader for services exports. While good exports depend on controls and tariffs at the border, services depend on a complex web of in-country regulation covering market access, recognition of qualifications, data flows and mobility.

- **Despite the fact there is not a single market in services, UK services firms have been able to benefit from the close economic relationship with the EU.** The EU is the largest market for UK services exports, accounting for 41% of services exports in 2018, worth £120 billion. Growth in UK service exports to the EU has been dramatic: UK service exports to the EU have trebled since 1999, while in the same period goods exports grew by 50%.¹²
- Germany, the Netherlands and France are the UK's largest export partners within the EU, accounting for 6.8%, 6.0% and 5.9% of total UK services exports respectively.¹³
- **Apart from the United States, no other nation comes close to the EU in importance for the UK's services exports.** Outside of the EU, the UK's top export partners for services are the United States at 23.2%, Switzerland at 4.5% and Japan at 2.5%.¹⁴
- **Some of the UK's most competitive services sectors will face the greatest barriers to trade with the EU without the right deal.** The OECD states that countries outside the EU face greatest barriers to trade in legal, accounting, architecture and engineering services, as well as air transport.¹⁵

12. <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7851>.

13. ONS Pink Book 2019

14. Ibid.

15. OECD services trade restrictiveness index, 2018

While the EU is the largest market for UK services, there are exciting opportunities to boost international trade in services too

It is essential to champion services in the UK's approach to global trade, including ambitious provisions on data and mobility in new trade deals with the US and Japan, as well as pressing for better market access in countries like China and India, where trade deals are a longer-term goal.

- **The UK has the chance to lead the way in trade deals on services.** Modern trade deals include extensive provisions for services firms, on data flows, e-commerce, mobility and mutual recognition of professional qualifications – but these are relatively new tools, with scope for improvement. Australia and Singapore concluded the first FTA to contain a dedicated e-commerce chapter in 2003 and since then 69 FTAs have included dedicated e-commerce content, improving on the provisions set out originally.
- **As the UK's services exports with the rest of the world are already growing, the UK can take this moment to capitalise on its expertise.** For example, UK exports to China are made up of 20% services and 80% goods (a far lower proportion than in UK exports to EU or US). Looking ahead, an increase in demand for services, as the Chinese economy matures and middle-class grows, offers a huge opportunity for UK exporters.¹⁶
- **Finally, the UK must also seize opportunities to help open up the global trade in services through international forums.** The UK can be a leading supporter of the Joint Initiative on the Domestic Regulation of Services for example, where 60 countries are currently working together to address the barriers that impede trade in services globally.



Conclusion

Services are a critical contributor to the UK economy, regional growth and prosperity. The UK's position as a global leader in trade in services means that the government must have services at the heart of new trading strategies, including ambitious services provisions in every trade deal the UK strikes.

In order to achieve this, the government must seek to champion services in the UK's approach to global trade by:

- **Negotiating deep access to the EU, beyond WTO provisions, and inclusive of all services sub-sectors**
- **Pressing for better market access within important current trading partners such as China and India**
- **Seeking ambitious provisions on data, mobility and establishment rights in new trade deals with markets like the US and Japan**
- **Using the UK's newly bolstered presence in multilateral fora such as the WTO to champion services at a global level**

To share your views on this topic or ask us a question, contact:



Jordan Cummins
Senior Associate Director &
Head of Policy, London
jordan.cummins@cbi.org.uk



Charlotte Dendy
Senior Economist
charlotte.dendy@cbi.org.uk



Ana Isabel Gallego
Senior Sector Adviser,
Financial Services
ana.gallego@cbi.org.uk