

Encouraging trade and inward investment



The opportunity

The Government is committed to building a truly global Britain; a great, global trading nation that reaches out to old friends and new allies alike. The Government, as one of the firmest advocates for free trade anywhere in the world, can play an important role in supporting trade and inward investment. Trade policy determines market access for importers, exporters and investors. The Government can support exporters by underwriting major deals with export credits which the market would not provide. Its policies can make the UK a more or less attractive place to invest, and Government departments working with local areas can play an active role in attracting inward investment projects to the UK.

A key rationale for government action to encourage trade and investment is that it both drives growth by increasing competition, and brings new ideas and ways of doing things to the UK. For example, Nissan's inward investment in Sunderland in the 1980s did not only create good jobs in the city – it also brought new automated production techniques to the UK from which other companies learned, increasing competition in the industry. Economists describe these effects as productivity 'spill overs' – businesses best equipped to compete in a global marketplace possess particular organisational skills that can diffuse to other companies in the economy.

Likewise, we know that businesses which export show stronger employment growth and have higher wages than non-exporters.

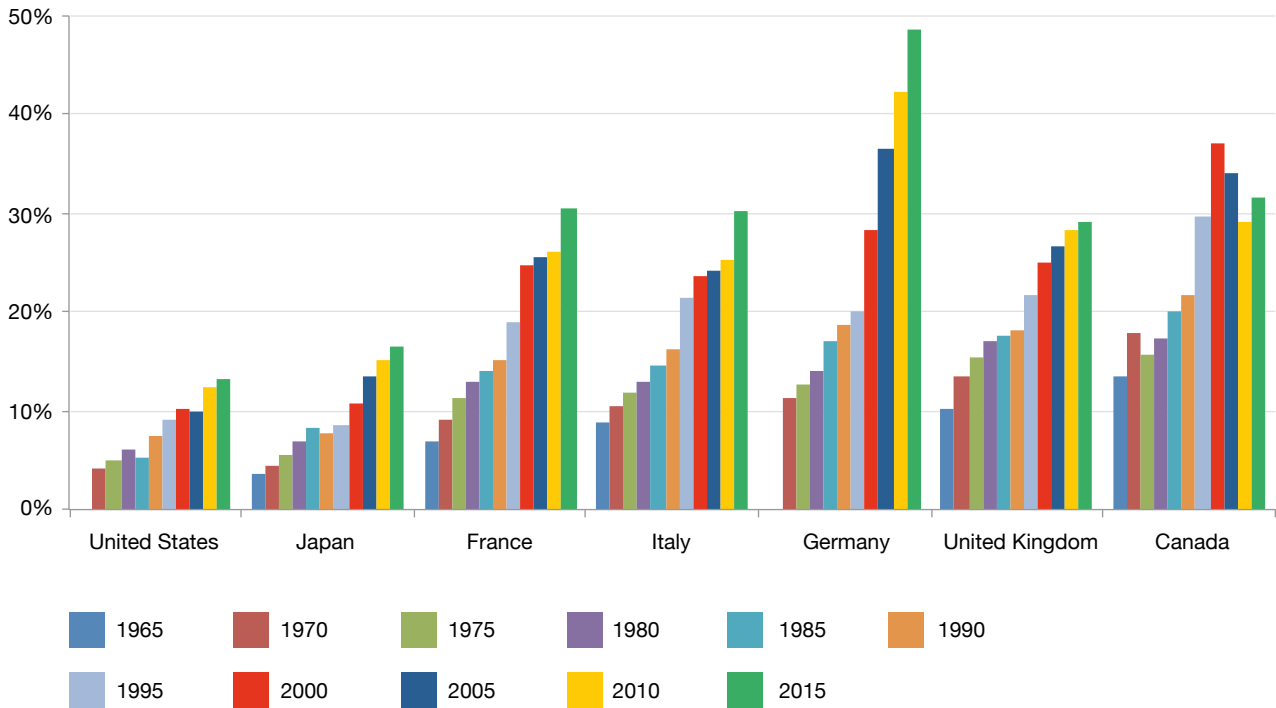
This stronger employment performance is underpinned by their higher productivity and stronger business growth⁹⁰. Diversification across export markets also helps to increase business resilience and enable stronger growth to be achieved during periods in which economic conditions in the UK are challenging⁹¹.

The UK starts from a strong position, as the leading location for Foreign Direct Investment (FDI) in Europe. FDI created around 80,000 jobs in 2015/16 alone. Inward investment also supports exports; over half of all foreign-owned companies in the UK are exporters⁹² – a much higher proportion than domestically owned businesses.

Integral to supporting investment and exports – and the UK's industrial success – is ensuring that global trade remains free and open and resisting calls for protectionism. Free trade allows businesses to specialise in the production of goods and services where they are most efficient, allowing UK businesses to globally access cheap and quality raw materials and other inputs they need, and access markets to sell their products overseas.

The creation of the Department for International Trade underlines the Government's commitment to free trade. It is also an opportunity to take a new and more joined up approach to promoting trade and investment, as it provides a strong focus on bringing different services such as export finance and trade and investment promotion together.

Exports as share of GDP (constant terms)



Source: The World Bank, World Development Indicators, 2017. Base year = 2010

The challenge

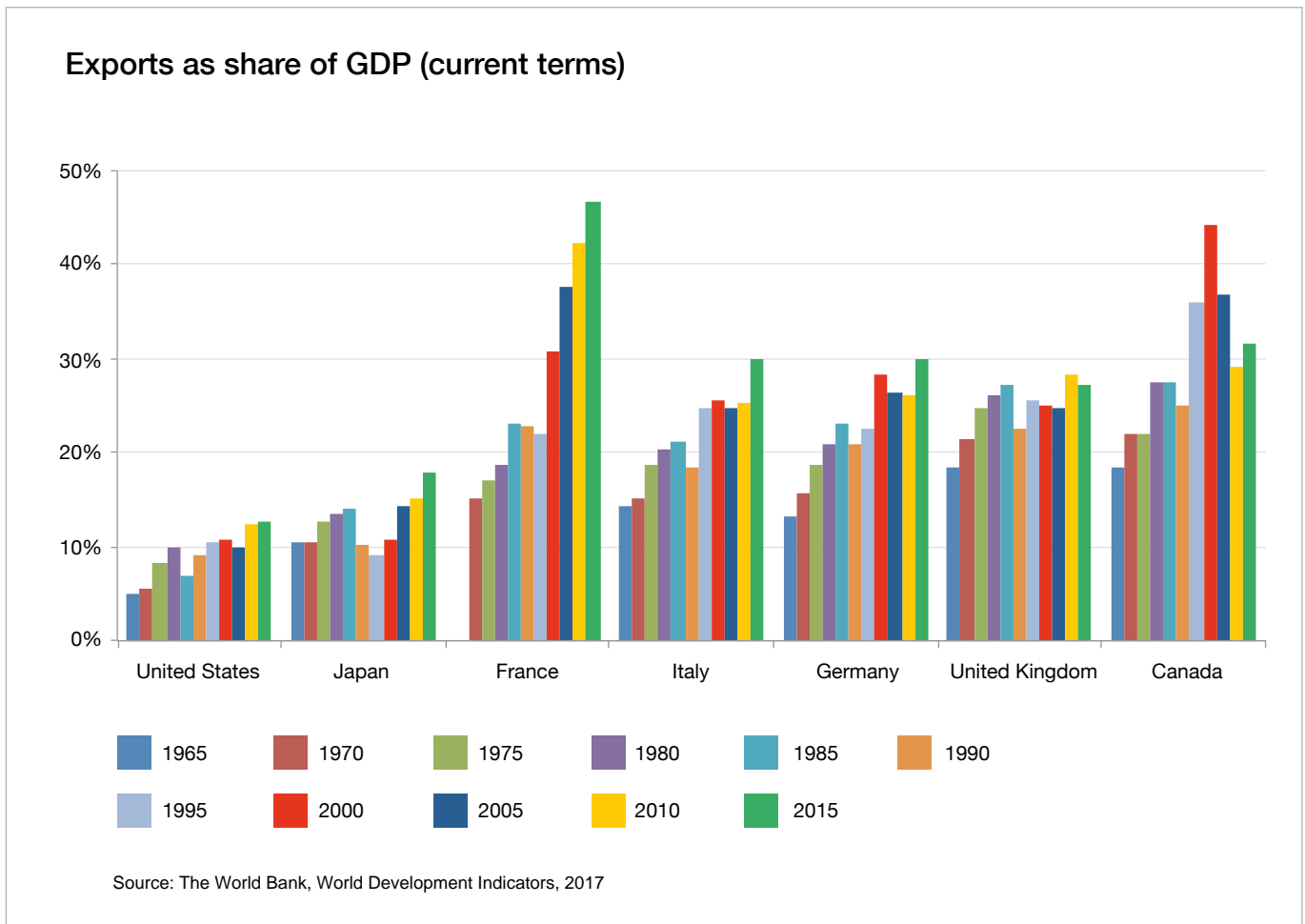
Currently there are too few UK businesses that take advantage of the opportunities presented by overseas markets, with less than 11 per cent of businesses exporting⁹³.

Comparisons with other countries are not straightforward, as the size of different economies, and factors such as whether they have land borders influence trade as a share of GDP. But compared to some other G7 members, UK exports as a share of GDP have grown more slowly in recent decades. Growth has been particularly slow compared to strong performers like Germany. Since 1970, in constant terms, exports as a share of GDP have doubled in the UK, but trebled in France and the United States, and grown four-fold in Germany.

Exporting companies contribute 60 per cent of the UK’s productivity growth⁹⁴, so increasing trade and the number of businesses exporting is going to play a key part in achieving our ambitions to grow the economy. At the same time, we need to take action to retain and enhance the UK’s attractiveness to overseas investors in an increasingly competitive world.

Our approach

The Prime Minister has set out a commitment to “make Britain a global leader in free trade”. The Government will pursue, as a priority, a bold and ambitious Free Trade Agreement with the European Union. But, important though our trade with the European Union is and will remain, we are clear that our departure from the European Union is not the country stepping



back from the world, but an example of how a free, flexible, ambitious country can step up to a new global role in which the UK can trade freely with others.

The Department for International Trade is leading the Government’s work to champion free trade and ensure it helps deliver an economy that works for everyone. The Department leads a whole-of-Government effort to:

- promote and support UK exports of goods and services, including through export finance and insurance;
- maximise opportunities for wealth creation through supporting Foreign Direct Investment and Outward Direct Investment;

- deliver the best international trading framework for the UK to maximise trade and investment opportunities; and
- build the global appetite for British goods and services and encouraging more people to visit, study, invest in and do business with the UK through the GREAT campaign.

In practice this approach means:

Building future trading relationships. We are encouraged that countries such as Canada, China, India, Mexico, Singapore and South Korea have already said they want to discuss our future trading relationships. We have established a series of working groups with key trade partners: for example with India to build the closest possible commercial and economic relationship; with Australia to focus



on scoping out the parameters of a potential future ambitious free trade agreement once the UK leaves the EU; with the Gulf Cooperation Council to examine how we can unblock remaining barriers to trade and take steps to further liberalise our economies for the benefit of our mutual prosperity; and with South Korea to discuss tackling barriers to trade and investment and wider global trade issues. The UK remains committed to pursuing free trade. That includes seeking to achieve continuity in our trade and investment relationships with third countries thereby minimising disruption for business as we leave the EU.

Building Global Prosperity. Through the Government's Prosperity Fund, the Department for International Trade is working closely with the Department for International Development to boost inclusive growth and unlock opportunities

for increased trade and investment with the UK in markets of economic promise. Together we have established a Cross-Government Working Group to guide Government strategy on 'horizon markets' such as Nigeria, Pakistan and Kenya.

Improving market access for exporters.

The Government is working hard to support businesses through discussions on market access issues with third countries, with some tangible wins for exporters⁹⁵.

Creating a more active approach to winning overseas contracts.

The Government has been trialling a 'Team UK' approach to winning major overseas contracts. For example, the Government is establishing a new Infrastructure Exports Leadership Forum (IELF). The Forum will allow the Government and industry to work together to undertake pre-competitive

engagement in new markets, develop a clear demonstration of the UK offer and help target where we concentrate resource. There is also the opportunity to lead bids with a pool of finance backed by UK Export Finance, increasing the appeal of a UK solution. There is also the opportunity to lead bids with a pool of finance backed by UK Export Finance, increasing the appeal of a UK solution.

The Department for International Trade will start work with industry to design the Forum and ensure we achieve the right approach and strongest members, with the first Forum being convened early in 2017.

Increasing defence exports. The Department for International Trade Defence and Security Organisation (DSO) is working with industry on a similar approach, where consortia of UK Defence companies produce a single UK bid for overseas government customers. The UK

Government is then able to provide coherent support to a single UK bid, increasing the probability of success. Sir John Parker's report recommends that future government defence procurement is designed with an eye to future export opportunities, by ensuring ships we procure for the UK are of a type with export potential.

Doubling export finance capacity. The Autumn Statement doubled UK Export Finance (UKEF) capacity to support exports globally, by doubling its Risk Appetite Limit from £2.5 billion to £5 billion. Enabling support to grow toward the £50 billion total portfolio limit. In addition, the maximum permitted exposure limits for individual export markets has doubled to £5 billion, to ensure that UKEF has sufficient appetite to support exports even in high demand markets. As part of this increased reach, the number of countries eligible for guaranteed local currency financing has also



quadrupled, to include many fast-growing priority export destinations. This will be attractive to overseas buyers, who can borrow in their own currency and so protect themselves from foreign exchange risk. This flexibility will give UK exporters a clear competitive advantage, as their customers will know that when they buy British they can pay local.

Making government trade services easier to use for firms. The Department for International Trade recently launched great.gov.uk – a ground-breaking new digital platform to provide integrated access for exporters and investors to the full range of its services. The website matches supply and demand, puts power in the hands of businesses to start exporting or attract investors, and makes doing business abroad as attractive as it is to do business at home. Once registered, companies can promote their goods and

services to international buyers, search hundreds of export opportunities and access preferential deals that we have negotiated with online marketplaces. Our aim is for the site to be the first place businesses think of when they consider business abroad, acting as an aggregator for the complex exporting market but also signposting to other sources of advice.

Joining up trade and inward investment promotion with local areas. We are improving the connection between different places in our trade and investment promotion services, with teams dedicated to the Northern Powerhouse, the Midlands Engine, Greater London and southern England working closely with local leaders – including combined authority mayors once elected, Local Enterprise Partnerships and other devolution partners – to support small firms across the country to export, and promote local strengths to overseas



investors. The Government is running a programme of 40 Northern Powerhouse trade missions up to 2020, with 10 scheduled this year (2016/17). For the Midlands Engine the Government will also run 20 trade missions by 2020. The first was to the US and Canada in September, followed by a mission of 38 midlands companies to Shanghai, leading to a series of partnership agreements and commercial investments. We have helped construct “pitchbooks” of major projects in the north and the midlands, and also radically improved the relationship between Department for International Trade and local areas to ensure the Department responds to local priorities and opportunities. This builds on the creation of the Regeneration Investment Organisation (now the The Department for International Trade Capital Investment Organisation) in 2013, which is improving the marketing of local regeneration projects to international investors.

Strengthening the value from trade shows.

The Department for International Trade will explore how we can maximise the opportunities that a UK presence at existing international trade fairs offers for businesses throughout the country. We will also explore where there are sectors which could benefit from support to create trade fairs, in particular, in emerging sectors such as the innovative technology industries.

Developing a new, more strategic approach to inward investment. We want to focus efforts on strategic inward investment that most contributes to wealth creation for the UK. We will review how we attract inward investment and how we evaluate the impact of successful inward investments. This will, for instance, look at whether there should be a greater emphasis on the effect of investment projects on growth. Project for project not all inward investments have the same impact on growth. Some areas of the UK, such as London, have pioneered a more growth-driven approach to measuring success; we may be able to learn from this. The Department for International Trade is also reviewing what we can learn from the work of inward investment promotion agencies across the globe, including from their strategic or sectoral focus, the way they measure their impact, and the tools they use to attract inward investors.



Encouraging trade and investment

Actions under way:

- **Doubling export finance capacity.** In the Autumn Statement we announced that we will improve the competitive edge of UK exporters by doubling the capacity UK Export Finance is able to provide and increasing fourfold the number of foreign currencies that it supports.
- **We are making it easier for firms to access government support** through a ground-breaking new digital platform to provide digital services to help exporters and investors: great.gov.uk.
- **Joining up trade and investment promotion with local areas,** with area-specific trade missions working with local areas to highlight opportunities.
- **Improving market access for exporters.** The Department for International Trade is working hard to support businesses through discussions on market access issues with third countries.

New commitments:

- **Building future trading relationships.** We are encouraged that countries such as Canada, China, India, Mexico, Singapore and South Korea have already said they want to discuss our future trading relationships. We have established a series of working groups with key trade partners.
- **Creating a new more active “Team UK” approach to winning overseas contracts,** with the Government helping convene consortia of companies to back a single UK bid for major overseas projects. This will enable the Government to provide strong political support and increase the chances of winning major overseas contracts. This approach also applies to increasing defence exports.
- **Developing a new, more strategic approach to inward investment.** The Department for International Trade will review what we can learn from successful inward investment promotion agencies across the globe and it will report in 2017. We will consider whether there should be a greater emphasis on the effect of investment projects on growth.
- **We are also working with behavioural insights experts, to improve our targeting of potential exporters and using HMRC data.**
- We will explore how we can maximise the opportunities that a UK presence at existing **international trade fairs** offers for businesses; and explore where there are sectors which could benefit from support to create trade fairs, in particular in emerging sectors such as the innovative technology industries.

Questions for consultation

- 25.** What can the Government do to improve our support for firms wanting to start exporting? What can the Government do to improve support for firms in increasing their exports?
- 26.** What can we learn from other countries to improve our support for inward investment and how we measure its success? Should we put more emphasis on measuring the impact of Foreign Direct Investment (FDI) on growth?