

## TRADE WHITE PAPER - CALL FOR EVIDENCE

*We should be messianic in wanting to see free trade and open markets around the world, and our foreign policy will be helping to deliver that in a totally new, more hard-headed, more commercial way. I think that is vital for Britain as we come out of recession and into recovery.*

*UK Prime Minister, David Cameron, July 2010*

*Trade is the greatest wealth-creator ever known. It has lifted billions out of poverty... For sustainable, balanced growth, we have simply got to deliver free, fair and open global trade. That is what I will work tirelessly for, not just this weekend but in the weeks, months and years ahead.*

*UK Prime Minister, David Cameron, at the G20 Summit in Toronto, 2010.*

### **Introduction**

The Secretary of State for Business, Vince Cable, and Edward Davey, Minister with responsibility for Trade Policy, are leading cross-government work to develop an ambitious and overarching trade and investment strategy for the UK. They are supported in this process by Lord Brittan, the Prime Minister's Adviser on Trade. This strategy will inform a White Paper on trade, which is due to be published at the turn of the year.

The White Paper will examine Britain's trade and investment policy in the light of changing domestic, EU and global developments, and set out the Government's analysis, vision and strategy for the next five years.

The aim of this call for evidence is to gather perspectives on UK trade and investment performance and potential, the role of government on trade issues, the impact of global developments, both economic and otherwise, and the course of UK trade policy. The views gathered will inform the development of the White Paper.

### **Your Views**

There are a number of specific questions set out in this call for evidence, but please do not feel confined to responding only to these if you have other evidence to offer that would be relevant to the White Paper. We welcome responses by the end of November. Responses should be submitted by email to: [Tradewhitepaper@bis.gsi.gov.uk](mailto:Tradewhitepaper@bis.gsi.gov.uk) or by post to: Trade White Paper Call for Evidence, ITID, 3<sup>rd</sup> Floor Victoria 2, 1 Victoria Street, London SW1.

This call for evidence will open on 5 November 2010 and the last date for responses will be 3 December 2010. Please note that this document is a call for evidence, as opposed to a standard consultation.

A summary of the responses will be published after the closing date.

An electronic version of this document can be found at [www.bis.gov.uk/trade-white-paper](http://www.bis.gov.uk/trade-white-paper).

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When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation please make it clear who the organisation represents and, where applicable, how the views of members were assembled. Your responses may be published and as such, please make it clear in your response if you are *not* happy for this to happen. Evidence and analysis may in some cases be subject to disclosure under the Freedom of Information Act. An exemption to disclosure is available under the Act for confidential information. Therefore, if any of the evidence or analysis submitted to the review is confidential please clearly mark these sections of the evidence and explain why.

The legal framework relating to information disclosure is set out below:

Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you want information, including personal data that you provide, to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

## **The importance of trade and investment for the UK**

This Government is clear that the encouragement and creation of greater openness in the UK, EU and the world is particularly beneficial both to the UK and its interests, and globally. Greater openness will not only advance UK growth both now and in the future but has intrinsic benefits for developing economies – trade is an important driver for growth and poverty alleviation in developing countries - and for achieving the UK's security goals.

The UK is the world's 6<sup>th</sup> largest exporter and 6<sup>th</sup> largest importer of goods and services. UK imports and exports of goods and services was £805 billion in 2009, equivalent to 3.9% of world trade and around 64% of total UK output. The UK is the world's 2<sup>nd</sup> largest investor in foreign markets.

The recent global economic crisis hit trade and investment flows, transmitting through to the domestic economy. The value of goods exports in 70 leading economies fell by 22% in 2009 compared to 2008. This followed a low in Feb 2009, when exports were 43% down from their peak in July 2008.

The highly-interconnected nature of economies such as our own accelerated and exacerbated the effects of the crisis. Although trade has started to recover there is still significant uncertainty – especially around the pace, consistency and distribution of global economic recovery. The IMF is predicting growth of 7% and 6.1% in global trade volumes in 2010 and 2011 respectively. Asian economies are contributing strongly to growth but growth in the US and Europe remains fragile. Developing countries were hit hard by the crisis, especially where they were more exposed to international markets or reliant on remittances from migrant workers in Developed Countries.

This does not mean countries would be better off isolated from the global economy. Evidence from past crises suggests that although open economies may be more vulnerable to crises, they also recover more quickly and openness also promotes growth and can smooth out internal shocks. Globalisation should be central to consideration of the UK's trade and investment priorities and policies.

The re-emergence of the large Asian economies, especially India and China, is particularly pertinent, with both the Indian and Chinese economies likely to overtake the economy of the United States of America over the next 30 to 50 years. Fast growth is also being experienced in emerging markets such as Indonesia, Brazil and, closer to home, Turkey. These countries will not only continue to grow as key suppliers of goods and services but will increasingly become significant investors and a growing source of demand for sophisticated products, technologies, materials, and, importantly for the UK, value-adding and knowledge-based services. As these economies emerge, their influence will continue to grow too. However, despite this growth, poverty remains prevalent in these countries and elsewhere.

The forces shaping global trade and investment continue to shift and develop. Social factors such as ageing populations in the developed economies and the growth of middle classes in the emerging and developing economies have a global impact on trade relationships. Environmental factors, such as the changing global climate have created a need to de-carbonise the global economy, with consequential risks and opportunities for trade relationships.

The growth and complexity of research and innovation, and its global reach, provides a clear opportunity for our higher education, research institutes and technology investors and has made it even more important to encourage open flows of knowledge within the United Kingdom and around the world. Key to this is ensuring the best possible regulatory infrastructure, such as an effective and flexible Intellectual Property Rights system and supported by effective enforcement mechanisms, relevant to our digital and technological age. The growth of e-commerce could be exploited more as a route for SMEs developing their exports. The increasing tradability of services and the global fragmentation of production provide considerable opportunities for the United Kingdom, but also risks. The risk of protectionism, rule-breaking or even trade wars needs careful monitoring.

There are significant practical barriers to international trade and investment, for both new and experienced exporters. These range from firms not being aware of the potential opportunities and benefits of doing business internationally, or having the skills and knowledge they need to succeed, to getting access to the right contacts, decision makers and information.

Trade and investment is a key part of the UK's growth strategy for the UK and for tackling the budget deficit. International competition provides a spur to innovate and invest, and consumers benefit from competitive prices and a wider selection of goods and services. Meanwhile opening export markets provides opportunities for competitive businesses to grow, indeed, the highest growth businesses are those that are able to internationalise. The global economic crisis has forced us to think through how Britain will earn its living in the world. Rebounding from the crisis requires new impetus to advance British commercial interests around the world, and to make Britain a magnet for investment and demonstrate that we are open for business as a nation.

## **Consultation themes**

### **Comparative advantage of the UK**

To ensure that the UK benefits from international trade opportunities, the White Paper will look to our current and potential areas of comparative advantage and how trade policy can open opportunities for these industries. The UK has particular strengths which we can build upon to make the most of these opportunities including in; pharmaceuticals; communication equipment; education; aerospace; non-electrical machinery; instruments; financial, legal and business services including insurance; personal, cultural and recreational

services; creative, sports and media; engineering; design; knowledge and technology transfer and defence products.

1. In which goods and services is the UK best able to compete internationally?
2. How will this picture change in the coming years? Does our future international export advantage lie in our current industries or in emerging industries such as low carbon, advanced manufacturing, design and brand development, tax and accounting and media?
3. What domestic factors are preventing us from competing internationally? How can these be addressed?
4. What will the impact be of our ageing engineering workforce and ability of UK to supply skilled workers to meet future demand?
5. Keeping budget constraints in mind, what policy changes would help businesses export for the first time?
6. Keeping budget constraints in mind, what policy changes would help existing exporters export more?

### Role of Government

This Government wants to work efficiently and effectively to support international trade and investment. The White Paper will consider the rationale for Government's role in shaping the international framework and set the vision for a 'whole of government' approach to trade policy. The UK Government is able to set domestic policies which support trade such as access to trade finance, protecting intellectual property and which facilitate investment opportunities at home and abroad through the work of the UKTI. Trade and investment policy are areas of EU competence and so an important role for the UK Government is to influence and shape trade agreements and actions on which the European Commission leads.

7. How can the UK make better collective use of resources across Government to pursue trade and investment objectives?
8. To what extent does the existence of differing regulatory systems lead to significant barriers to trade and investment? Are there steps that the UK should take domestically, within the EU or internationally to reduce such barriers?
9. Where certain industries in the UK are no longer able to compete internationally, how can the UK government best support the transition of these resources and people employed into new opportunities? How could EU measures improve support for the adjustment process?
10. How should the relationship between trade policy, foreign policy and trade promotion operate? To what extent could and should trade agreements be used as tools to encourage other policy goals?

### Investment

With regard to investment, the White Paper will consider how the globalisation of investment can be a positive force for the UK and global economy as it helps overcome inefficiencies and maximises productivity. Furthermore

productive investment in other countries generates an important source of income for the UK. In many cases the more significant barriers faced by UK companies are to investment rather than exports. During these difficult economic times, and looking beyond, sustained growth of the UK economy will depend on the UK being an attractive place in which to work and invest.

11. What are the benefits and costs to the UK from inward and outward investment?
12. How can the UK attract more inward investment and ensure that existing and future investors consider the UK a good place in which to invest?
13. What are the key barriers faced by UK investors wanting to invest abroad, and what can the UK government do to reduce these, and through which channels (domestic, EU, international)?

### Global Priorities

The White Paper will outline the Government's global priorities in the short, medium and long-term. Effective global institutions, the infrastructure underpinning trade and good trading relationships are key to securing growth. It will discuss the benefits of concluding the Doha Development Round: achieving a common set of non-discriminatory multilateral rules and liberalisation which encompass many more industries and issues than previous rounds, but recognise the challenges in achieving this. The Paper will also discuss the increasing numbers of Free Trade Agreements and the opportunities and threats that this presents in terms of trade creation and diversion, leveraging and complicating regulatory reform, and the complex relationship between FTAs and the multilateral system.

The White Paper will consider how the World Trade Organisation (WTO) role can evolve and strengthen.

14. In general, does the world trading system work well? If not, why not?
15. What is the impact for businesses of the 'spaghetti bowl' of free trade agreements that now exist?
16. Should the WTO take on a larger role in dealing with global issues, such as climate change? What other changes can strengthen the WTO?
17. How should export restrictions be disciplined?

### The European Union

The White Paper will consider the UK's interaction with the rest of the EU, both as an internal market for UK goods and services and also as the organisation through which the UK needs to work to achieve its objectives on trade and investment policy.

It will set out how the UK will work with the rest of the EU to ensure a fully functioning single market and closer trade engagement with its neighbours. The European Commission launched a consultation "Towards a Single Market

Act – for a highly competitive social market economy” on the 27<sup>th</sup> October to seek views on a set of proposals to strengthen the single market.<sup>1</sup> The UK will be providing a response to this Communication in February 2011.

The White Paper will also consider the UK’s strategy for engaging with the European Commission, European Parliament and priority Member States to push forward the multilateral negotiations, free trade agreements and the EU strategy on trade and development.

18. What are the key benefits the European Single Market has brought to UK business and citizens?
19. What are the main barriers for businesses trading in the Single Market?
20. What should be the UK’s priorities to strengthen the single market?
21. What are your views on the Commission’s Single Market Act?
22. How can we ensure that the UK and the rest of the EU work to best effect on addressing barriers to trade and investment beyond the EU’s borders.

### Other Developing Countries

The White Paper will review trends in trade flows from and to Low Income Countries (LICs) and Middle Income Countries (MICs) and their engagement in the global trading system. The Paper will consider the links between trade, growth and poverty reduction. To ensure that trade contributes to growth and reducing poverty, we need to consider the specific challenges faced by LICs and MICs in bringing and receiving goods and services on the global market. These include market access, trade facilitation and behind the border barriers preventing LICs and MICs from competing effectively and seeing the benefits of trade as exporters and as consumers of imports. The White Paper will also consider what the UK can do unilaterally, working through the EU and with other institutions to assist LICs and MICs in capitalising on the poverty alleviating potential of trade.

23. What are the key challenges preventing LICs and MICs from benefiting from trade? What are the key constraints preventing trade and investment with LICs and MICs?
24. What can donors and LICs and MICs do to improve the effectiveness of Aid for Trade?

### Emerging Economies

The UK already has strong relationships with the emerging powers but we must not be complacent. The continuing rise of the emerging powers presents huge opportunities for the UK including to increase our exports of goods and services to these countries. Many of these countries are also increasingly influential players in global economic and trade affairs and so the UK’s and the EU’s relationships with them is also of wider importance.

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<sup>1</sup> [http://ec.europa.eu/internal\\_market/smact/index\\_en.htm](http://ec.europa.eu/internal_market/smact/index_en.htm)

25. Should the UK's approach be to prioritise Free Trade Agreements (FTAs) with the greatest economic benefits to the UK?
26. Beyond the major emerging powers (ie the BRICs or CIVETS Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa), which other emerging countries should we prioritise and why?
27. How can the government support growth in trade and investment with emerging markets?

### Developed Economies

The White Paper will seek to define our key trading relationships with the developed world economies, particularly the USA, Canada, Japan, Australia and New Zealand. The UK is very supportive of market opening and common rules, and is therefore supportive of multilateral trading and enforcement mechanisms, which have largely been enablers of cross-border trade. However, challenges are increasingly related to differing regulatory regimes, on which the multilateral system has been unable to make progress. These include norms and standards; regulatory regimes for the services sectors; competition, intellectual property and public procurement rules. Open trade and competition with other knowledge economies is essential for the UK to thrive as a technology intensive and high value added economy.

28. The removal of which regulatory or other non tariff barriers should be prioritised to ensure more open trade and investment with developed economies?
29. Should we seek to encourage further integration of global supply chains? Is UK infrastructure capable of supporting further integration of the UK into high technology global supply chains?

### Easing the flow of trade to and from the UK

The ability of otherwise competitive businesses to import and export is affected by factors including their ability to access trade finance and the physical, practical and customs steps involved in completing the trade through trade facilitation. The financial crisis reduced the availability, and increased the process involved in securing, international trade finance, contributing to the dramatic decline in global trade. Since mid-2009, we have seen some stabilisation of the trade finance markets, aided by domestic and international measures. However uncertainties remain and the global recovery in trade finance is uneven, with very limited, and expensive, private sector finance in higher risk markets. In the UK, we are keen to get a fuller picture of the ease with which firms can access international trade finance, though there is some limited evidence that suggests particular difficulties are experienced by SMEs and first time exporters. Responses to the recent Business Finance Green Paper (BIS) will go some way to helping us clarify the situation.

In terms of trade facilitation, BIS and HMRC have started a programme of work as identified in the report 'Simplifying Trade Across UK Borders' to tackle practical and customs barriers to trade at the UK border. The UK's position in the annual World Bank report 'Doing Business' on the ease of doing business

improved from 6<sup>th</sup> (2009) to 4<sup>th</sup> (2011) but there is still more to do at a domestic level. Equally it is important to assess the scope for minimising the burden of legislation that impacts on trade at an EU level. We estimate that EU sourced trade regulation amounts to circa €1 billion per year in costs to UK business, and might therefore amount to some €8 billion per year across the EU as a whole; a 25% reduction in this figure could mean annual savings of some €2 billion to EU business.

Trade defence encompasses anti-dumping, anti-subsidy and countervailing and safeguard measures. UK businesses are primarily affected by measures applied at the EU level. In the shorter term, unfair trade can impose unwarranted costs against the overall interests of UK producers, yet costs can also be affected by the introduction by trade defence measures which increase the costs of component parts of the supply chain which is a particular issue for UK manufacturing.

Governments also have a role in addressing market failures associated with doing business overseas and in the UK this help is delivered through UK Trade & Investment, the UK's trade promotion organisation. UKTI intervention addresses market failures which would otherwise reduce the ability of UK business to achieve the full potential benefits from international markets, and which would provide barriers to international investors who might otherwise locate in the UK.

30. To what extent do trade finance or trade facilitation problems inhibit UK businesses' ability to trade?
31. How could the EU's trade defence rules be improved?
32. Are there examples of trade promotion support in other countries that you are aware of, that could benefit your company/the UK.

#### Further questions

33. In which countries/regions of the world do you feel a strengthened economic and political relationship could make a significant difference to your company's prospects? Is it the UK's or (where relevant) the EU's relationship that matters most to you?
34. We are keen to learn from the experiences and thinking of other countries. We are already, through the FCO network, looking at a number of other countries but would welcome suggestions.