Trading Up

Supporting UK exports in a post-Brexit world

BY NICK KING

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About the Author

Nick King is a Research Fellow at the Centre for Policy Studies, a role he combines with running his own consultancy, Henham Strategy. Nick previously spent almost six years in Government, working as a Special Adviser in three different Departments between 2012 and 2018, as well as being Chief of Staff to the Rt Hon Sajid Javid MP.

Whilst in Government, Nick worked on trade and investment policy and prior to being in politics he was employed in the USA and the Middle East – both instructive experiences from the point of view of this report, as is the work Henham Strategy have undertaken looking at exports, inward investment and the UK's wider role in the world.

About the Centre for Policy Studies

The Centre for Policy Studies is one of the oldest and most influential think tanks in Westminster. With a focus on taxation, economic growth, business, welfare, housing and the environment, its mission is to develop policies that widen enterprise, ownership and opportunity.

As an independent non-profit think tank, the CPS's work is supported by likeminded individuals and companies, but it retains full editorial control of all output to ensure that it is rigorous, accurate and unbiased.

Founded in 1974 by Sir Keith Joseph and Margaret Thatcher, the CPS has a proud record of turning ideas into practical policy. As well as developing the bulk of the Thatcher reform agenda, it has been responsible for proposing the raising of the personal allowance, the Enterprise Allowance and the ISA, as well as many other more recent successful policy innovations, such as increasing the National Insurance threshold, free ports, fixed-rate mortgages, full expensing, the stamp duty holiday, and putting the spotlight on how to use market-based solutions to reach Net Zero targets.

Acknowledgements

Nick would like to thank those at the Centre for Policy Studies (CPS) who have helped support this project and his team at Henham Strategy, whose contributions have been invaluable.

At the CPS, he would like to thank James Heywood and Eamonn Ives, in particular, for their initial work on the topic; Alex Morton for his ideas and challenge; and Robert Colvile, as ever, for his careful editing and for making this report a better piece than it otherwise could ever have been.

At Henham, he would like to thank Archie Hill, Christina Nielsen and James Royce for their exemplary research and attention to detail.

Nick would also like to thank the various people with whom he and the team spoke in the researching of this report – business people, Government ministers, advisers and officials, policy thinkers and MPs.

His greatest thanks, however, are reserved for Javad Marandi, without whose support this report would never have been possible. Nick is grateful to him and the team around him for their guidance and insights.

Contents

Foreword

Javad Marandi OBE

Biography

Javad Marandi OBE is a British entrepreneur, investor and philanthropist, with more than 25 years of experience in business both at home and abroad. Javad's interests span a remarkable range of activities which are reflected in his varied career in FMCG operations and distribution. His investment portfolio comprises a diverse set of assets across real estate, retail, hospitality and construction, including a number of high profile brands such as Anya Hindmarch, Emilia Wickstead, The Conran Shop, Wed2B, Soho Farmhouse and Mollie. In 2017, Javad and his wife, Narmina, co-founded the Marandi Foundation, which supports disadvantaged children, families and communities as well as art and cultural initiatives in the UK. He is also the Co-Chair of the Growth Board at Centrepoint, which aims to give homeless young people in the UK a future and to end youth homelessness.

After the long years it took for Britain to leave the EU, we find ourselves at a critical juncture. For the first time in a generation, we are free to think boldly about the future of the economy and implement rules that put UK businesses first.

I commissioned this report because I believe SMEs are the lifeblood of our economy, and it is vital that we leverage our position as an independent trading nation to support their growth in markets here and abroad. The UK Government has recently set out an ambitious £1tn a year export target by 2030, but we need drastic interventions and innovative policymaking if we have any hope of reaching this target.

I have spent my life building and investing in British businesses, and I am acutely aware of the difficulties small businesses face as they try to grow in overseas markets. For SMEs, the reality is that it takes time, money and patience to explore and enter a new territory and many UK businesses are reluctant to take a leap into the unknown. SMEs are also coming up against extra costs and red tape because of our departure from the bloc, and we need to do more to make sure exporting in a post-Brexit world is a financially attractive option.

The UK's sluggish export performance is a worrying trend that we simply cannot afford to ignore. This problem demands that a new trading system is put in place which can change the fundamental equation and not just provide financial access, but provide powerful incentives for SMEs that will reframe the perception of exporting.

The aim of the following set of recommendations is to suggest specific steps the Government could take to counter the decline in post-Brexit exports and grasp the opportunities this new era of trade could bring. To support the Government's ambitious new Export Strategy and 'Made in the UK, Sold to the World' campaign, this report offers practical and innovative solutions such as an Export Tax Credit, modelled on either the R&D Tax Credits or the new super-deduction.

Like some of the most successful government interventions over the years, the Export Tax Credit would aim to tip the balance for those thinking about exporting in favour of action. It would aim to do this by reducing the costs for those companies, by making sure any qualifying spend on developing exports is advantageously treated in the tax system.

As this report will outline, if the Government is serious about growth and meeting its ambitious export target, there are a number of new policies such as the Export Tax Credit that it must integrate into its strategy. This would also allow it to make good on its promise to build a 'Global Britain', capitalising on the free trade agreements it is signing by developing exporting links all around the world.

Brexit has not been an easy process for this country: its economy, society or its people, but now is the time to deliver on our international ambitions and seize the opportunities that lie ahead. Britain has always looked outwards to the world and we cannot let our businesses retreat in this new chapter for trade.

I hope that this report and its findings provide a blueprint for a new set of trading standards which drive UK exports forward and most importantly, helps British businesses succeed.

Executive Summary

Almost 250 years after Adam Smith published The Wealth of Nations, it seems extraordinary that defenders of free trade are having to make their case anew. But the overall picture for global free trade is an increasingly depressing one.

Trade's share as a percentage of global GDP is shrinking, mercantilism and protectionism are on the rise, and the World Trade Organisation (WTO) is increasingly seen as flawed or even failed.

At such a time, it is more important than ever that Britain speaks up as a champion of free trade post-Brexit. This is not just an abstract exercise. Trade is vital to our economy – and to the prospects of the millions of SMEs within the UK, which are the engine of British prosperity.

If the UK is to be a dynamic, productive, powerful economy in the future, its success will be built on the prospects of its SMEs. Small and family firms are the bedrock of our economy, with six million businesses representing 99.9% of the business population, employing some 16.3 million people and accountable for almost half of all turnover within the UK private sector.[1] Yet compared to other countries, our SMEs have historically been reluctant to export, preferring to focus on the domestic market.

'Companies that export are more productive, make more money and pay higher wages than those which do not'

The rationale for getting more UK SMEs to export is not just that they constitute a major part of the UK economy, but because companies that export are more productive, make more money and pay higher wages than those which do not. Ultimately, they are better for the economy.

Brexit provides a unique opportunity for these companies, and for our country as a whole. For some of those who voted Remain, it seems impossible to reconcile the idea that the UK could leave the European Union (EU) and subsequently embark upon a great trading journey. But that is precisely what we must do. Indeed, arguably one of the few things that united Leave and Remain voters was that they thought the UK should have an international future – they just disagreed on the complexion it should take.

Brexit provides us with an inflection point as a country: a chance to think more carefully about the sort of country we want to be and the sort of role we want to play.

1 FSB, 'UK Small Business Statistics' (2021), Link.

This report argues that speaking up for free trade should be one of the cornerstones of the UK's approach to foreign policy – and, indeed, domestic policy. If we want to have a world where income inequality is tackled, more and more of the poorest around the globe are lifted out of poverty and individuals are granted more opportunities and greater choice, we have no option but to embrace and enhance free trade. And in doing so, we will also help our companies, large and small, to grow their revenue and become more competitive and productive.

This report therefore examines a wide range of ways in which we can both increase our exports and put ourselves at the heart of the campaign for free and fair trade, in terms of our political and commercial diplomacy, our domestic policy and incentives, and our broader attitude to exporting. It looks to build on the Government's recently published Export Strategy, considering additional activity which might support the Government's laudable ambition to increase our exports to £1 trillion per annum. The report's contents are divided into two halves – one addressing the international landscape, and the other the range of domestic policies that we can use to promote exports.

Promoting free trade

The UK must position itself – diplomatically as well as commercially – as a leading advocate for free trade and the international rules-based order, including giving our full-blooded support to the WTO.

Clearly, despite some recent welcome developments,[2] the WTO is not working as effectively as it might. One of the most obvious ways in which it has failed to make progress is in terms of service exports, where no global deal has been signed since the General Agreement on Trade in Services (GATS) was signed in 1995, at a time when the internet was still in its infancy.

'The UK must position itself – diplomatically as well as commercially – as a leading advocate for free trade'

The report argues that the UK should make the further liberalisation of services a priority and aim to take a leadership position in trying to secure an international agreement on this topic.

This would clearly be in the UK's own commercial interest, given the nature of our economy, with services industries accounting for around 80% of GDP, 85% of employment and more than 50 per cent of our exports.[3] But it would also help the wider global economy, reflecting the way in which the world is changing as new technologies and business models blur the lines between goods and services.

More widely, the UK – and its international counterparts – should be more accepting of other countries' standards in certain areas. This indeed is one of the key tenets of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade area that Britain has applied to join, which is based on mutual recognition rather than enforced harmonisation.

2 For example the recently announced agreement on Services Domestic Regulation (considered more closely elsewhere in this report)

3 ONS, 'Services Sector UK: 2008 to 2018', Link; and 'Employees in the UK by industry' (2018), Link.

As well as continuing to negotiate plurilateral and bilateral trade deals, we should promote the idea of a new Global Agreement in Services and Standards (GASS), which would have at its heart the idea that some differentiation in domestic standards is acceptable – with cross-border trade more readily permitted as a result.

If adopted, this could also have the benefit of easing current issues around the Northern Ireland border, at least in terms of dealing with some of the most acute pressures around sanitary and phytosanitary (SPS) products. Just as importantly, the more widespread adoption of equivalence agreements, mutual recognition and other analogous approaches would help some of the poorest countries in the world.

To make progress in these areas, the report suggests that the UK should aim to build coalitions of countries, public sector organisations and private sector businesses, which could also consider and build global standards where necessary.

One area that this report focuses on in particular in this regard is digital trade.

One of the most interesting things about the rise of digital trade has been the way in which it has undermined the sort of protectionist measures which different countries have used over many decades to restrict what they perceive to be competitive threats. But the battle is not yet won.

The Government's recent 'five-point plan for digital trade' was a welcome articulation of its position and made clear its opposition to any future protectionism in digital trade. Just as the UK should lead the way in speaking up for free trade generally, so too should it aim to lead the way in fighting for appropriate international approaches towards digital trade.

'The UK should work with both its friends and allies, as well as through the WTO, to protect digital trade'

The UK is on the right side of many of these debates. On data, for example, it has made clear its opposition to data localisation, its support for data innovation and its respect for data privacy. It has also been clear in its opposition to customs duties on e-transactions, especially on electronic transmissions, and on the mandatory disclosure of source code.

These are the right foundations upon which to build international agreements. The UK should continue to work with both its friends and allies, as well as through the WTO, to protect digital trade.

Closer to home, the UK needs to digitise its own operations. As the implications of the Trade and Cooperation Agreement hit home, it is clear that far too many of the UK's systems around trade, customs and certification remain paper-based, which leads to delay, confusion and the obvious potential for human error.

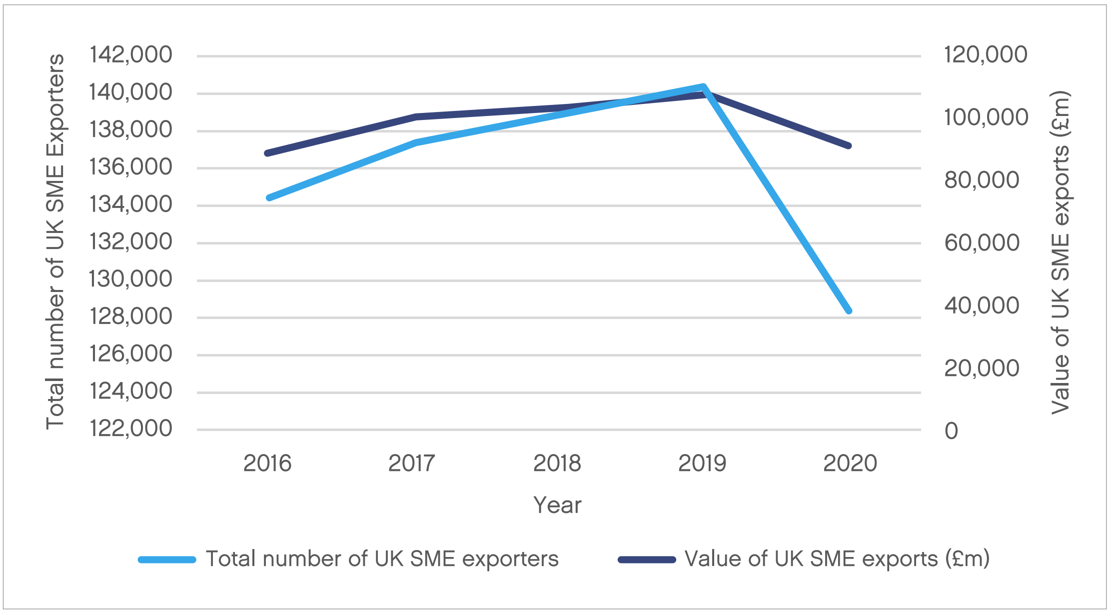
The report therefore recommends that the UK invest more in its customs infrastructure and the wider digitisation of trade, lessening the burden on individual firms and making the process easier to navigate. It particularly points to Singapore's TradeNet scheme as a model to follow.

Supporting SMEs to export

The report finishes by looking specifically at how we can help UK SMEs export – either more or for the first time. It acknowledges that there is already a raft of literature on the barriers to exporting that small businesses face, and that there is no silver bullet for getting more SMEs exporting, given their variety of characteristics, risk appetites, products and market opportunities.

Yet there is no better time to encourage companies to export than now. Indeed, the requirement is absolutely vital – as was recognised in the Government's recently published Export Strategy.

Recent decline in SME exports



Source: *HMRC*

Both the value of UK SME goods exports and the number of UK SME goods exporters are falling (not least due to the twin shocks of Brexit and Covid) and these declines need to be arrested as a matter of urgency.

The recent Export Strategy looks to arrest that decline, and this report looks to build on that strategy by suggesting measures by which the exports net can be widened, capturing more potential exporters. It also calls for a significant upgrade in the support available to SMEs as well as a simplification of what is offered. The current system is extensive in coverage but labyrinthine in nature.

We therefore recommend that future support, led by the Department for International Trade (DIT), should rest on three key pillars, which could form an adjunct to the recent Export Strategy. These are: to simplify export support for businesses, with someone given named individual responsibility for any company interested in exporting; to have a more 'team-based' approach to supporting UK exports, including a 'no wrong door' policy; and to make much more active use of the private sector to achieve the UK's trading ambitions.

These steps do not provide all the answers, but they will make the exporting process far simpler, smoother and effective as far as SMEs are concerned – and they should lead to a higher volume of exports.

Such measures will only help once companies decide they want to export in the first place, however – and the number of UK exporters remains frustratingly low. The Government has launched an awareness campaign to increase interest in exporting but we think the net needs to be much more widely cast. The report therefore suggests a more active role for various groups who can work effectively with local businesses as part of a 'national push' on exports. In particular, we consider the enhanced role which can be played by business representative organisations; by local and regional government structures and Local Enterprise Partnerships (LEPs); and by our universities, particularly with their international students, to support local SMEs.

But to drive the sort of systemic change required, we need to improve the economic incentives for exporting. That is why our final recommendation is also the most important: that the UK introduces a new Export Tax Credit, modelled on either the R&D tax credits or the new super-deduction.

'Like some of the most successful Government interventions over the years, the Export Tax Credit would be an incentive scheme that aimed to tip the balance for those thinking about exporting in favour of action'

Like some of the most successful Government interventions over the years, the Export Tax Credit would be an incentive scheme that would aim to tip the balance for those thinking about exporting in favour of action. It would do this by making sure any qualifying spend on developing exports was advantageously treated in the tax system.

The UK has a proud history on free trade, in terms of both theory and action. It can claim ownership of its intellectual underpinnings and point to its demonstrable impact all around our country.

Having left the European Union, the UK needs to do more on trade, do more to encourage exports and do more to support its exporters. That way we can ensure that the opportunities ahead of us are seized, and that our economy, our businesses and our people have a brighter future.

Recommendations:

1 The UK should aim to be the leading international advocate for free and fair trade and should regard this as a diplomatic priority as much as an economic one.

2 The UK should help to reform the WTO, offering leadership where it can, making the WTO fit for purpose for the modern age and able to uphold the rules which benefit us all.

3 The UK should lead the way in promoting an expansion of free and fair trade in services, working with like-minded nations to develop a new Global Agreement in Services and Standards (GASS) while also pursuing bilateral and plurilateral services agreements.

4 The Government should advocate for a wider acceptance of other countries' standards, through equivalence agreements, mutual recognition and other analogous approaches, reflecting the fact that this would help some of the poorest countries the most.

5 The UK must make international agreement on digital trade a priority for its work, particularly through and with the WTO. Its current enlightened approach to digital trade provides a strong foundation upon which to base these efforts and future international agreements.

6 The UK should invest in its own digital capacity and resource in terms of supporting trade and exports. It should introduce a system along the lines of Singapore's TradeNet service to allow for easy certification, customs requirements and the passage of goods, saving time and reducing costs for exporters.

7 The Government should use our departure from the European Union as a watershed moment and look to build on the recent Export Strategy by strengthening export support for businesses. This should include would-be exporters being allocated someone in Government with 'named individual responsibility'; a more 'team-based approach to supporting UK exports; and much more active use of the private sector to achieve our trading ambitions - including by looking at VC investment to identify some of the companies most worthy of export support.

8 The Government should cast the net wider to find more exporters. It should oversee a national push and work with organisations businesses trust, like business representative organisations, LEPs and local/regional government to support local SMEs as part of the 'Global Britain' agenda.

9 A far more concerted effort should be made to build on the international reach and profile of our universities. In the first instance, a new programme should be launched placing international students with local SMEs as part of wider efforts to capitalise on universities' potential to drive exports.

10 A new Export Tax Credit should be created to encourage UK SMEs to export for the first time or to export more. This system should be modelled as far as possible on the successful R&D tax relief model, or potentially on the more recently launched super-deduction, offering an additional tax-deductible sum on all qualifying export spend.

Introduction

The day after the UK's historic vote to leave the European Union, Boris Johnson heralded it as 'a glorious opportunity… [to] find our voice in the world; a voice which is commensurate with the fifth biggest economy in the world.[4]

It is little more than five years since that vote took place and, although the economic, political and social tectonic plates are still shifting underfoot, there has been one constant refrain from Government since that vote: that Brexit has provided the UK with an opportunity to have its own, independent, trade strategy for the first time in almost 50 years.

Many have characterised the vote to leave the European Union as the United Kingdom retreating from the European continent and turning in on itself. But a counter-argument can be made that a major dividing line between those who voted Leave and those who voted Remain in 2016 was actually about the sort of international future which they wanted the United Kingdom to have. Would it be one where the UK played a leading role within a European political construct or one where the UK was independent, and free to work on different agendas with countries or bodies in different parts of the world?

'The fundamental starting point of this report is that international trade will make both Britain and the rest of the world better off and more productive'

Clearly, we are an island nation. But our country's international reach and global impact is obvious for all to see.

The fundamental starting point of this report is that international trade will make both Britain and the rest of the world better off and more productive. We particularly focus on small and medium-sized enterprises (SMEs) both as the cornerstone of the economy and a sector which has, historically, been less willing – or perhaps less able – to take advantage of trade in the way that larger firms have.

That the UK has been a trading nation for many centuries is beyond doubt. But we are now more in need of flexing our muscles as an exporting powerhouse than at any point in living memory.

The need to turbocharge UK exports is vital not simply because of the recent vote to leave the European Union – though it would be folly indeed if we were to have left a single market to which we exported almost half of all goods and services in 2016[5] and were then not to try to increase our exports with the rest of the world. It is also vital because of the economic shockwaves caused by Covid-19.

4 Euronews, Boris Johnson's Brexit Victory Speech: Full Transcript, Link.

5 ONS, 'Who does the UK trade with?', Link.

Covid has caused massive disruption to economies all around the world. Both global supply chains and the economic model as we know it have come under enormous pressure. In fact, the early stages of the pandemic – as production declined, trade stalled and supply chains creaked – caused many governments to turn to protectionist measures or to consider how they might develop domestic security of supply.

But centuries of economic history have taught us that, in the long run, protectionist policies simply lead to increased costs, less prosperity, reduced choice and widespread consumer detriment. The lessons of Adam Smith and David Ricardo remain as valid today as when they were first set out in the 18th and 19th centuries.[6] Free trade has lifted more people out of poverty than any force in human history, and it is free trade, in both global goods and services, that will drive the UK's economy forward in the future.[7]

Our recovery from Covid-19 will therefore rely on the UK regaining its status as an exporting success story – using Brexit as a platform to trade our way out of economic malaise and into future prosperity.

> **'Covid has caused massive disruption to economies all around the world. Both global supply chains and the economic model as we know it have come under enormous pressure'**

For all the alarmism, we should avoid taking too dim a view of the UK's current exporting performance. We are already the sixth biggest exporting nation in the world. In services we rank second, behind only the United States of America.[8]

But it is also clear that when we look at our performance – compared to the size of our economy, the historic links we have with countries around the globe, the competitive advantages we have through our language, our reputation and our acceptance of the rule of law, and many more natural advantages besides – we fall short of where we should. Given that successive governments have been determined to 'make a success of Brexit', not least in terms of trade, we simply must do better.

This report therefore aims to set out some of the steps we should take. It starts by considering the opportunities afforded to us by leaving the European Union and how the UK can play a more active role in championing and promoting the global trading system which has done so much for so many – and will continue to lift people out of poverty, if only we let it.

It then examines the opportunity to take a more flexible approach to standards and regulations, as well as how we can improve the rules around the global trade in services, both of which would make trade easier for all and lead to specific competitive advantages for the UK. It then considers the specific issue of digital trade, looking at how the UK can take a global lead as well as better support its own companies through digital means.

6 See this report's bibliography for (two of) their most important works on this topic

7 For more on this, see UK Board of Trade, *Global Britain, Local Jobs*, Link.

8 National Audit Office, 'Department for International Trade and UK Export Finance: Support for exports', Link.

It concludes by taking a closer look at how the UK can better support its SMEs to trade more goods and services into more markets right around the world. Indeed, in many respects, the whole report is aimed at unlocking more SME exports, reflecting the fact that SMEs make up the vast majority of UK companies, more than half of UK turnover and are already responsible for half of UK exports. Anything which enhances UK exporting performance is going to aid and assist UK SMEs. But we also look specifically at some of the factors that are holding back UK SMEs and what we might do about them.

‘Whether people like it or not, it is now incumbent upon us to have our own independent trading policy. This presents challenges and opportunities’

This report does not claim to have all the answers. Trade policy generally, and exports policy specifically, are complex beasts. And the UK is somewhat out of practice when it comes to working on trade, having outsourced responsibility for the topic to the EU for almost five decades.

Brexit, however, means we need to think differently about trade and how we go about it. Whether people like it or not, it is now incumbent upon us to have our own independent trading policy. This presents challenges and opportunities. But in the context of Covid – and the obvious need to bounce back economically – we must overcome the challenges and seize the opportunities. The UK must start trading up.

Chapter One: Enhancing the Terms of Trade

The vote to leave the European Union sent shockwaves through the UK and across the European continent. It led to much speculation and analysis on what it meant and what those who voted 'Leave' were trying to achieve.

The front page of The Spectator immediately after the referendum result featured a butterfly, with the headline 'Out and into the world'. For many (though by no means for all), that captured the spirit of why people voted to leave the European Union – to play a leading role in a wider world.

Indeed, whether one was comfortable with the idea of Europe moving towards an 'ever closer union' or not, it was clear that the European Union was increasingly acting like a single economic bloc, with many member states sharing a single currency, and the political construct forming an economic single market and an overarching customs union.

In terms of trade policy, this meant that other countries' goods and services were often subject to tariff and non-tariff barriers – and the EU was more than happy to use subsidies to prop up uncompetitive industries. This protectionist approach was nothing new, with the original European Economic Community (EEC's) Common External Tariff having been constructed to protect high tariff countries such as France and Italy.[9]

> **'China relies on state-owned enterprises, the heavy use of subsidies, the dumping of goods and the widespread imposition of tariffs to support and protect domestic production'**

Although the European Union did reduce tariffs and remove non-tariff barriers over time, it continued to protect certain industries in certain countries – perhaps most famously French agriculture. As will be explored in Chapter Two, it did not do anywhere near as much as it might to further trade liberalisation in services.

The European Union is certainly not alone in taking a relatively protectionist approach to trade. Even among the most powerful economies in the world, mercantilism often seems to be winning the day. The elections of both Donald Trump and Joe Biden in the US took place on 'America First' trade platforms. China relies on state-owned enterprises, the heavy use of subsidies, the dumping of goods and the widespread imposition of tariffs to support and protect domestic production.[10, 11]

But it would be naive and unfair to suggest that it is only the European Union, the USA and China who engage in such practices. As the World Trade Organisation (WTO) reported in its 2019 annual overview, trade-restrictive measures by WTO members are at a historically high level and *'the trade coverage of import-restrictive measures recorded in [its] last two annual overviews has soared'*.[12]

9 David Thackeray, 'Britain's Turn towards Europe, 1947-75' in British Academy, *Trade Policy History* (2021), Link.

10 European Central Bank, *Economic Bulletin, Issue 3/2019*, Link.

11 OECD, *State-owned enterprises as global competitors: a challenge or an opportunity?* (2016), Link.

12 WTO, 'Report shows trade restrictions by WTO members at historically high levels', Link.

Ultimately, these sorts of practices hold back economic growth and development, hurting the very poorest around the world most of all (see box below).

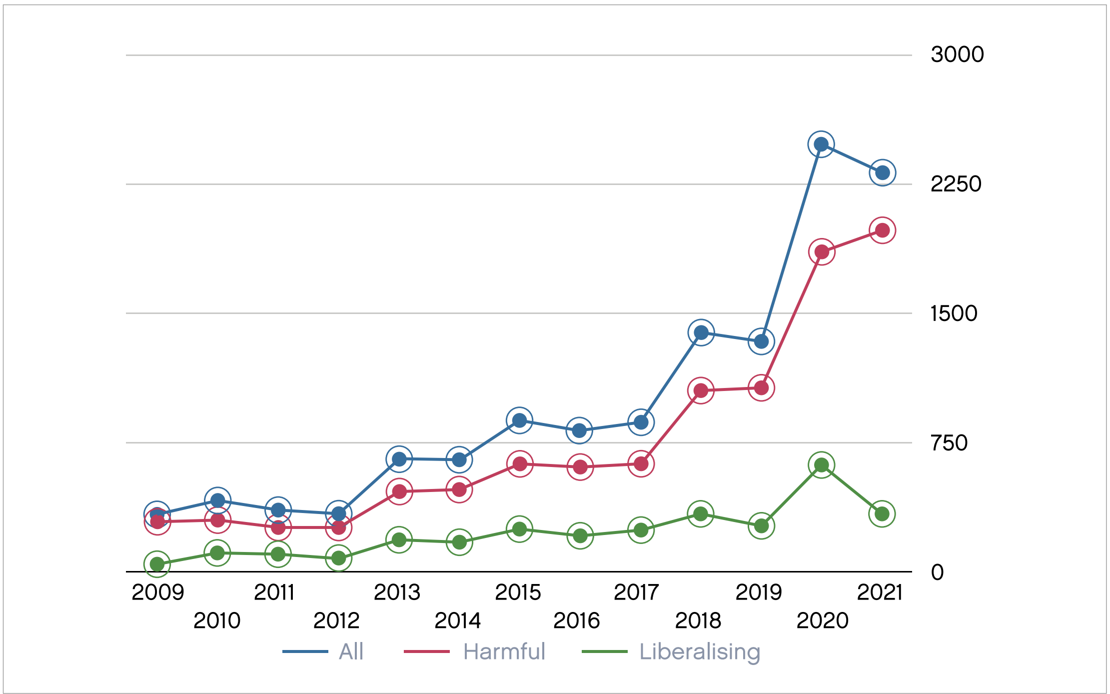
It is therefore both on humane grounds, and also because it is the right thing for the UK politically and economically, that this report takes as its starting point the notion that the UK must play a far more active and assertive role in defending free trade and the rules-based trading system which exists around us.

Some will argue that the UK's departure from the European Union, and emergence as a 'sole actor', undermines our ability to play such a role. But the UK has long been regarded as a leading voice in international institutions (including the UN, the OECD, the G7 and G20, NATO and the WTO) neither in spite of, not because of, its place within the European Union. It can use these platforms to speak up for free trade – and there is clear and obvious need to do so right now.[13]

For decades, as the chart later in this section shows, free trade increased alongside global growth. Between 1990 and 2008, the value of world trade expanded from 39% of world GDP to 61%. As new trading routes opened up, economies grew, wages increased and prices fell. But since the global financial crisis, trade has fallen back to 58% of world GDP.[14]

During this same period, Global Trade Alert (GTA) has been tracking the number of harmful trade interventions that governments have made around the world. Unsurprisingly, this number has risen of late – with a huge spike in 2020 as countries scrapped for access to ventilators, PPE equipment, drugs and vaccines; attempted to reconfigure their supply chains; and threw money at domestic industries.

New trade interventions per year



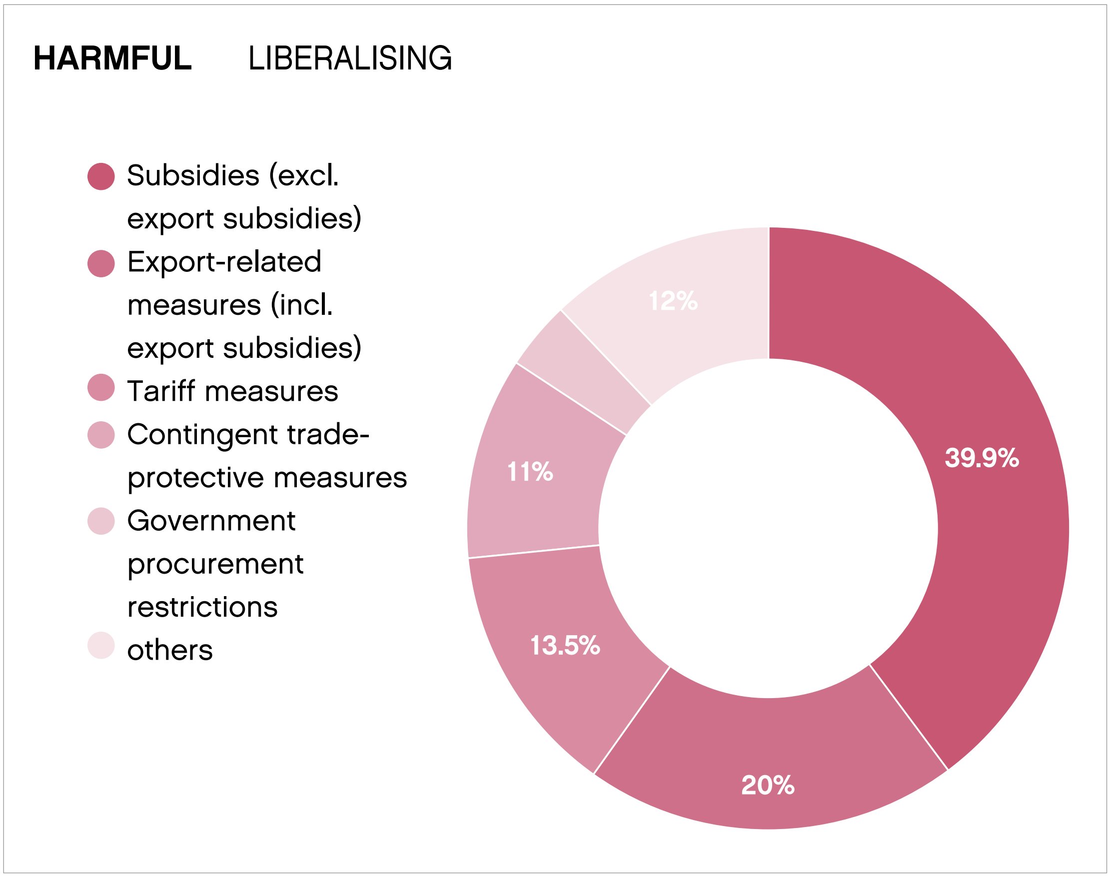
Source: *Global Trade Alert*

13 For more on this opportunity, please see the LSE's *UK Economic Diplomacy in the 21st Century*, Link.
14 European Central Bank, *Economic Bulletin, Issue 3/2019*, Link.

Some of these interventions have taken place in areas where multilateral trading rules exist but fair competition is being hindered by trade barriers or countries offering state support. In particular, the increase in the number of State-Owned Enterprises (SOEs) is leading to market distortions and unfair competition. According to a 2016 OECD paper, 22 of the 100 largest firms in the world were effectively state-owned, far more than was the case a few decades ago. This is obviously partly driven by the rise of China: according to the same report, 'China's largest companies are almost all… SOEs and state-owned banks'.[15]

Although the imposition of tariffs is the most overt and obvious intervention that countries can make – and they've certainly made the headlines in high-profile cases involving aircraft manufacturers and alcohol producers – data from GTA suggests that the largest category of harmful interventions is actually subsidies, with tariffs only making up 13.5% of the total:

Breakdown of interventions



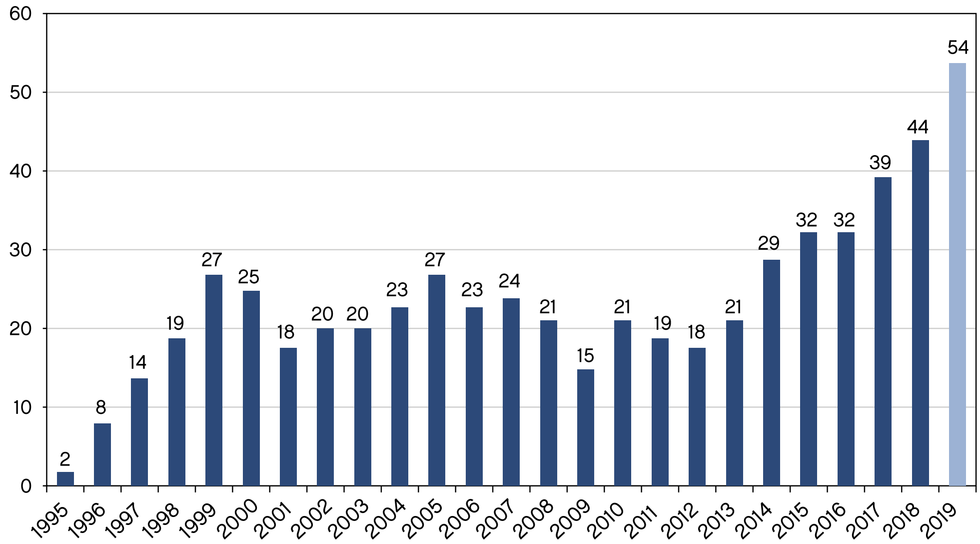
Source: *GTA*

It is no surprise that unfair competition has led to more and more complaints to the guardian of the global rules, the WTO. The new Director-General of the WTO, Dr Ngozi Okonjo-Iweala, has conceded that 'a refreshed WTO must find solutions' to tackle the growing number of disputes across the organisation and the inability of the current system to solve them.[16]

15 OECD, *State-owned enterprises as global competitors: a challenge or an opportunity?* (2016), Link.

16 Dr Ngozi Okonjo-Iweale, statement ahead of being confirmed as the new WTO Director-General, Link.

Average number of ongoing WTO dispute proceedings per month, 1995-2019



Note : 2019 data are based on the average of the number of active disputes from January to September. Several disputes are counted as one if they deal with the same subject matter. Annual averages are calculated on the basis of the number of ongoing proceedings per month (January to December) over the yearly period concerned (e.g. in 2017, 39 proceedings were ongoing per month, on average).

Source : WTO Secretariat.

Source: *WTO*

The ongoing nature of some of these disputes is down, in part, to the fact that the WTO is finding it harder and harder to reach judgments – or to impose appropriate measures – given the current non-quorate nature of its Appellate Body, the main judging panel of the organisation.

The WTO's seeming weakness in this area exacerbates the wider issue, which is that it has not reached a complete trade agreement among its full membership since the Marrakesh Agreement, which led to the body's creation in 1995. The Doha Round of trade talks, which began in 2001 and collapsed in 2008, was the last attempt at a comprehensive agreement, which would require unanimity among the whole membership. Notwithstanding the recently announced agreement on Services Domestic Regulation (considered in more depth in the next chapter), the WTO still falls a long way short of playing the sort of role which many of those committed to free trade would like it to play.

The overall picture for global free trade is, therefore, an increasingly depressing one. The value of trade as a percentage of global GDP is shrinking; mercantilism via tariffs, subsidies and non-tariff barriers is on the rise; the WTO is increasingly seen as a flawed if not failed organisation; and few are speaking up for free and fair trade. This is why the UK needs to step in.

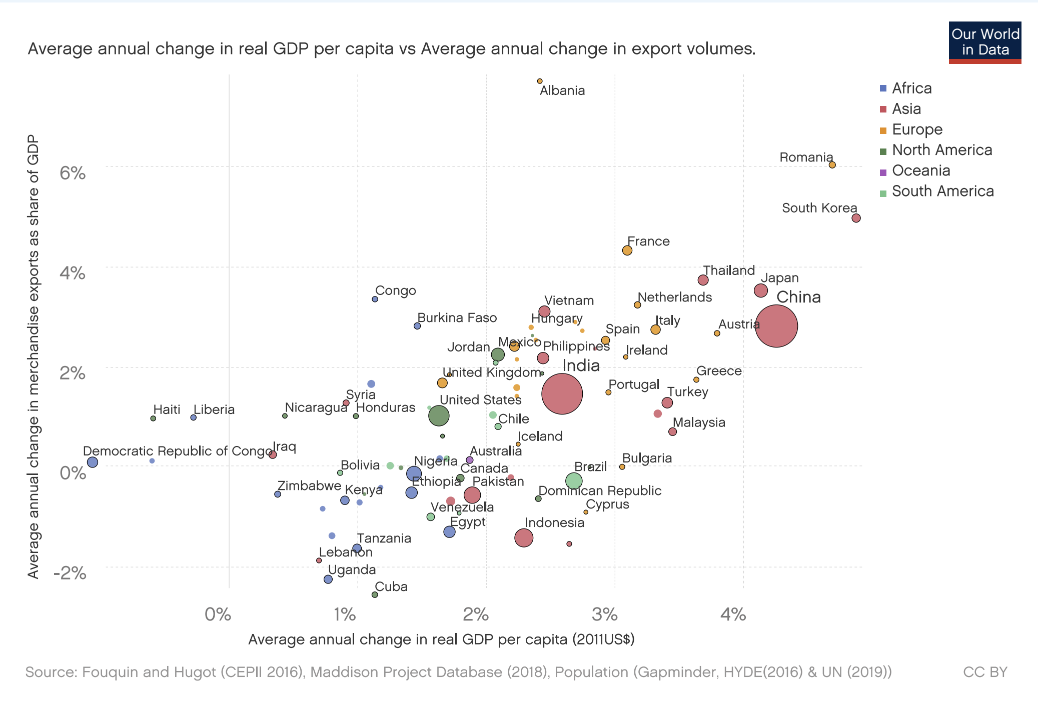
In Defence of Free Trade

Almost 250 years after Adam Smith published The Wealth of Nations, it seems extraordinary that defenders of free trade have to make their case anew. But with mercantilist voices getting ever louder, and with populist leaders increasingly looking to close down access to foreign goods and services, a vigorous defence undoubtedly does need to be mounted for free trade.

The greater specialisation, increased efficiency, extension of consumer choice and cost reductions which have come through the extension of comparative advantage, economies of scale and enhanced productivity have led to the lives of the very poorest in the world being transformed in recent decades. According to the Chief Economist of the World Trade Organisation, since 1990 more than one billion people have been lifted out of poverty, owing to growth that was underpinned by trade.[17]

The positive correlation between a country's export growth and its GDP growth is made clear by this table charting GDP growth per capita against growth in exports as a percentage of GDP over 60 years.

Growth of Income and Trade, 1945-2014



Source: *Our World in Data*

Increased exports lead to higher economic growth, more government revenues and greater macroeconomic stability. But they also lead to positive impacts for individuals and households, through higher wages, more employment opportunities and greater consumer choice.

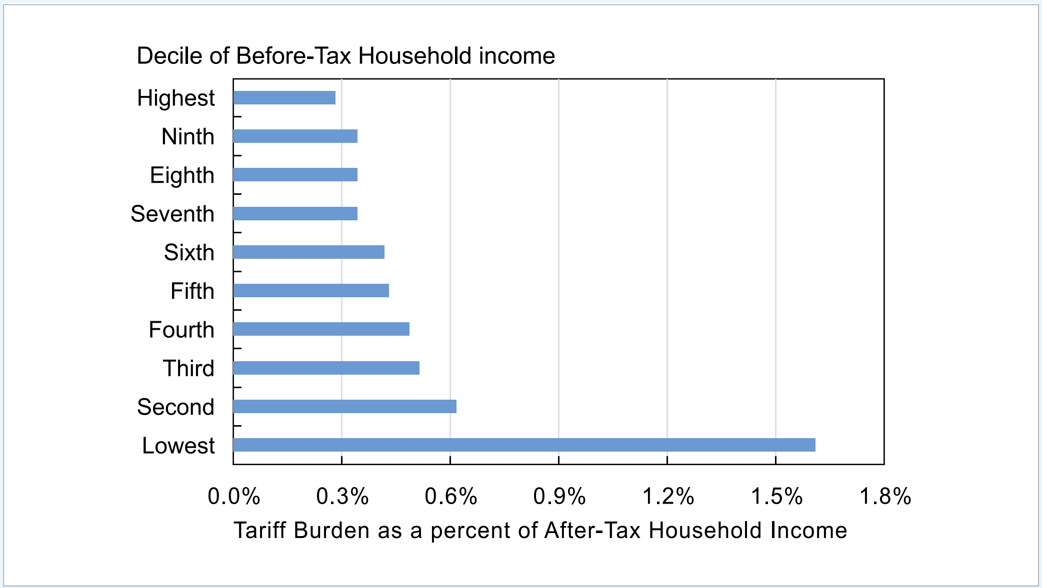
17 World Economic Forum, 'Why poverty reduction rests on trade', Link.

A study of manufacturing in 47 African countries found that employees at export-oriented firms earned 16% more than workers at non-exporting firms.[18] *Moreover, poorer countries have benefited from the ability to import foreign-made medicines and medical equipment, which has allowed for advances such as large-scale immunisation. A 2001 paper for the World Health Organisation found that openness to trade is associated with faster reductions in infant mortality in developing countries.*[19]

The fact of the matter is that increased trade and higher exports will axiomatically lead to higher per capita incomes. Furthermore, they will lead to lower prices for consumers, as they can access more choice and producers are subjected to competitive pressure. A study by the Bank for International Settlements in 2008 found that a 1% increase in imports as a share of a given sector's market was associated with a fall in producer prices of 2.35%.[20]

Yet still the detractors come for the free trading system. This is particularly wrong-headed as it has been unequivocally demonstrated by the World Bank that tariffs disproportionately impact low-income households; their adverse distributional effects have negative implications for both poverty and income inequality.[21] *Similarly, a 2017 analysis of US datasets found tariffs disproportionately hit the poorest, especially single parents and women.*[22]

Tariff Burden Relative to After-tax Income



Source: *VoxEU*

If we want to have a world where income inequality is tackled, more and more of the poorest around the globe are lifted out of poverty and individuals are granted more opportunities and greater choice, we must not just embrace but enhance free trade.

18 ibid.

19 Dean T. Jamison, Martin Sandbu & Jia Wang, 'Cross-Country Variation in Mortality Decline, 1962-87: The Role of Country-Specific Technical Progress', Link.

20 United States Congress Joint Economic Committee, 'Consumer Benefits from International Trade', Link.

21 World Bank Group, The Global Costs of Protectionism (2017), Link.

22 Jason Furman, Katheryn Russ & Jay Shambaugh, 'US tariffs are an arbitrary and regressive tax', Link.

As we outline elsewhere in this report, free trade generally and exports specifically are vital to the UK economy, bringing in hundreds of billions of pounds, providing jobs and opportunities all around the country and increasing choice, while decreasing costs, for tens of millions of UK consumers. And these same advantages can be enjoyed right around the world, provided rules are developed in a timely fashion, updated as required and adhered to by countries large and small.

Clearly the system overseeing those rules has stalled of late, with countries largely taking to pursuing bilateral or plurilateral deals (including by forming trade blocs, such as the European Union or CPTPP) instead of pursuing large multilateral agreements. The flaws in the system are all the more apparent given the increasing number of complaints being made and the WTO's difficulties in responding to those complaints.

'Although we are a large economy and a global power, we live in a pluralistic world and work best when we work constructively with our allies'

The UK – the birthplace of the first man to articulate the immense power and value of free trade, Adam Smith – should therefore aim to lead the charge in abolishing tariffs and tearing down non-tariff barriers. It is particularly well placed to do this thanks not just to its pedigree on this topic,[23] but to its historic and contemporary connections around the world. Churchill himself talked about the 'three majestic circles' of UK strategic interest, focusing on the Commonwealth, the Anglo-American relationship and European co-operation.[24] The UK obviously has international links which stretch far beyond those three circles – but they provide a valuable, and unique, platform on which to build.

One of the ways in which the UK should aim to build on that platform is by setting itself the challenge of working to refresh and renew the WTO, helping make it fit for purpose for the modern age. That is not to suggest that the UK can or should make the case, or reform the WTO, by itself. Although we are a large economy and a global power, we live in a pluralistic world and work best when we work constructively with our allies. But when both the first and second largest economies in the world are increasingly looking towards protectionism, we should consider it not just an opportunity but also a responsibility to step in.

This will require an overhaul of how we approach trade policy within the UK, as well as a serious investment in our trade apparatus. It does not need to mean we seek to pursue fewer bilateral or plurilateral trade deals – but it does mean we should combine these with making a wider case for global free and fair trade.

Having not had an independent trade policy for almost five decades, it is no surprise that we needed to buy in expertise from around the world when we first voted to leave the European Union – but we have invested in our own trade negotiators and experts since 2016. That investment now needs to be taken to the next level, reflecting the wider role the UK can and should play in making the case for free trade.

23 For more, see UK Board of Trade, *Global Britain, Local Jobs*

24 For more, see British Academy, *Trade Policy History*

The benefits of this are obviously economic – but both the means to the end and the end itself are also diplomatic, reflecting the fact that the more global trade there is, the safer and more secure the world becomes.[25] The UK Government should therefore consider this a diplomatic mission as much as it is an economic one, and staff it accordingly.

> **'Having not had an independent trade policy for almost five decades, it is no surprise that we needed to buy in expertise from around the world when we first voted to leave the European Union – but we have invested in our own trade negotiators and experts since 2016'**

Working through or alongside the various organisations the UK plays a leading role within or works closely with – including the UN and its Security Council; the G7 and G20; the OECD, IMF and World Bank; the Commonwealth; and most obviously the WTO – as well as working in tandem with friends and allies including the USA, sympathetic members of the European Union, and our potential future partners in the CPTPP, the UK can lead the way. It can help improve the way the WTO works and enhance its reputation; it can extol the virtues of free and fair trade to friends and allies; and it can ensure that the fruits of free trade – in terms of economic growth, higher wages, more choice and lower costs, can be enjoyed right around the world. All we need to do is improve our – and the world's – terms of trade.

Recommendations:

- The UK should aim to be the leading international advocate for free and fair trade and should regard this as a diplomatic priority as much as an economic one.

- It should help to reform the WTO, offering leadership where it can, making the WTO fit for purpose for the modern age and able to uphold the rules which benefit us all.

25 World Trade Organisation, *Mainstreaming Trade to attain the Sustainable Development Goals:* 2018, Link.

Chapter Two: Personal Standards and Global Services

Within the European Union, the UK was part of one of the largest single markets in the world. It provided access to half a billion people who adopted a common approach to the regulation of almost all goods (and many services), with goods, capital and labour able to move freely across the borders of the member states.

As well as being part of the EU's single market, the UK was part of its customs union (almost, but not entirely, coterminous with the single market), which provided a common approach to the treatment of goods – and to a lesser degree services – emanating from outside the EU, with quotas applied and tariffs enforced as determined by the EU.

Upon choosing to depart the European Union, the UK turned its back on the single market and the customs union, saying it would rather go it alone and dictate its own trade policy, with all the opportunities and the challenges which that presented.

There is little point in suggesting that Brexit has not disrupted UK trade – the figures since its formal departure make that all too obvious (see Chapter Four for more details). It is also true, of course, that Covid-19 and the lockdowns which governments around the world have imposed on their countries have impacted global supply chains and our typical experience of supply and demand.

‘Since the beginning of 2021, the trading landscape has changed fundamentally and many businesses which have never traded outside of the EU have had to become familiar with new trading rules’

But, irrespective of the global circumstances, the UK's departure from the European Union has unsurprisingly led to huge changes for how business gets done in the UK, which is perhaps most obvious in the case of trade, in terms of both imports and exports.

Since the beginning of 2021, the trading landscape has changed fundamentally and many businesses which have never traded outside of the EU have had to become familiar with new trading rules. The Trade and Cooperation Agreement signed by the UK and the EU has done little to prevent a deluge of paperwork and the imposition of many new rules for importers and exporters alike.

A period of readjustment was always going to be necessary, but the implications of these new rules, checks and wider red tape have undoubtedly led to delay, additional costs and uncertainty on the part of many UK exporters – impacts which are explored in more depth in the final chapter of this report.

We claimed earlier that adopting our own trade policy would lead to both challenges and opportunities. As we reckon with the immediate impact of Brexit, the challenge for the UK Government is to ensure that this does manifest itself as a period of readjustment rather than heralding a more fundamental shift towards a less export-driven economy. But the opportunity is also there to think more carefully about what might unlock more exporting success, not just for the UK, but for the world as a whole.

Central to both this challenge and this opportunity is the role of standards and, specifically, the attitudes of different nations to the standards adopted by other countries.

The role of standards was obviously a critical factor in the negotiations between the UK and the EU. The debate was perhaps clearest in the discussions around the approach which would be taken to financial services (where different concepts like equivalence and mutual recognition were considered and ultimately rejected). Eventually a set of relatively unsatisfactory compromises were enshrined in the Trade and Cooperation Agreement, which is now the subject of further debate on both sides, in particular in terms of its impact in Northern Ireland.

Yet the issue of differing standards goes far beyond the terms agreed to facilitate the UK's departure from the EU. It is regularly brought up to argue for or against the easing of trading relations with other countries. In the UK, such arguments are particularly common around agricultural standards and approaches to animal welfare.

'The role of standards was obviously a critical factor in the negotiations between the UK and the EU'

Looking at the UK-EU deal is a good case study of the importance of standards. A key reason the British object to the EU's implementation of the Trade and Cooperation Agreement is that so few of our standards have been amended in any meaningful way since the UK left the European Union. For example, as the UK Trade and Business Commission pointed out in its interim report in relation to veterinary standards, 'since 1 January (2021), the UK has continued to follow EU standards, yet faces complex certifying and checking procedures to prove it.'[26]

The EU might reasonably argue that standards can change. In fact, the UK has suggested it is actively looking for areas in which it might deregulate and adopt a different approach.[27] An obvious candidate for this – and one which has been frequently suggested, not least by the author – would be for the UK to move away from the EU's precautionary principle and adopt a more permissive approach to sectors and industries like genetically modified foods.

But is it really the considered view of the EU that the United Kingdom would adopt a set of standards which are genuinely harmful to its citizens – and, by implication, to EU citizens? It is reasonable to assume that they do not actually hold that view but, rather, consider the imposition of their own standards a way of protecting EU manufacturers and other businesses from unwanted competition – despite the harm which such an approach does to consumer interests.

26 UK Trade and Business Commission, *Interim Report 2021*, Link.

27 See for instance Lord Frost in Hansard, 16 September 2021, Link.

This suggests a more appropriate and helpful approach to standards generally, and free trade specifically, is needed. It may be impossible given the circumstances in Northern Ireland, but generally speaking, a willingness on both sides to accept the preferred and applied standards of the other would not just help the UK and EU find a route out of both this current situation, but also offer a better model for free trade in the future more widely.

Equivalence and Mutual Recognition

Equivalence *is a process by which countries assess whether another country's regulatory regime meets their standards and therefore whether its products can be sold to host country buyers. Equivalence requires that the host country assess whether the regulatory standards of the other country meet the regulatory requirements of the host country before they are allowed to enter the host market.*

Mutual recognition *allows goods or services produced subject to the regulatory regime in one country to be sold cross-border into another country without having to comply with rules set in the second country. In other words, it is a more open process, involving appreciation and acceptance of different regulatory regimes which might exist.*[28]

Whatever the EU decides, the UK should ensure we do not fall into a similar trap in our own dealings with other countries. Liz Truss, as Trade Secretary, put the argument well in a recent speech: 'There are some people here in Britain who have said that if goods are not produced exactly according to the way they're produced in Britain, we shouldn't be importing them. But… it would mean British consumers paying higher prices in shops and it would mean huge swathes of developing countries losing out on their potential to become more successful.'[29]

There is another important point to be made here: today, only a minority of products are simply made in one country and then exported to another. The OECD recently estimated that this type of trade amounts to only about 30% of all goods and services, with the other 70% involving global value chains, with raw materials, services, parts and components crossing borders before they are shipped to their final destination.[30]

So the idea of having a more permissive approach to other countries' standards seems, prima facie, not just appealing but also obvious.[31] Such an approach is already being taken, in effect, by the UK, which is yet to introduce full import checks on food and drink from the EU, recognising there is little point given the fact that the standards are the same, as there has been no divergence.

28 Adapted from UK Trade Policy Observatory, 'Equivalence, mutual recognition in financial services and the UK negotiating position', Link.

29 Rt Hon Elizabeth Truss MP, Speech to Policy Exchange, 14 September 2021, Link.

30 OECD, 'Global Value Chains and Trade', Link.

31 Ibid.

A practical example of how this might help, at least in the current UK-EU context, was given by the Trade and Business Commission, who said (again in relation to veterinary standards): 'An agreement that UK and EU standards are equivalent or aligned, could remove or reduce the certification and implementation issues.'[32]

This notion of allowing alternative, but acceptable, standards is more than feasible in the context of products and goods – but is perhaps even more important in terms of trade in services.

Most people's conception of international trade centres around the trade in goods, which is unsurprising given many people's first-hand experience of buying foreign goods and their entirely reasonable lack of understanding of the different modes of service exports.

'The EU, for all of its labelling as a single market and its claims to hold dear the four freedoms of capital, people, goods and services across member states, still does not have a properly functioning single market for services'

But recent improvements in the facilitation of goods trade are the result of concerted efforts, at bilateral, plurilateral and multilateral levels, to find common approaches, reduce tariffs and abolish non-tariff barriers wherever possible. Clearly the job is not yet complete – but the easing of trade in goods stands out as a salutary lesson when compared with progress on trade in services.

It is true that growth in services exports was slightly faster than growth in goods trade prior to Covid-19, at an annual rate of 5.4%, compared to 4.6% growth – but services still only accounted for something like a quarter of all exports.[33]

Two obvious demonstrations of the issues at hand are provided by the attitude of the European Union to services and the success, or lack thereof, of the WTO in driving forward a comprehensive agreement on services.

The EU, for all of its labelling as a single market and its claims to hold dear the four freedoms of capital, people, goods and services across member states, still does not have a properly functioning single market for services. It offers more access than is permitted to those outside the European Union but the OECD's Services Trade Restrictiveness Index (STRI) makes it clear how far there is to go until it can properly be considered a single market.[34] It is therefore little surprise that even the EU's most ardent supporters recognise that there is more work to be done on this topic.

The WTO, meanwhile, has failed to make the sort of progress which many would want to see in terms of the liberalisation of trade in services, with the General Agreement of Trade in Services (GATS) still providing the overarching framework, despite the fact that it came into force in 1995. Many have pointed to its clear limitations as an agreement and very obvious ways in which the world has changed since then (not least the emergence of the internet and the prevalence – at least pre Covid-19 – of international business travel).

32 UK Trade and Business Commission, *Interim Report 2021*, Link.

33 UNCTAD, 'Total Trade in Services', Link.

34 OECD, 'Services Trade Restrictiveness Index', Link.

The WTO does, in its defence, recognise the need to do more on services. In its 2019 annual World Trade Report, it noted that developments in trade flows and technology mean that trade policy will need to focus more on trade in services, stating that:

'Not only is there a need to devote more energy and attention to services liberalization; there is also a need to develop new negotiating tools and approaches. If past negotiations to open up goods trade were driven mainly by tariff bargaining – the exchange of one market access 'concession' for another – future negotiations to liberalize services trade will be driven more by regulatory cooperation – the effort to develop common standards, improve information exchanges, or advance shared policy objectives.

'Goods-centred trade negotiations will need increasingly to become services-centred trade negotiations as well…. Cross-border trade will increasingly involve services, not just goods, agricultural products or raw materials, and that… will transform the global economy in the process.'[35]

Building on this ambition, the WTO announced in November 2021 a new agreement on Services Domestic Regulation which aims to cut red tape around licensing and qualifications in particular. This is welcome progress but the impact of this announcement (unlikely to come into force before 2023) should not be overestimated. Not all countries will be applying the rules across all sectors – and its scope as an agreement is not as wide-ranging as some might have wanted.

'Within the UK, services industries account for around 80% of GDP and 85% of employment – and they already make up more than 50% of the UK's exports'

Further progress on services is particularly important from a UK perspective, given that the UK is a services-based economy and is currently one of the two main exporters of services in the world. Within the UK, services industries account for around 80% of GDP and 85% of employment – and they already make up more than 50% of the UK's exports.[36] Even with countries who we have come to rely on heavily for cheap goods, e.g. China, we still maintain a surplus in terms of trade in services.[37]

There are some who write off the service-based nature of our economy as being all about the City and pinstripe suits but – quite aside from the fact that the City is a prize asset for the UK, with a disproportionate economic benefit (and the fact that some people look very dapper in a pinstripe suit) – our service economy, and our service exports, are about far more than financial services.

In fact, the UK's largest single export category in services is 'other business services' which includes legal, accounting, advertising, architectural, engineering and other technical services. Travel and transportation also added up to more than the amount of financial exports, at least before the pandemic – showing the importance of this part of the economy.

35 WTO, *World Trade Report 2019: The future of services trade* (2019), Link.

36 ONS, 'Services Sector UK: 2008 to 2018', Link; and 'Employees in the UK by industry' (2018), Link.

37 In 2019, the UK recorded a trade deficit of £18.3 billion with China: a £21.8bn deficit in goods and a £3bn surplus in services. See House of Commons Library, *Statistics on UK Trade with China*, July 2020, Link.

UK trade in services by sector

Service type	£ million					Percentage of total services exports	
	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q3 2018	Q3 2019
Other business services	24,661	28,247	25,460	25,520	26,356	31.6	32.1
Financial	15,154	16,007	16,035	14,852	15,628	19.4	19.0
Travel	10,868	8,867	6,625	9,248	11,364	13.9	13.9
Transportation	8,006	7,367	6,827	7,585	7,863	10.2	9.6
Telecommunications, computer and information services	5,889	6,512	5,928	5,991	6,046	7.5	7.4
Other service types	13,572	15,166	13,893	14,862	14,782	17.4	18.0
Total services	78,150	82,166	74,768	78,058	82,039	100.0	100.0

Source: *ONS*

Greater liberalisation of services can also unlock more economic activity, and more trade specifically, in and around the manufacturing of goods.[38] In fact, as the WTO's Annual Report suggested, new technologies and business models are changing how services are produced and supplied, often in ways which do not fit our traditional understanding of international trade and the distinction between goods and services.

'Greater liberalisation of services can also unlock more economic activity, and more trade specifically, in and around the manufacturing of goods'

For example, a smart fridge requires market access not only for the good, but also for the embedded service. Something which is produced by 3D printing may cross a border as a design service, but becomes a good when it is printed in the country of consumption.

Thus, it makes sense for our whole economy to push for trade liberalisation around services, which remain far less open than goods trade.

Progress has been made on this agenda as the UK takes forward Free Trade Agreements (FTAs) with various countries around the world. Our deals with both Australia and New Zealand have services liberalisation as major components. But picking off individual countries one by one will be a long journey if the UK is going to see the sort of liberalisation of trade in services it needs.

38 For good explanation of the causal link, and of the different 'modes' of service exports, see UK Trade Policy Observatory, 'Services Trade in the UK: What is at Stake?', Link; and 'The Engagement of UK Regions in Mode 5 Services Exports', Link.

The right approach for the UK, therefore, is to use its voice and role as a leading advocate for global free trade to argue in favour of greater liberalisation in services in particular. To ensure the ambition is set appropriately high and the prize is worth the candle, the UK should adopt a multilateral approach (at the same time as continuing to pursue best in class agreements on a bilateral and plurilateral approach).

The Trade in Services Agreement was an attempt to do this some years ago but, having been launched in 2013,[39] it stalled and has failed. The recent announcement on Services Domestic Regulation is welcome but only goes so far. The UK should therefore attempt to bring forward a new Global Agreement in Services and Standards (GASS), which would have at its heart the notion that some differentiation in domestic standards would be acceptable – and the delivery of services across countries would still be permitted.

This new Agreement – GASS – should be pursued through the offices of the World Trade Organisation and should be an attempt to put the international trade in services on the same sort of basis as the international trade in goods. Fundamental to this would be a more accommodating approach to other countries' standards and approach to certain regulated professions. This would most likely be of disproportionate benefit to some of the poorest countries in the world – not least within the Commonwealth.[40]

'In the UK we have sector specific standards bodies, regulators and organisations like the British Standards Institute (the BSI) and the UK Standards Accreditation Service (UKSA)'

It is in that context that the UK's attempted accession[41] to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is so important. Not only will it allow the UK and like-minded countries to strengthen the rules-based order, but it will also demonstrate that UK standards can happily co-exist alongside those adopted in countries as different as Chile, Canada, Japan and Australia.

This will pave the way for a greater liberalisation of services between the UK and those countries – and any others who might wish to accede to the CPTPP in the future. It could also allow the UK to play a 'trade hub' role, like Canada does, given its agreements with both the USA/Mexico and with the EU, while waiting for a global agreement, or in case it doesn't happen.[42]

This sort of an approach would also have the ancillary benefit of making dispute resolutions less likely and therefore render concerns around the rightful role of, for example, the European Court of Justice, less important.

As referenced above, none of this is to say that the UK should not pursue bilateral agreements at the same time. The value which can be derived from negotiating

39 European Parliament, 'Plurilateral Trade in Services Agreement (TISA)', Link.

40 J de Leyser & Mohammad Razzaque, 'Servicing the Commonwealth: liberalising trade in the UK's strongest sector', Link.

41 The UK formally launched accession proceedings on 22 June, Link.

42 For more information, see LSE, *UK Economic Diplomacy in the 21st Century* (2021), Link.

individual FTAs, smaller deals in key sectors (like financial services), developing mutual recognition agreements in certain sectors and by promoting trusted trader programmes (as regularly advocated by Shanker Singham) is significant.

But if the UK is going to make great advances on the trade agenda in any of these areas, whether that is by driving forward a wider acceptance of other countries' standards, or through the wider liberalisation of services, it is going to need to rely on external bodies within the UK and beyond.

Standards are not simply the preserve of governments, of course. In the UK we have sector specific standards bodies, regulators and organisations like the British Standards Institute (the BSI) and the UK Standards Accreditation Service (UKSA).

Such bodies interact with their international counterparts and international organisations, like the International Standards Organisation (ISO). Standards, at an international level, can also be set by bodies like the OECD, the World Customs Organisation (WCO) and the WTO itself.

‘By taking a lead, through the BSI, the Government and through other organisations, the UK should aim to build coalitions of countries, public sector organisations and private sector businesses, to both consider and build global standards and rules which can be applied to existing and future technology’

As part of its attempts to play a leading role in the international rules-based system, therefore, the UK must work with and through these bodies to develop appropriate standards – and a more sympathetic approach towards other countries' standards.

Critical to this ambition is the British Standards Institute, which is one of the world's oldest national standards bodies, and well regarded by many of its international counterparts. It would obviously not be appropriate for the BSI to tell other countries what standards to adopt. Indeed, it would run counter to the whole thrust of this chapter, which is to argue that we ought to be more accepting of other countries adopting different approaches to our own. But that is not to say that the BSI cannot and should not play an important role helping both to set international rules (where appropriate) and helping its international counterparts in the development of their own standards.

This is particularly important when it comes to the development of new standards and regulations around the technologies of the future. Some of the issues which have emerged through the development of the digital economy are considered in the next chapter, but there are other emerging technologies – like small modular reactors in nuclear energy, carbon capture and storage, nanotechnology, gene editing and beyond – where the UK should aim to develop the standards of the future, which might become commonly adopted, or would at least be accepted by other counties.

By taking a lead, through the BSI, the Government and through other organisations, the UK should aim to build coalitions of countries, public sector organisations and private sector businesses, to both consider and build global standards and rules which can be applied to existing and future technology. Nowhere is this more important than in terms of digital trade, which is considered next.

Recommendations:

- The UK should lead the way in promoting an expansion of free and fair trade in services, working with like-minded nations to develop a new Global Agreement in Services and Standards (GASS) whilst also pursuing bilateral and plurilateral services agreements.

- It should advocate for a wider acceptance of other countries' standards, through equivalence agreements, mutual recognition and other analogous approaches, reflecting the fact that this would help some of the poorest countries the most.

Chapter Three: Digital Trade

Promoting Digital Trade

As we argued in the previous chapter, creating new norms, standards and regulation is particularly important around the technologies of the future. It is hardly an original observation to point out that the speed of technological change has been particularly rapid over recent decades[43] and that much of that has been underpinned by the shift towards digital. As we look to the future of UK trade policy, then, it is essential to consider the role of digital trade.

The first challenge in this regard is pinning down precisely what is meant by 'digital trade'. As a recent report from the House of Commons' International Trade Committee said, 'there is no single recognised and accepted definition of digital trade'.[44] By and large, as that report pointed out, people use it to mean transactions of goods and services which are digitally enabled. For its part, techUK defines digital trade as 'the cross-border transfer of data, products, or services by electronic means', but the OECD say that digital trade also encompasses physical delivery.[45]

'For the UK alone, according to estimates from techUK and from the Department of International Trade, digital trade is worth somewhere between £190 billion and £326 billion per annum'

Some of the reason why digital trade is definitionally amorphous is because it can be seen as having both a vertical and a horizontal application. There is trade *in digital* which is about the delivery of digital goods and services themselves, but there is also trade *via digital* which is about the delivery of good and services which have typically been delivered via traditional means, but which are now being delivered digitally. It is this latter sense which is most obviously changing the way the world operates, with digitally delivered applications becoming more commonplace in sectors including accountancy, law and financial services. In fact, digital underpins virtually every sector and is becoming increasingly important for the delivery of goods and services to customers, whether B2B or B2C.

Whatever the precise definition of digital trade, it is undoubtedly big business. For the UK alone, according to estimates from techUK and the Department of International Trade, digital trade is worth somewhere between £190 billion and £326 billion per annum.[46] Looking at the size of the prize on a global scale is even more compelling, with the UN

43 For much more detail, see Robert Colvile, *The Great Acceleration*

44 House of Commons International Trade Committee, *Digital Trade and Data* (2021), Link.

45 techUK written response to House of Lords EU Services Sub Committee, Link; OECD, 'Digital trade', Link.

46 techUK, *A Blueprint for Digital Trade* (2021), Link and Department for International Trade, 'Digital Trade Objectives', Link; the discrepancy emanates from different definitions of what constitutes digital trade, as discussed above, and from the years in question – 2018 vs 2019

Conference on Trade and Development (UNCTAD) estimating that just one aspect of the digital world, e-commerce, was worth some £26.7 trillion globally in 2019.[47]

It is no wonder, then, that the UK Government is determined to make progress in this area. The recent launch of a five-point plan for digital trade represented a welcome step forward from the new Trade Secretary, Anne-Marie Trevelyan, and the Department for International Trade.

> **'Looking at the size of the prize on a global scale is even more compelling, with the UN Conference on Trade and Development (UNCTAD) estimating that just one aspect of the digital world, e-commerce, was worth some £26.7 trillion globally in 2019'**

The plan stated that the UK wanted to be a global leader, with a network of international agreements that drive productivity, jobs and growth across the UK. It identified five key areas, which are fundamental to the smooth facilitation of digital trade:

- Open digital markets
- Data flow
- Consumer and business safeguards
- Digital trading systems
- International cooperation and global governance

The plan was as clear an articulation as we have had of where the UK thinks some of the pinch points are in terms of developing digital trade – and was particularly interesting in reflecting the clear concerns of the Department and the Secretary of State about the spectre of protectionism in the context of digital trade.

In some respects, the most interesting thing about the rise of digital trade, and consumers' widespread use of the internet to buy goods and services from around the world, has been the way in which it has undermined the sort of protectionist measures which different countries, or political entities like the European Union, have used over many decades to restrict market access for what they perceive to be competitive threats.

The fact that consumers have been able to access goods from around the world through Amazon or audio-visual content from Spotify or Netflix has shown that digitally enabled services can be offered from halfway around the world – often before domestic regulation has caught up.

But the UK's strategy for digital trade recognises both implicitly and explicitly that protectionist measures are all too commonly being reached for by other countries, and frequently driven by politics rather than economics.

Therefore, just as the UK should lead the way in speaking up for free trade generally and the reduction of tariffs and avoidance of non-tariff barriers specifically, so too should it aim to lead the way in fighting for appropriate international approaches towards digital trade.

47 UNCTAD, 'Global E-Commerce Jumps to $26.7 Trillion, Covid-19 Boosts Online Retail Sales', Link.

Indeed, the UK's current approach on this issue is a perfect embodiment of the wider strategy which the UK ought to take in pursuing its international trade ambitions. It relies on a combination of independently leading the charge where it can (e.g. through its recent presidency of the G7, where it developed the Digital Trade Principles),[48] working at bilateral level (e.g. ensuring digital trade chapters are part of the deals it signs with countries like Australia and New Zealand and through individual Digital Economy Agreements), plurilateral level (e.g. through its proposed accession to CPTPP, which already has digital trade provisions in place) and at a multilateral level (e.g. by supporting the WTO's efforts to make progress on e-commerce and digital trade).

'It was suggested that the UK should aim to build coalitions of countries, public sector organisations and private sector businesses, to both consider and construct global standards and rules'

Good progress is being made in each of these areas – with the recently signed UK-Australia Free Trade Agreement[49] and the UK-Singapore Digital Economy Agreement[50] being particularly impressive, with e-trade facilitation mechanisms like e-invoicing making trade more efficient. The UK's Board of Trade also recently published its Digital Trade report, outlining the opportunities which exist for boosting UK exports in and through digital trade.[51]

But there is more to do to get international agreement on some of the most important topics. As considered earlier in this report, the WTO's rules around services (including digital's status as both an exportable service but also underpinning the trade of other services) are out of date, with the last set of rules, in the form of GATS, drafted and agreed over a quarter of a century ago, when the internet was in its very infancy.

There is some disagreement over whether or not the current set of rules within GATS are good enough to cover digital trade, with some arguing that the general commitments can apply to cross-border data flows even without referencing these flows, but the more common view is that the agreement needs to be updated and amended to include digital provisions.[52]

That certainly appears to be the view of the British Government, with the then Trade Minister Greg Hands arguing that the WTO has 'not really (kept) up to date' and pointing out that 'things in the WTO rarely move quickly'.[53] He went on to suggest that the UK has a strong interest in making sure that WTO rules relating to digital trade work well, given how important this is to our domestic economy.

In the previous chapter it was suggested that the UK should aim to build coalitions of countries, public sector organisations and private sector businesses, to both consider and construct global standards and rules. This is of particular importance in the world

48 Department for International Trade, 'G7 Trade Ministers' Digital Trade Principles', Link.

49 Department for International Trade, *Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and Australia*, Link.

50 Department for International Trade, 'UK-Singapore Digital Economy Agreement: agreement in principle explainer', Link.

51 Department for International Trade, 'Digital trade key to unlocking opportunities of the future', Link.

52 For some of the arguments and counter-arguments, see House of Commons International Trade Committee, *Digital trade and data* (2021), Link.

53 Ibid.

of digital trade, where approaches are being formed anew and standards are being built from scratch. The WTO, which is looking at this through the prism of its Joint Statement Initiative (JSI) on e-commerce, is the obvious place to focus UK efforts.

The WTO's negotiations are ongoing, though the most recent round of discussions showed much progress and it is hoped they there will be convergence on most issues later this year.[54] These discussions are being led by Singapore, Japan and Australia – but it is vital that the UK plays a full part in developing these new rules and making sure they work effectively for us and other nations.

> **'The UK Government has made clear its opposition to data localisation, its support for opening up data for innovation but its utmost respect for data privacy'**

The approach that should be taken at an international level should be broadly analogous with that being adopted at our national level. On data, for example, the UK Government has made clear its opposition to data localisation, its support for opening up data for innovation but its utmost respect for data privacy.[55] These are the right foundations upon which to build international agreements, and it is to be welcomed that the UK's recent National Data Strategy had a section looking specifically at how to champion the international flow of data.

Getting the approach and agreements right at a global level should also help the UK and others avoid potential future tensions around the supposed trade-offs which exist between taking advantage of the commercial opportunities which might exist through the treatment and exploitation of data and the need for a robust approach towards data privacy.[56]

A similarly ambitious approach needs to be taken on issues like customs duties on e-transactions, especially on electronic transmission and the mandatory disclosure of source code. In each of these areas, the UK has adopted the right policies, and is working with like-minded nations to ensure their widespread adoption.[57]

These policies need to become the international norm, however, and the UK should work with its friends and allies,[58] as well as through the WTO, to ensure that tariffs, protectionism and disregard for intellectual property don't undermine the multiple and manifest advantages of digital trade.

On this score, it is notable that on the OECD's Services Trade Restrictiveness Index (STRI) measure for digital services, many of the largest and fastest growing emerging economies, such as China, Indonesia, Saudi Arabia and Brazil, are among the lowest scorers.[59]

54 WTO, 'Joint Initiative on E-Commerce- statement by Ministers of Australia, Japan and Singapore' (2021), Link.

55 See DIT, 'Digital Trade Objectives'; and Department for Digital, Culture, Media & Sport, National Data Strategy (2020), Link.

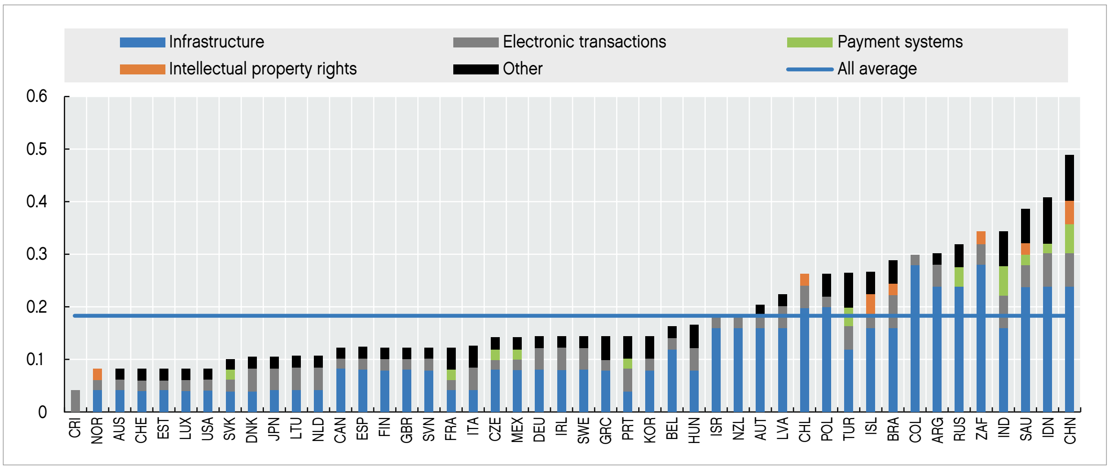
56 See UK Trade Policy Observatory, 'Taking Stock of the UK-EU Trade and Cooperation Agreement', Link; some of these issues are considered as part of a wider consideration of the impact of the TCA upon Digital Trade

57 *Ibid.*

58 See, for example, Internet Association, 'Digital Trade Priorities for a U.S-UK FTA', Link.

59 OECD, *Trade in the Digital Era* (2019), Link.

Digital Services Trade Restrictiveness Indices, 2019



Source: *OECD*

Helping reduce and remove restrictions, ideally through a plurilateral or multilateral approach, will make doing business easier for both those countries and countries with a more established approach to digital trade, such as the UK. As with the argument for free trade more generally, this is not a zero sum game, but an environment in which removing barriers benefits both sides.

Digitising UK Trade

Earlier in this chapter, we pointed out that the definition of digital trade is hard to pin down because it has both a vertical and a horizontal application (the difference between trade in digital and trade via digital). But there is another important element to digital trade, which concerns how digital technologies can more readily improve the business of trade and exports for businesses in the UK and beyond.

In the next chapter, we look more fully at how SME exports can be increased and SME exporters better supported. But the chance to support them through the advancement of digital trade is too clear-cut an opportunity not to consider it in some depth here.

'An SME Export Report published by FedEx pre-Covid showed that in the UK, eight in 10 exporting SMEs (81%) were generating revenue through e-commerce – accounting for a third of all their revenues on average'

An 'SME Export Report' published by FedEx pre-Covid showed that in the UK, eight in 10 exporting SMEs (81%) were generating revenue through e-commerce – accounting for a third of all their revenues on average.[60] One can reasonably expect these figures to have increased as a result of the pandemic.

Digital capacity and capability can also unlock exporting activity in the first place. Data compiled by eBay from more than 20 countries has shown that digital capacity is one of the key drivers of exports for SMEs, with almost all 'technology-enabled' small firms exporting, compared to a clear minority of SMEs as a whole.

60 FedEx Express, *Digital Economy Fuels Optimism and Growth among European SMEs* (2017), Link.

Furthermore, as discussed in the previous chapter, there is a particular issue right now for UK-EU trade in goods and services. This is most obviously seen in the context of Northern Ireland, but also in terms of the increased red tape and regulations which the EU is insisting upon, despite no obvious change in standards or regulatory approach on the part of the UK Government.

Although a better approach, as outlined above, would be to move the Trade and Cooperation Agreement (and global attitudes towards trade more generally) towards a more ready acceptance of other countries' standards through mutual recognition or equivalence arrangements, if that cannot be achieved then steps still need to be taken to make the business of doing trade easier.

Far too many of the UK's systems around trade, customs and certification remain paper-based, which leads to delay, confusion and the obvious potential for human error. The recent changes in terms of our trading relationship with the EU have simply made the issues which already existed within UK export policy more acute, by vastly increasing the number of goods and services which now need to be certified and/or tracked when exported.

‘The Commission estimated that the cost of trade bureaucracy has approximately doubled to £1,000 per vehicle processed post the UK's departure from the EU’

The UK Trade and Business Commission explored some of the issues which have emerged, such as the vast increase in the number of forms which the UK's Animal and Plant Health Agency (APHA) has to deal with. The APHA is largely paper-based in nature and forms are inspected, stamped and signed for all products of animal origin leaving UK shores. The APHA is creaking under the pressure of its increased requirements and it is not alone in feeling the consequences. The Commission estimated that ‘the cost of trade bureaucracy has approximately doubled to £1,000 per vehicle processed’ post the UK's departure from the EU.[61]

In the next chapter, we explore in more depth the idea of ‘taking advantage’ of the fact that so many UK companies, who were once trading tariff- and barrier-free with the EU, now fall into the camp of third country exporters. But one area where there is definitely the potential – and the need – to improve our processes having left the EU is around customs and our wider trading systems.

Certification and other checks on various products, but particularly around sanitary and phytosanitary (SPS) products, should be digitised as far as possible, with a new certification and tracking system introduced, leading to less red tape, smoother processes and a more efficient trading system.

As the moment, SPS products are being checked at every step of their exporting journey, leading to enormous and unnecessary delays. Digitising the process should allow a ‘certification chain’ to be established, allowing the smooth functioning of the export journey at each individual step.

More broadly, the UK can and should invest more in its customs infrastructure and the wider digitisation of trade, lessening the burden on individual firms and making the process easier for everyone to navigate.

61 UK Trade & Business Commission, *Interim Report 2021*

Singapore's TradeNet service offers a useful model for the UK to consider following. TradeNet provides a single portal, which enables traders to submit regulatory documents with ease and which then integrates import, export and transport documentation, allowing trade and logistics professionals to fulfil their various responsibilities at pace. TradeNet also allows fees and taxes to be deducted electronically, further reducing administrative burdens on exporters.

As a consequence, it is no surprise that TradeNet has been shown to reduce time and compliance costs for exporters, with an initial estimate suggesting costs were reduced by as much as 35%.

TradeNet is by no means the only reason Singapore has become such an exporting success story: its determination to be business-friendly, its enlightened approach to public service, its investment in people and processes and its commitment to free trade, with more than 99% of all imports entering Singapore duty free, are all important contributory factors. But it certainly helps make the business of exporting an easier one for businesses to engage with – which is why the UK should follow its lead.

> **'TradeNet has been shown to reduce time and compliance costs for exporters, with an initial estimate suggesting costs were reduced by as much as 35%'**

The introduction of such a system in the UK will not only make it easier and cheaper for companies to export, but ought to avoid issues like the fact that many companies who should have zero tariffs applied when trading with the EU are currently paying tariffs and failing to claim them back.[62] The digitisation of the process should make it easier to understand who those companies are and whether or not they do qualify for zero tariffs, as well as making it easier to process their claims when they come in.

Beyond that it should help the business of e-commerce more generally, with digitised processes clearly making it easier to understand where goods and services are coming from and going, within a wider international marketplace.

If the UK gets this sort of new system right, it can lead the way in developing the sort of approach and the sort of standards which will underpin digital trade more generally, unlocking developments which will help UK companies trade more effectively – as well as those in countries all around the world.

Recommendations:

- The UK must make international agreement on digital trade a priority for its work, particularly through and with the WTO. Its current enlightened approach to digital trade provides an appropriate foundation upon which to base these efforts and international agreements.

- The UK should invest in its own digital capacity and resource in terms of supporting trade and exports. It should introduce a system along the lines of Singapore's TradeNet service to allow for easy certification, customs requirements and the passage of goods, saving time and reducing costs for exporters.

62 Faisal Islam, *'British Exports worth billions have faced EU tariffs since Brexit'*, Link.

Chapter Four: Helping Small Businesses

Thus far, this report has focused principally on some of the most fundamental principles of trade policy. That is because, as we argued in the introduction, a clear link can be made between each of the topics considered and the clear ambition we have to enhance and support UK exports in general, and SME exports in particular.

For example, we considered the leadership role the UK can take in free trade and the support it can give to the WTO. This could lead to fewer trade disputes like the one that has recently been taking place between Boeing and Airbus, leading to the imposition of tariffs on SME exporters.[63]

> **‘Making improvements on digital trade and the cross-border transfer of data should make it easier for SMEs to operate in other markets without setting up costly operations in those countries’**

Having a more accepting approach to other countries’ standards and regulations will also help support SME exports, for example by making it easier to meet Rules of Origin requirements,[64] whether through accession to the CPTPP, or by encouraging other nations to recognise UK standards. A powerful example of this was provided in a BritishAmerican Business report, which referenced a UK manufacturer of lifejackets struggling to export their products to the USA, despite the fact they are ISO-approved and in demand from American consumers, because of different standards imposed by the US Coast Guard.[65]

Likewise, improvements in digital trade and the cross-border transfer of data should make it easier for SMEs to operate in other markets without setting up costly operations in those countries. More generally, as an OECD paper looking at SME participation in a globally integrated economy pointed out, ‘the digital transformation offer(s) new opportunities for SMEs to integrate into the global economy.’[66] And we saw how digitally enabled SMEs are far more likely to become exporters. Thus, getting the UK’s approach right on digital trade, as part of a wider international approach, should benefit UK SMEs disproportionately.

And of course, as mentioned earlier, the UK is a heavily services-based economy. So anything that can be done to further the opportunities for UK companies to export more of their services is, logically, going to help a large number of SMEs – especially

63 Owen Bellwood, ‘US and EU groups call for tariff truce’, Link.

64 Rules of Origin mandate that a product has to demonstrate in which country, or countries, it was made, with at least a certain proportion coming from a certain place to qualify for preferential status under a free trade agreement

65 BritishAmericanBusiness, *Making a Difference: How a UK-U.S. Free Trade Agreement will deliver for SMEs across the UK*, Link.

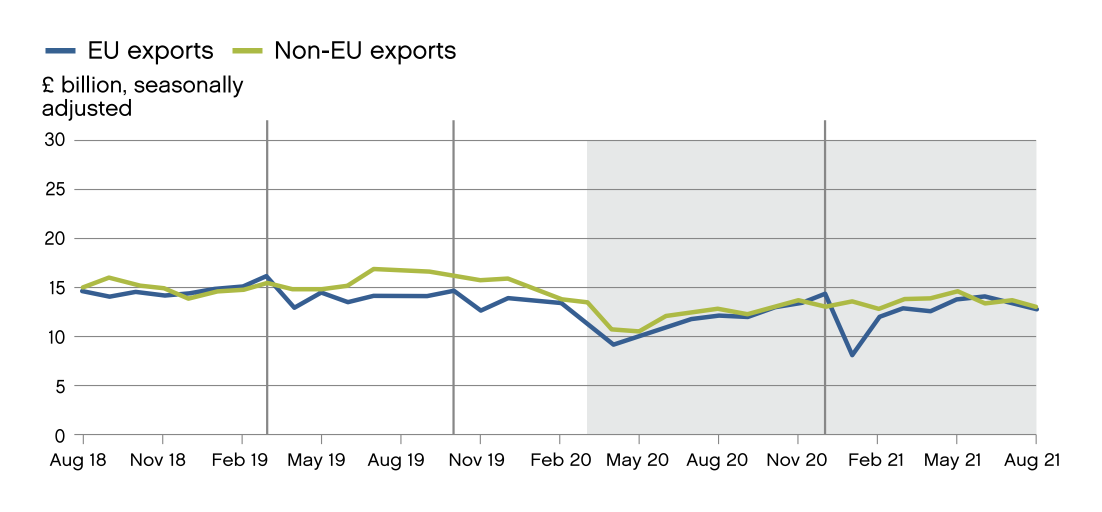
66 OECD, *Fostering greater SME participation in a globally integrated economy* (2018), Link.

post-Brexit. As McKinsey point out, 'global trade is increasingly turning to services… that trend presents important opportunities for the United Kingdom… as the services sector is less dependent on proximity to trading partners.'[67]

But as well as creating an environment which will make trading conditions more favourable for SMEs, there is a pressing need to take more active, direct steps to support them.

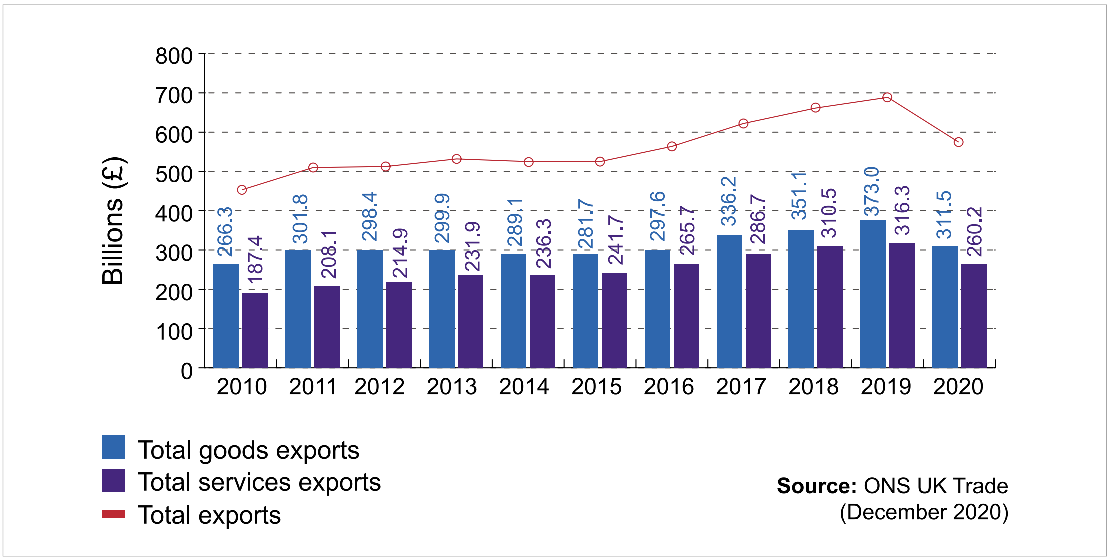
Taken together, Brexit and Covid have made the last two years one of the most challenging periods on record for UK exporters. From March 2020, when Covid struck the UK in earnest, export figures fell drastically before making up ground later in the year. ONS figures for January 2021, post the UK's departure from the Single Market and the Customs Union, showed a £5.6 billion (40.7%) fall in EU exports, although again there has been a significant rebound.

UK goods exports



Source: *ONS*

UK exports of goods and services, 2010-2020



Source: *ONS*

67 Tera Allas, David Chinn, Vivian Hunt & Daniel Mikkelsen, 'Brexit: The bigger picture – revitalising UK exports in the new world of trade', Link.

SMEs represent 99.9% of all UK businesses, so it is no surprise that we see this fall in numbers playing out within that part of the business population. The most recent statistics suggest that the number of UK SME exporters of goods had fallen from 140,393 to 128,394 from 2019 to 2020 – a fall of more than 8%.[68]

This is a fall which we cannot simply stand by and watch, given the vital role these SMEs play within the UK economy. Not only does this 99.9% figure represent some six million businesses in total, but these SMEs also employ some 16.3 million people (61% of the workforce) and are accountable for almost half of all turnover within the UK private sector.[69]

The rationale behind trying to get more UK SMEs to export is not simply because they constitute a major part of the UK economy, but because companies that export are more productive, make more money and pay higher wages than those who do not. And even before Brexit and Covid, our SMEs were lagging behind when it comes to exports. According to the previous Trade Secretary and current Foreign Secretary, Liz Truss, only one in 10 British businesses export. By contrast, she said, twice as many businesses per capita export in Germany and Denmark. In Slovenia, businesses are three times as likely to export goods.[70]

The Value of Exports to the UK Economy

The recent 'Global Britain, Local Jobs' report from the UK Board of Trade reveals the extent to which exports drive the wider UK economy:

- *Exports supported 6.5 million jobs across the UK's regions in 2016 – almost a quarter (23%) of all jobs. Some 74% were outside London*
- *Median wages in jobs directly and indirectly supported by exports were on average 7% higher than the national median wage in 2016*
- *Exporting improves business performance: goods-exporting businesses are a fifth (21%) more productive on average than those who do not export*
- *The total value of exports in the UK in 2019 equated to almost a third of GDP.*[71]

Given the obvious benefits of exporting, there is a clear and compelling case for the UK to try to get more of its SMEs exporting – and given the relatively low proportion of UK exporters compared to other nations, there is clearly plenty of potential ground to be made up.

To work out how best to approach this issue from a policy perspective, the starting point has to be to understand why some companies export and others do not – in other words, what the barriers to exporting are.

There is a huge amount of literature on this topic, some of which is cited in the bibliography of this report. Inevitably, it points to a range of factors. Issues such as customs procedures, regulations and tariffs are often mentioned, as are concerns

68 HMRC, 'UK trade in goods by business characteristics' (2021), Link.
69 FSB, 'UK Small Business Statistics', Link.
70 Liz Truss MP, speech to Policy Exchange, 14th September 2021, Link.
71 UK Board of Trade, *Global Britain, Local Jobs*

around finance, having the appropriate skills, knowing where opportunities are and knowing where to get help.

The fact is, there is no silver bullet for getting more SMEs exporting – and to suggest otherwise would be doing a disservice to the huge numbers of SMEs who would like to export but who each have different characteristics, risk appetites, products ranges and market opportunities.

This reality was recognised by the Government in its recently published Export Strategy.[72] That strategy consisted of 12 distinct areas of action, from the launch of a new awareness campaign (entitled Made in the UK, Sold to the World) and the more active use of peer-to-peer networks, through to extending the reach of UK Export Finance and of DIT's Export Academy.

'The Export Strategy provides a useful foundation upon which to build future exporting success. Its ambition is to reach £1 trillion in exports per annum, which is no easy feat given that in 2020 the UK exported £571.7 billion'

That Strategy provides a useful foundation upon which to build future exporting success. Its ambition is to reach £1 trillion in exports per annum, which is no easy feat given that in 2020 the UK exported £571.7 billion.[73] To see the scale of the challenge, consider that the same £1 trillion figure was the stated target of the Government which was formed in 2015, when total exports stood at £512.4 billion – since when there has been growth of less than £60 billion (which becomes even lower when adjusted for inflation).[74]

In this report, therefore, we want to go beyond the recently published Export Strategy, to come up with fresh ideas which might help the UK move towards its £1 trillion exporting ambition. As we said, there is no silver bullet, no one policy or policies that will move the needle in this area. But we have tried to come up with a series of measures which might make a difference.

Three Pillars of Support

One of the themes which consistently comes up when looking at barriers to SME exporting is that many businesses are in the dark about the opportunities that exist, where they can get help and how they might go about exporting in the first place.

These issues have been recognised by successive governments, which have put in place various schemes, initiatives and programmes to try to help would-be exporters. A scan through some of the help currently or recently on offer shows that the Department for International Trade provides, or supports others to provide, Export Academies, National Trade Academy Programmes, International Trade Advisers, E-Commerce Advisers, International Export Finance Executives, Export Champions, an Enhanced International Support Service, support through LEPs and their Growth Hubs, and support through Chambers of Commerce. To name but a few.

72 Department for International Trade, *Made in the UK, Sold to the World* (2021), Link.

73 Department for International Trade, *UK Trade in Numbers* (2021), Link.

74 ONS, 'UK Trade: December 2015', Link.

That is not to say any of this support is ineffective, or that it should be discontinued. It is simply to point out that to the average business the export support landscape looks labyrinthine in nature. It is unsurprising then that some have suggested these various efforts have actually made the landscape more difficult to navigate.[75]

In some respects, the Export Strategy has actually added to this complexity. The Internationalisation Fund will operate alongside a UK Export Finance with greater reach. The Export Academy will be extended alongside the Export Support Service. These may well be sensible measures, but they do not make the system any simpler to navigate from the outside.

‘There are a huge number of different bodies offering different types of support around exports. Those who operate in this space must work together more effectively to support current or potential exporters’

We therefore recommend that, as a starting point, DIT look to simplify the offer, not necessarily by reducing the amount of initiatives which exist or by stopping people doing what they’re doing, but by providing an obvious entry point for exporters to start their exporting journey and an accountable lead for any potential exporting business within the Department. Specifically, we recommend that each business interested in exporting is allocated an individual person with named accountability and responsibility for their experience, until such time as either side decides to discontinue the relationship.

This ‘named individual responsibility’ (NIR) approach should be put in place alongside the new export awareness campaign so that any would-be exporters, or current exporters looking to do more, are allocated a liaison officer from the outset when they engage with DIT.

They might well then be put in touch with sector, market or other specialists (including some of those who have roles mentioned above); they might be encouraged to take part in the Export Academy or to work more actively with the private sector (see below) – but their relationship with a person with NIR would continue throughout this process.

DIT could perform this function itself or choose to outsource it (as it outsources much of their current activity, especially within the English regions) – but the most important thing is that its staff should be judged on how many new exporters they support and how they help the overall volume of exports increase. Those with NIR should be held to account on how those they work with fare, with customer feedback and satisfaction surveys built into the relationship management system.

The second pillar of support, which should work alongside the introduction of a NIR system, is to develop more of a ‘team-based’ approach to supporting UK exports and a ‘no wrong door’ policy to help deliver that.

As outlined, there are a huge number of different bodies offering different types of support around exports. Those who operate in this space must work together more effectively to support current or potential exporters.

75 ScaleUp Institute, ‘Scaleups have vital role in new Government’s newly-published Export Strategy’, Link.

The team-based approach to UK exports should include the private sector but also the various Government departments and other agencies who might have a role to play. Obvious Government departments who are supporting exports include DCMS with the creative industries, DEFRA with food exports and DfE with education exports. But the situation is much more complicated with bodies including UK Export Finance, the Intellectual Property Office, UK Research and Innovation (especially Innovate UK), the British Business Bank and others playing a part.

Each of these organisations needs to acknowledge that supporting SMEs to export more is a shared ambition and a shared responsibility – but they also need to recognise that some level of coordination is necessary and that DIT is the appropriate body to perform that function.

‘The wider ambition and responsibility to drive SME exports is also shared with groups like the Business Representative Organisations, Local Enterprise Partnerships and the Chambers of Commerce’

This is not just about central government. The wider ambition and responsibility to drive SME exports is also shared with groups like the Business Representative Organisations, Local Enterprise Partnerships and the Chambers of Commerce. All these bodies need to work together to help the UK achieve its ambitions. That involves sharing data (often DIT do not share their data with individual LEPs and LEPs respond in kind) and ensuring companies are pointed in the right direction. That is particularly important in terms of making sure the ‘no wrong door’ policy is in place, with companies ideally pointed towards DIT to ensure the ‘NIR‘ system can bear fruit.

The third pillar of support rests on being far more active in the use of the private sector in driving export growth. Accountants, lawyers, banks, finance professionals and consultancies have huge experience and enviable resources to bring to bear in helping SMEs and the Government should be unapologetic about using this expertise.

Not all private sector partners will fall into these sorts of categories. Other organisations, from Amazon and Facebook (now Meta) through to DHL and UPS have the ambition and the resource to support UK SMEs, often for free – and the Government should point companies in their direction where it suits the business.

One other area in which the Government can lean more readily on the good work of the private sector is in terms of identifying the sorts of companies which are most likely to become exporting powerhouses - before backing them to the hilt. Clearly it makes sense to focus support on those companies with the highest growth potential, but it has been a challenge for successive governments to identify quite which companies those are.

A recent pilot conducted by the DIT focused export support on UK companies who had received Venture Capital (VC) investment, however. Rightly, the Department concluded that these companies are the ones most likely to generate outsize returns in the fullness of time - especially if they are encouraged to expand internationally.

The pilot therefore engaged over 200 businesses with VC funding and helped them access market opportunities in the USA, Australia and India. Early analysis of the pilot conducted by the Department has demonstrated its impact and corroborated the idea that these are the right sort of companies to be working with.

Given this, there is a clear rationale for expanding the pilot in 2022 and beyond, identifying more and more UK companies who have VC backers and supporting them to approach international markets. Needless to say this will require a concerted effort from DIT and bespoke advice for the companies involved - but this should be all the more feasible if the wider recommendations within this section of the report are taken forward.

Each of these three pillars aims to build trust and is predicated on the idea of companies being pointed in the right direction and put in touch with the appropriate organisation. These three pillars – simplifying export support for businesses, with someone given named individual responsibility; having a more 'team-based' approach to supporting UK exports, including a 'no wrong door' policy; and making much more active use of the private sector to achieve our trading ambitions – can take our exports to the next level.

We do not claim they provide all the answers but they will make the process far simpler, smoother and effective as far as SMEs are concerned – and they should lead to more exporters and a higher volume of exports.

Widening the Net

Brexit has provided a golden opportunity to alert UK businesses to the attraction of exporting. A combination of public familiarity with the implications of Brexit; the impact of Covid-19 and the obvious need to respond to the economic downturn; as well as the Government's clear and stated policy ambitions around Levelling Up and Global Britain provide a unique platform from which to urge UK companies to expand their horizons and to export more or to export for the first time.

In the short term, Brexit has obviously resulted in significant disruption to our exports. But it still represents a moment which allows the UK to think about how its economy currently operates and to do things differently if it so wishes.

Broadly, companies in the UK break down into five categories, as outlined below. Clearly those who fall into category one are irrelevant from the perspective of trying to encourage more SME exports – but the other four categories can and should all be supported in appropriate ways to drive export growth.

Categorising UK Businesses as Exporters

1. *Uninterested non-exporters, without potential – those who don't export, don't want to export and for whom exporting is not a viable option*
2. *Uninterested non-exporters, with potential – those who don't export and don't currently want to, but might if pointed in the right direction*
3. *Interested non-exporters – those who want to export but don't know where to start or have other barriers in front of them*
4. *Accidental exporters – those who do export but for whom it is typically a minor part of their business strategy*
5. *Committed exporters – those for whom exports are a major part of their business but who might be looking to expand into new markets*

One irony of the UK's departure from the EU is that is has hugely increased the number of companies who fall into category four. Many of these companies will be ones who were providing goods or services into EU member states but did not think of themselves as exporters due to the lack of paperwork or friction attached.

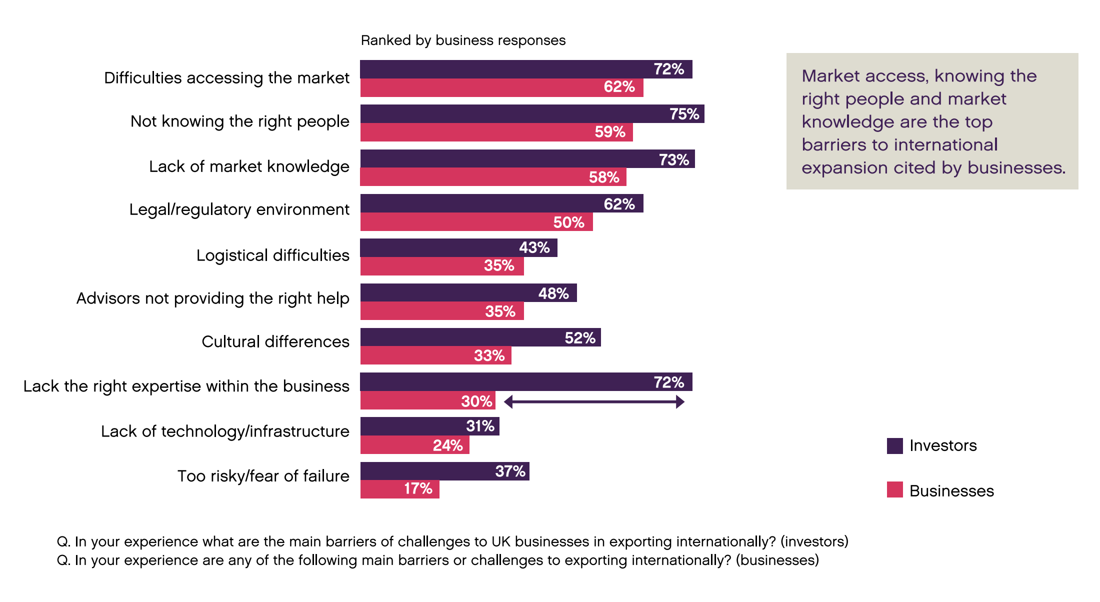
As considered earlier in this report, that increase in paperwork has frustrated many companies – but it also means that there are now huge numbers of businesses becoming comfortable with export processes and certification who weren't before. If the shift to the digitisation of processes recommended in this report also comes about, we have an opportunity to turn a lot of those accidental exporters into more committed exporters. After all, if you are filling in forms to export to France, Ireland or the Netherlands, why not do the same to export to Chile, Malaysia or Nigeria?

To build on this new cadre of exporters, and to encourage more of those companies who fall into categories two and three to become first-time exporters, the net needs to be cast more widely in terms of encouraging companies to export for the first time. The announcement within the Export Strategy of a new exporting awareness campaign – Made in the UK, Sold to the World – was welcome (though it needs to be careful not to overlap with the highly successful GREAT campaign).[76]

But building awareness and providing suitable entry points into the Department for International Trade (as recommended above) will only get us so far. After all, as Innovate UK pointed out when they undertook one of their investigations into barriers to trade, although myriad issues were cited by interviewees, the main barriers were 'difficulties in accessing the market, lack of knowledge of the market and not knowing the right people'.[77]

76 The refreshed GREAT Campaign was launched in June 2021, Link.
77 Innovate UK, *Scaling Up: the investor perspective* (2017), Link.

Top 10 barriers to exporting



Source: *Ebiquity, for HM Government*

Although talking to the Department for International Trade may help businesses overcome some of these gaps in knowledge and understanding, many firms are more likely to be willing to engage with local partners or those they already know and trust. That fact was recognised by the Government's welcome support for peer-to-peer networks in the Export Strategy.

But if the net is to be cast as wide as it needs to be for the UK to reach £1 trillion in exports per annum, the Government is going to have to find other routes to reach and encourage SMEs.

We therefore recommend working with, or through, at least three different types of groups to help reach more companies – particularly those in categories 2 to 4 in the categorisation above.

The first of these groups are the business representative organisations (predominantly the 'big five' – the British Chambers of Commerce, the Institute of Directors, the Confederation of British Industry, MakeUK, and the Federation of Small Businesses – but also trade bodies and other membership groups). Between them these bodies they have direct links to hundreds of thousands of UK companies and are already tasked with thinking about economic, and by implication export, growth.

One of the principal advantages of working through groups like these is that the Government will immediately be tapping into one of the most important factors as far as would-be exporters are concerned: a trusted network.

Furthermore, these tend to be groups which companies have willingly signed up to, suggesting they value their advice and consider them to be providing a service worth paying for. Similar to our suggestion that the Government relies more on the private sector in driving exports, we would argue that these groups offer something the Government does not – and it is this additionality which should make them obvious partners for the Government to work with.

Often these are national groups – and their national perspective will often be very valuable especially, for example, when considering individual sectors or industries. But if the net is to be cast as widely as possible then the Government also needs to work with local actors, especially Local Enterprise Partnerships and local government.

'The Government's International Education Strategy has set out an ambition to increase the number of international higher education students in the UK to 600,000'

Earlier in this report we pointed to the fact that the Department for International Trade and individual Local Enterprise Partnerships do not share data as much as they might – to the detriment of both sides. In particular the data from LEPs' Growth Hubs (tasked with providing direct support to businesses in the 38 LEP areas across England) is not typically shared, some say as a result of concerns about GDPR.

According to the LEP Network's website, England's LEPs have worked with over 2 million businesses – but clearly only a small percentage of them export given the national export figures. The fact that growth hub data is not readily shared with DIT (no doubt, at least in part, because DIT does not share its data with individual LEPs) is a huge opportunity missed.

As well as benefiting from knowing more about the companies who are engaging with Growth Hubs and asking for support, the Government could also work regularly through LEPs to extol the virtues of exporting and to target specific companies in specific sectors.

That means not just being far more ready and willing to work with LEPs across the country, but partnering with appropriate parts of local government, and working to ensure that a local perspective is brought to the Global Britain agenda, as well as a national one.

Whether we are talking about Mayors and their Combined Authorities, Pan-Regional Partnerships, Unitary or County Councils or even lower-tier authorities, relationships exist on both the domestic front and the international front which will help in the pursuit of the £1 trillion target.

On the domestic front, many of these organisations have their own direct links with local businesses and they all have a vested interest in the economic prospects of the areas for which they have responsibility. As such, they can be used to spread the word about the value of exporting, to develop their own locally-tailored approaches to drive awareness and encourage exports and to ensure that there is a bottom-up story to the Export Strategy as well as a top-down approach.

On the international front, many of these areas have developed their own relationships for different reasons over many years and decades – and even more would have the appetite to do so if appropriately encouraged. From simple town-twinning arrangements through to landmark partnerships like the one between the Midlands Engine and Maharashtra[78] or the West Midlands India Partnership,[79] links have already been forged and can be capitalised upon in the future.

78 Ministry of Housing, Communities and Local Government, 'James Brokenshire leads Midlands Engine trade visit to India' (2018), Link.

79 More information can be found here, Link.

As the Government looks to build relationships at a regional level in some of its most important markets – for example, the recent trade trip undertaken by DIT Minister, Penny Mordaunt, where she visited a number of individual US states – it should not neglect the potential and the readiness of its own local and regional government structures to play a more prominent role on this topic.

> **'A recent study by Aston University's Business School found that language capabilities are a significant contributing factor to SME exporting success. The study showed that SMEs with language capabilities and willingness to invest in language and cultural skills are 30% more successful than SMEs who do not have these attributes'**

Needless to say, any additional activity which local organisations might be tasked with undertaking would need to be appropriately funded, but rather than outlining precisely the sort of activity which might be required, this report merely seeks to argue that there are pre-existing links – as well as a ready enthusiasm to be involved in the future – which could be made more of.

The final group the Government should work more closely with are our universities. Many UK universities are global institutions in their own right, with worldwide links and international reputations. Yet they are also rooted in their local communities, and increasingly the focus of and spur for entrepreneurial activity there.

There are many ways in which universities could, either proactively or with encouragement from Government, do more to support exports, including through a more active use of their research and innovation sites, by encouraging more inward investment into a local area (which has a proven link with encouraging more exports) or by tapping into their alumni networks.[80]

But perhaps one of the most interesting aspect of universities' latent potential to support exports is around their international student bodies and the role they might play in supporting cultural awareness and export growth.

The UK is currently the second most popular destination for international students. The Government's International Education Strategy has set out an ambition to increase the number of international higher education students in the UK to 600,000.[81] That means hundreds of thousands of students who will, typically, have an in-depth knowledge of another country's culture – and who can help would-be exporters navigate that market.

Often those students would have language skills too, which is particularly important given that evidence suggests that a lack of both cultural understanding and language skills inhibit SMEs' ability to export.[82] Indeed, a recent study by Aston University's Business School found that language capabilities are a significant contributing factor to SME exporting success. The study showed that SMEs with language capabilities

80 SQW, *Export markets and inward investment: the role of local councils – final report to the Local Government Association* (2012), Link.

81 Department for Education, *International Education Strategy: 2021 Update* (2021), Link.

82 James Foreman-Peck & Yi Wang, *The cost to the UK of Language Deficiencies as a barrier to UK engagement in exporting: A report to UK Trade and Investment* (2013), Link.

and willingness to invest in language and cultural skills are 30% more successful than SMEs who do not have these attributes.[83]

'The fact is that there are far too many UK companies who could export but don't think it's for them. To encourage them to export will take more than an awareness campaign – it will mean enhancing people's understanding and market awareness'

We would therefore recommend that a new programme is launched connecting or placing international students with local SMEs to help these companies understand and export to target markets. This recommendation follows recent calls from Universities UK International (UUKi) for a national Graduate Export Placement Scheme[84] for international students, but suggests that we ought to consider casting the net further and considering capitalising on as many of the international students in the UK as possible.

As far as we are concerned this should just be the start: UK universities can clearly play a significant role in helping the Government achieve its Global Britain ambitions, given their international outlook and their links around the world. In fact, universities are often the most globally connected organisation in their local economies, with links to international partner institutions, foreign companies, international student populations and global alumni networks. As such, they are ideal partners to help the Government drive exports, encourage inward investment and develop international relationships more widely.

By working with business groups, trade bodies, Local Enterprise Partnerships, Local Government and universities, the Government would not just be sharing the burden of trying to reach its £1 trillion target, but it would also be unlocking two other critical elements.

Firstly, it would often be working with bodies who local businesses trust more and will more readily engage with. Just as some of the value of peer-to-peer networks comes because they are trusted, those organisations which are local to businesses, or with which they readily engage, are more likely to be able to work effectively with those businesses in the future.

Secondly, it would be casting the net far more widely than it can simply through the delivery of its awareness campaign, however successful that campaign might be. The fact is that there are far too many UK companies who could export but don't think it's for them. To encourage them to export will take more than an awareness campaign – it will mean enhancing people's understanding and market awareness. Those groups considered above can help achieve that.

83 *Aston University, LO-C 20 Report on the Role of Languages in International Performance for UK SMEs* (2021), Link.

84 Universities UK International, 'Kickstarting the recovery of international student recruitment: what do we need from Government?', Link.

A New Export Tax Credit

An uncomfortable truth is that – for the reasons identified in this chapter among others – the predominant sentiment among many UK businesses when it comes to exporting is apathy. The measures brought forward by the recent Export Strategy, as well as the ideas contained within this report, should help. But we think a more drastic intervention is required if UK SMEs are going to sit up and recognise that now is the moment to embark upon an exporting journey.

‘The General Export Facility (GEF) was introduced in December 2020 and offers loans of up to £25 million, guaranteeing up to 80% of the credit risk’

The most obvious area in which to make this intervention is in terms of the financial equation which businesses must consider when they are contemplating becoming exporters. By this we do not mean a lack of available finance – as we shall see below, there is not necessarily a major issue in terms of companies getting the finance they need to export. Rather, the problem is that the numbers clearly don’t ‘add up’ as far as many businesses are concerned – in other words, embarking upon an export journey just isn’t worth the candle, at least in the short term.

It is for that reason that we recommend a more bold and radical step: the introduction of a new Export Tax Credit. This would incentivise many first-time exporters, who would recognise that the underlying financial equation had changed in terms of whether exporting should be pursued.

Before we look more closely at the way in which the Export Tax Credit would work, it is worth considering the wider issue of access to finance and how it may, or may not, affect would-be exporters.

There are many financing options which SMEs could use to finance exporting activities, including bank loans, export finance, invoice finance, asset-based lending, overdrafts and beyond, and it is perhaps for that reason that some of the most comprehensive studies into SME export finance suggest access to finance is not a major issue.[85]

Despite this, the Government has tried to show it is willing to ‘play its part’ in supporting SMEs with finance, encouraging its export credit body, UK Export Finance (UKEF), to come up with programmes suited to UK SMEs.

As a result, UKEF has introduced two schemes in the last 12 months. The General Export Facility (GEF) was introduced in December 2020 and offers loans of up to £25 million, guaranteeing up to 80% of the credit risk. Then in February 2021 it launched the Standard Buyer Loan Guarantee (SBLG) which supported smaller loans (as low as £1 million) and guaranteed as much as 85% of the credit risk.

A recent letter from the Chief Executive of UKEF to the Chair of the Public Accounts Committee claimed: ‘The joint impact of the GEF and the SBLG has been to broaden and simplify access to UKEF’s support, which is of especial benefit to SMEs.’[86]

85 British Business Bank, *Small Business Finance Markets 2020/21* (2020), Link.

86 Letter from Louis Taylor to Dame Meg Hillier MP, 28 September 2021, Link.

But despite the Government's exhortations to the contrary,[87] we should not read too much into these figures, at least as far as SMEs are concerned. As the International Trade Select Committee recently pointed out, of the £12.3 billion that UKEF committed in support (in financial year 2020-21), nearly £11 billion was accounted for by 12 transactions to nine exporters.'[88]

'As the International Trade Select Committee recently pointed out, of the £12.3 billion that UKEF committed in support (in financial year 2020-21), nearly £11 billion was accounted for by 12 transactions to nine exporters'

Recent correspondence from UKEF's chief executive sets out that 'as at 31 August 2021, 46 applications for GEF support had been approved. Of successful applications, 40 (87%) had been submitted by SMEs, and 27 (59%) had been submitted by exporters who were new to UKEF'.[89]

This is obviously welcome news for the firms concerned – but it scarcely amounts to a wholesale transformation of the behaviour of Britain's SMEs.

The fact is that UKEF is not a suitable body to deliver wholesale support for UK SMEs and never should have been considered as such. Its CEO conceded as much when he gave evidence, stating that there is a limited amount of support that UKEF can offer SMEs, and that they need financing more generally. He said it is possible to overestimate the need for export finance rather than, particularly for SMEs, the need for access to finance generally: 'With 250,000-odd companies in the UK out of five million that are exporters, using your export credit agency to solve the access to finance issues of all of the SMEs is a nut to crack a sledgehammer.'[90]

Undoubtedly some companies need export finance to become successful exporters – and a range of financing options exist for them, from UKEF down to banks and specialist finance providers.

But that is a different problem to not becoming an exporter in the first place because you consider the costs to be too high. That is not about the availability of credit but because of the calculation about the costs of doing business.

It is self-evident that, when they consider the costs and difficulty of exporting, some SMEs will be put off at the first hurdle. That is why there was such disquiet about the closure of the Tradeshow Access Programme, which reduced costs for businesses when visiting target markets and trade shows.[91]

The new Export Strategy has announced a replacement scheme for this Programme and also pointed to the Internationalisation Fund which provides financial support to SMEs to help them 'internationalise'.

87 HM Government and UK Export Finance, 'UK Government provides highest level of support for exporters in 30 years', Link.

88 House of Commons International Trade Committee, *UK Export Finance*, Link.

89 Letter from Louis Taylor to Dame Meg Hillier MP, 28 September 2021

90 International Trade Committee, Oral evidence session, 23 June 2021, Link.

91 Department for International Trade, 'Tradeshow Access Programme (TAP)', Link.

Although convinced of the need for a scheme which supports some access to tradeshows, fairs and expos, we are somewhat sceptical about some of the figures which were pointed to in terms of the support on offer in other parts of the world.[92] Grants of tens – or even hundreds – of thousands of pounds seem disproportionate and risk incentivising the wrong sort of behaviour; encouraging companies to spend money rather than necessarily increase exports.

> **'The new Export Strategy has announced a replacement scheme for this Programme and also pointed to the Internationalisation Fund which provides financial support to SMEs to help them 'internationalise''**

Instead, and with our eye firmly fixed on the steps which will increase exports by creating first-time exporters, we have taken our inspiration from hugely effective schemes which have led to behavioural change in other areas – such as ISAs for personal savings; EIS, SEIS and VCTs for early-stage investment; the super-deduction for business investment; and R&D tax credits for investment into research and development.

What each of these schemes has in common is that it is a powerful incentive scheme, which only costs the Government money when it provokes the sort of activity it is trying to encourage.

If we were to apply that lesson to the challenge of encouraging SMEs to start exporting, we would be looking for a scheme which would change the risk-reward calculation in the minds of those who run UK SMEs in terms of their attitude to exporting.

The fact is that it takes time, money and patience to explore and enter a new territory. For many UK businesses, it just feels too difficult, compared to the well-known and well understood domestic market.

But if a new system was put in place which changed the fundamental equation – and made the idea of exporting more attractive financially – then their attitudes might change.

We therefore recommend the introduction of a new Export Tax Credit, which would be paid against qualifying spend in the pursuit of export growth, and which would encourage businesses to think that exporting is a more cost-effective, and tax-efficient, way of increasing sales than by purely operating within the domestic market.

The precise details of the scheme would need to be agreed between the Treasury, HM Revenue and Customs (HMRC) and the Department for International Trade as well as other interested parties – and would no doubt be subject to major consultation. Nevertheless, our working assumption would be that the Export Tax Credit should operate along similar lines to the existing, and well regarded, R&D Tax Credit scheme, or the more recently introduced super-deduction.

For that to occur, a definition of 'qualifying exporting activity' would need to be established, which must be easy to understand for businesses keen to engage in exporting activity and which could be easily assessed by HMRC. The qualifying criteria

92 Institute of Export & International Trade, 'Government should 'look afresh' at export support and consider competitor schemes', Link.

would ideally include activities which might lead to the development of an exporting function, such as investment in new skills or qualified people – as well as the more obvious candidates for qualifying spend, such as marketing costs in foreign countries, business expenses in target countries etc.

In designing the system, care would need to be taken to ensure that the new Export Tax Credit did not fall foul of any WTO rules on export subsidies, but given that various US states and counties including France and the USA have designed such schemes in the past,[93] there is no obvious reason to think there would be an issue with this.

'As the 2021 Autumn Statement said, countries with higher Research and Development (R&D) activity tend to have higher productivity'

If designed in line with the current regime for SME R&D Relief, the Export Tax Credit would allow companies to deduct an extra 130% of their qualifying costs from their yearly profit, as well as the normal 100% deduction, to make a total 230% deduction. Under this system, if the company is loss-making then a tax credit should be claimed, worth up to 14.5% of the surrenderable loss (again, in keeping with the R&D Tax Relief).

If the new Export Tax Credit was along the lines of the new super-deduction, however, it would allow companies to claim 130% allowances on all qualifying spend.

Because the Export Tax Credit should only be aimed at SMEs – and particularly at trying to encourage companies to export for the first time – we recommend that it is initially targeted at companies with fewer than 250 staff, with a turnover of less than £50 million and who have never exported before or who do not currently export outside of the EU.

The idea of incorporating those who do export, or have exported, to the European Union is both to make up for some of the issues which they have faced over the last few months and also to capitalise on their status as 'new, accidental exporters'.

The 2021 Autumn Statement said, in the context of R&D tax reliefs, that 'evidence shows that countries with higher Research and Development (R&D) activity tend to have higher productivity'.[94] As this report has shown, that same argument can be made with regards those countries which export. Moreover, the same point holds true for individual companies – those who engage in exporting activity tend to have higher productivity, as well as faster growth and higher wages.

The benefits of this would not just flow to individual companies. Their exporting growth would help boost the wider UK economy and, in time, would also generate higher returns for the Exchequer itself.

If the Government is serious about growth, and serious about developing a high-skills, high-productivity and high-wage economy, it should seriously consider a new Export Tax Credit. This would also allow it to make good on its promise to build a 'Global

93 Journal of Accountancy, Link.

94 HM Treasury, *Autumn Budget 2021*, Link.

Britain', developing exporting links to capitalise on the free trade agreements it is signing all around the world.

> **'If the Government is serious about growth, and serious about developing a high-skills, high-productivity and high-wage economy, it should seriously consider a new Export Tax Credit'**

In short, a new Export Tax Credit will help shift the dial in terms of the attitude and actions of would-be exporters, finally giving the average UK business the chance to be small, but to think big.

Recommendations:

- The Government should use our departure from the European Union as a watershed moment and look to build on the recent Export Strategy by strengthening export support for businesses. This should include would-be exporters being allocated someone in Government with 'named individual responsibility'; a more 'team-based approach to supporting UK exports; and much more active use of the private sector to achieve our trading ambitions - including by looking at VC investment to identify some of the companies most worthy of export support.

- The Government should cast the net wider to find more exporters. It should oversee a national push and work with organisations businesses trust, like business representative organisations, LEPs and local/regional government to support local SME as part of the 'Global Britain' agenda.

- A far more concerted effort should be made to build on the international reach and profile of our universities. In the first instance, a new programme should be launched placing international students with local SMEs as part of wider efforts to capitalise on universities' potential to drive exports.

- A new Export Tax Credit should be created to encourage UK SMEs to export for the first time or to export more. This system should be modelled as far as possible on the successful R&D tax relief model, or potentially on the more recently launched super-deduction, offering an additional tax-deductible sum on all qualifying export spend.

Conclusion

The UK has a proud record of speaking up for free trade. It can point to the economic success it has enjoyed over many centuries as one of the most obvious demonstrations of its value. But in recent years, the UK's support for free trade – like the voices of many countries around the world – has been somewhat muted.

In the wake of Brexit, that needs to change.

Brexit has not been an easy process for this country: its economy, society or its people. But it has forced everyone to think deeply about the sort of country we want to be and how we want to be perceived internationally.

'This report aims to put forward a set of measures – from bold ambitions, to specific steps – which can help drive UK exports forward both in terms of the numbers of exporters and the volume of exports'

Most people do not want the UK to retreat from the world – or even the European continent. Most want to maintain friendly relations with other countries and to do business with them in the future.

Central to that agenda are the trading relations we have with those other countries and, in particular, our ability and propensity to export more goods and services to more countries right around the world.

It is that ambition with which this report concerns itself: how we might increase our exports as a country. Specifically, it has sought to explore how we might get more SMEs exporting, recognising that they are the bedrock of the UK economy, and the foundation upon which much of our future prosperity will be built.

This report has been clear that it does not have all the answers. To suggest that any single export policy, or even any single export policy paper, is going to shift the dial on persistently disappointing export figures over many decades would be arrogant and unrealistic.

But, to borrow a phrase from one of the UK's more successful exporters, every little helps.

This report aims to put forward a set of measures – from bold ambitions, to specific steps – which can help drive UK exports forward both in terms of the numbers of exporters and the volume of exports.

It recognises that if the UK Government does not commit itself fully to the principle of free trade, then we cannot expect other countries to follow suit, nor can we expect to create the conditions in which UK exporters might thrive.

> **‘The UK needs to put itself at the vanguard of the intellectual battle for free trade and open markets. It is time for the UK to start trading up’**

But it builds on that by advocating specific measures, in terms of international priorities and domestic policies, which will actively create those conditions and thereby allow UK companies to find new markets and enjoy export growth. The consequence of this potential export growth will be almost universally positive for businesses, employees, customers and the global economy alike.

Protectionist voices have come to the fore in recent years, ignoring centuries of economic history and risking undermining the free trade system which has brought growth, prosperity and peace to so many. This risk cannot be tolerated. The UK needs to put itself at the vanguard of the intellectual battle for free trade and open markets. It is time for the UK to start trading up.

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57 Tufton Street, London, SW1P 3QL
February 2022
ISBN 978-1-914008-16-0