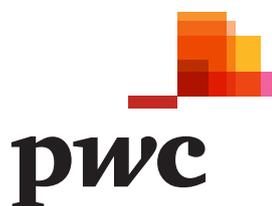


UK Trade. The New Agenda.

Time for the UK to recast,
reset and rework

February 2021



Contents

Introduction	1
.....	
Survey results	2
The new agenda	4
1. Clarify and reinforce one vision for the UK	4
2. View our priorities through a trade lens	6
3. Play to our strengths and focus our efforts	7
4. Make trade and investment a team sport	8
.....	
Contacts	10
.....	

Introduction

We are living through times of unparalleled change. The COVID-19 pandemic has tested resilience – of our institutions, of our companies, and of ourselves as individuals – in ways we had never imagined. As we start to recover from this period of intense disruption we will see what returns to normal and what has changed permanently.

What hasn't changed is the importance of international trade and investment to the UK's overall prosperity. Trade and investment creates jobs and increases productivity by bringing the world's best technology and ideas to the UK, as well providing access to export markets for our own companies.

Since the EU referendum in 2016, the UK public has become more aware about what trade and investment means for businesses and consumers; it has become a greater part of our national conversation, not just a greater part of the political agenda. According to an online survey by PwC in autumn 2020, 90% of respondents believed trade and investment was important or very important to supporting a collective recovery across the UK.

But international markets are more competitive than ever. More and more companies are joining the export race, meaning that the UK's share of export markets is shrinking. In 1980 the UK accounted for over 6% of the global market for exported goods and services. By 2019 that had shrunk to less than 4% (Source: [UNCTAD](#)). This decline wasn't a problem in the past, because global trade was increasing exponentially, which masked the UK's relative decline. But in a post COVID-19 world, there is no guarantee that globalisation will return in the same way; the risks of just-in-time models and global supply chains have been exposed, which is likely to accelerate a move towards localisation and the shift to regional trading blocs that was already emerging before the pandemic. And if growth in global trade slows or declines, the UK's declining share will become more visible and problematic.

And of course here in the UK, we are doubling down on change. Now it has left the EU, the UK is beginning a new chapter in trade and investment. And there is a need to understand and assert its own, distinctive strengths. With its new opportunity to develop an

independent trade policy, the UK is seeking to pivot to higher growth economies, even if they are further away, and negotiate more bespoke trade deals.

Within this context, PwC started a conversation – across regions, business, government and society – to examine what the UK can do to drive trade and investment harder and better than it has before. How can the UK reposition itself in global markets to respond to these challenges? How can it recast its role in a way that is relevant for post-Brexit, post COVID-19 trade patterns? And how might we work together to deliver and prosper?

In November 2020 we held our UK Trade Summit to consider these questions. With over 120 senior participants from across the public and private sectors, including representatives from across all UK nations and regions, as well as some major international investors from the US, India, China and Europe, we gathered a wide range of different perspectives and ideas. The event was supported by the Department for International Trade, with keynote addresses from Graham Stuart MP, Minister for Exports, and Dan Ramsay, Director of the GREAT campaign. This paper brings together the insights from the Trade Summit, along with data from our trade and investment survey, and conversations with government and business across the UK to develop these key recommendations, to set the agenda for change.

90%

of respondents believed trade and investment was important or very important to supporting a collective recovery across the UK

42%

said that providing access to new technologies, skills and innovation would be the key benefit

Survey results

Between August and November 2020, we ran a survey on the [PwC website](#) to gauge the sentiment of our clients and the public around the importance of trade and investment to the UK, as well as the key priorities for the Government and businesses to make a success of it.

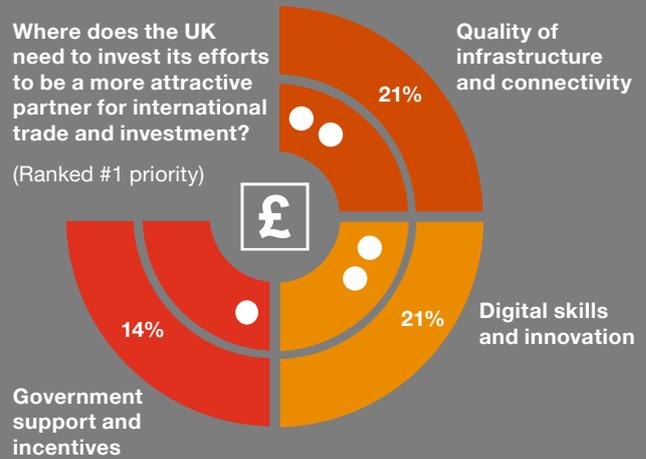
How important will international trade and investment be in supporting a collective recovery, and sustainable growth across all regions of the UK?

90%

answered either important or very important.

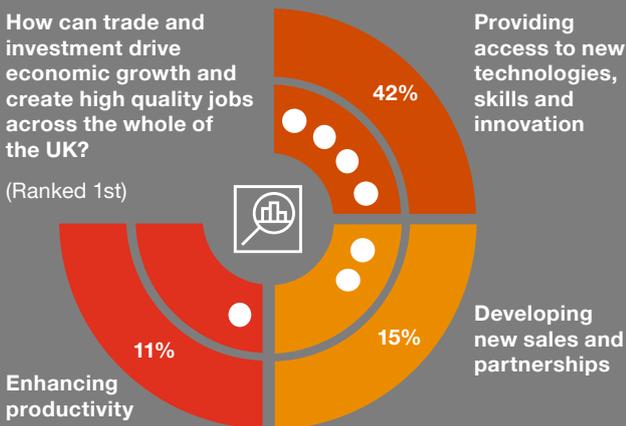
Where does the UK need to invest its efforts to be a more attractive partner for international trade and investment?

(Ranked #1 priority)



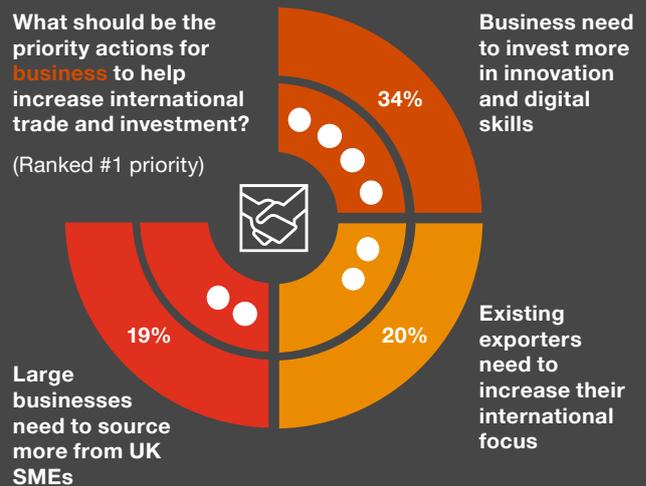
How can trade and investment drive economic growth and create high quality jobs across the whole of the UK?

(Ranked 1st)



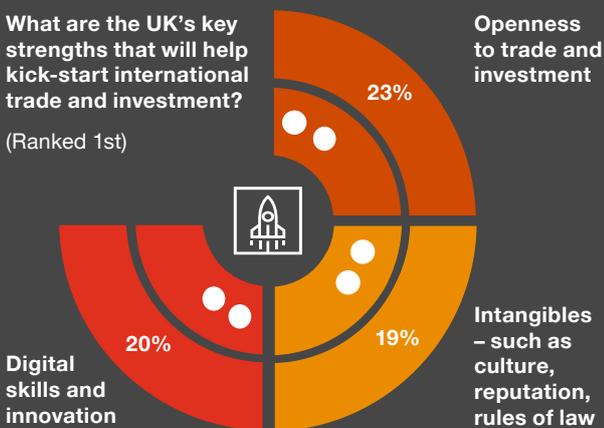
What should be the priority actions for **business** to help increase international trade and investment?

(Ranked #1 priority)



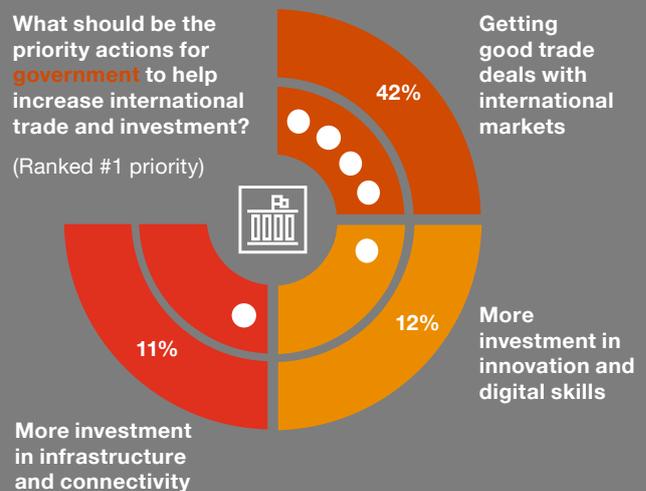
What are the UK's key strengths that will help kick-start international trade and investment?

(Ranked 1st)



What should be the priority actions for **government** to help increase international trade and investment?

(Ranked #1 priority)



Source: PwC online survey of 458 (UK and overseas) respondents between August and October 2020

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What hasn't changed is the importance of international trade and investment to the UK's overall prosperity. Trade and investment creates jobs and increases productivity by bringing the world's best technology and ideas to the UK, as well providing access to export markets for our own companies.”



The new agenda

There was a strong appetite among the Trade Summit attendees for refocusing on the medium and long term trade and investment strategy for the UK. Our collective focus has been on the here-and-now: on the twists and turns of the Brexit process; on the down-to-the-wire negotiations on our future trading relationship with the EU; and on the practicalities of border protocols in the immediate aftermath of the end of the transition period. As businesses begin to implement processes to handle these changes, now is the time to raise our frame of reference back to the longer term.

The four themes below represent an agenda to do just that.

1. Clarify and reinforce one vision for the UK

What does the UK stand for in global markets? What qualities does the UK confer on its businesses and employees that make it an attractive proposition for international customers or inbound investors? The answer to that is changing. For the last 30 years the UK's proposition to international investors has been based, at least in part, on membership of the European Union's single market. In many ways this was an 'easy song to sing' to international investors – it was certainly front and centre of most glossy brochures promoting the UK. But of course the UK's proposition is much more multifaceted than that. This is now an opportunity to develop a new vision that focuses on other strengths that, despite being harder to articulate, might ultimately prove to be more powerful and differentiating.

Those other strengths are many and varied. Trying to define the UK's core strengths is like trying to agree on the best spice blend in a chicken tikka masala: there are too many to choose from and they all enhance each other. For some of our international clients, the UK's value is in its stability, in its rule of law and in its shareholder protections. Some tell us they value the rich and deep labour market which provides access to the skills they need. And some tell us that they value the open, transparent and accessible business culture that makes doing business here straightforward.

But what's common across the majority of our clients is the emotional connection that they have for the UK. The UK's schools and universities have educated more world leaders than any other country; our world-renowned creative industries, media and sport create a cultural affinity far beyond their direct economic impact; and our cities show a cultural diversity, energy and tolerance not found in many other countries. All of which means that the UK is the world's favourite second home: somewhere more people from more countries feel at ease, feel welcome, and feel confident.

It is our hope that the vision builds on this emotional connection. In a world that was fracturing long before COVID-19, there is a critical role for multilateralism, for international collaboration and for a values-based

approach to international trade and investment. We want international investors to be confident not only in the UK's stability, not only in its skills and resources, but also in its values. The brochures of the future will still need to set out the facts about doing business here, but perhaps these should be relegated to the back pages. Our new challenge is to develop the front-end vision in a way that builds on the deep-rooted affinity that many international business leaders already have for the UK. For example, if the UK can enhance its reputation as somewhere the world can come to seek advice, to learn, to find solutions or to resolve differences, then we will have a genuinely differentiated position in world markets.

Of course this is not just about the brochures, it is about developing and delivering a sustainable value proposition. Which is why this new vision needs to be reinforced at every turn, by everyone involved. The world watches our news with interest – more people search online for UK news than any other country apart from the United States. So what our businesses, politicians and other leaders say and do matters. As we exit from a period of disruption and division, it would be great to see government policy and the actions of our major companies reinforcing a set of shared values.



The UK is a creative hub for the world – a 'soft power superpower' – attracting many of the most exceptional minds to study, work and live here. We lead the world in areas that have near universal appeal and high levels of engagement globally."

Dan Ramsey

Director of the GREAT campaign, PwC Trade Summit, November 2020



An openness to trade and investment was ranked by survey respondents as the UK's key strength that will help kick-start international trade and investment.



Post-Brexit and post COVID-19, the UK will present tremendous opportunities for international investors, be it the net zero or regional building back better agenda. The UK public and private sectors need to work together to present a coherent strategy and a clear pitch book to the international community. We need to help the inward investors to look beyond London and the sectors that are familiar to them.

We should also take advantage of the UK's world leading R&D capabilities from our academic institutions and tech start-up communities. This is a fantastic opportunity to lead the way globally into addressing healthcare issues, technological disruption, de-globalisation and other global challenges. The UK has a long tradition of convening international expertise and financing, which plays to the heart of the global recovery and rebuilding after the unprecedented threats we are all facing as a result of the pandemic.”

Suwei Jiang

Partner, International Markets Network, PwC

2. View our priorities through a trade lens

Our Trade Summit participants all acknowledged that the UK has some critical priorities that need to be addressed. There was broad support for the [levelling up agenda](#), recognising that prosperity needs to be shared across all parts of the UK; there was a clear recognition that the UK needs to rise to the challenge of becoming a [net zero](#) economy by 2050; and there was a deep appreciation of the challenge of economic recovery post COVID-19, and ensuring that this recovery is fair and inclusive.

The angle that came out very strongly was the role that trade and investment can play in delivering on these priorities, and in turn the boost that trade and investment would receive from success. One participant from a global engineering consultancy coined the term ‘looking through a trade lens’, i.e. considering how trade and investment can contribute to, and benefit from, these critical priorities.

For example, the transition to net zero is both a climate imperative and a trade opportunity. [A recent PwC report](#) calculated that around £40bn of investment per year is required to set the UK on the right decarbonisation trajectory. This makes it one of the defining business opportunities of this generation, and we will need a wide range of technologies, systems and solutions to achieve these goals. The outcome will almost certainly be better if we combined the UK’s ambitious decarbonisation policy with a joined-up strategy for making sure that those technologies are born, nurtured and commercialised in the UK. We could then export those technologies to help the rest of the world decarbonise, and secure our financial prosperity at the same time.

We haven’t always got this right in the past. For example, the UK created a world-beating framework for encouraging investment into offshore wind farms – a great policy success that meant that in 2020 the UK generated more electricity from renewables than from burning fossil fuels – but we missed the industrial opportunity. The UK is the largest market for offshore wind power generation in the world, with plans to quadruple capacity by 2030, but none of the world’s leading wind turbine manufacturers are from the UK. This leaves us fighting a rearguard action to encourage foreign manufacturers to invest in the UK, which will rarely realise the same economic benefit as domestic manufacturing. So let’s not make that mistake again, let’s look at net zero through a trade lens and see if we can make it an economic success story as well as an environmental one.



We should look at the big issues, such as levelling up or net zero, through a trade lens. How do we maximise the trade opportunity alongside solving our own needs?”

PwC Trade Summit participant
(Strategy director, engineering & construction industry)

Survey respondents ranked investing in the quality of infrastructure and connectivity as one of the biggest priorities for the UK to become a more attractive partner for international trade and investment.



COVID-19 accelerated in weeks the trends commentators had predicted would play out over years. Traditional working, shopping, leisure and home models have been upended. We’ve seen images of airports, offices and shopping centres sitting empty, with other assets, such as fibre and logistics, emerging to play a critical role in supporting society.

The pandemic has therefore made it all the more urgent for everyone involved,

from planners, developers, operators, to investors and government – to adapt and grow. In order to achieve net zero, ‘levelling up’ and trade and investment objectives, both the UK government and businesses will need to demonstrate creativity and agility to deliver the essential infrastructure and real estate the UK requires to prosper. The need to get our response right has never been greater.”

Simon Hampton
Real Assets Leader, PwC



3. Play to our strengths and focus our efforts

In a world where export markets are increasingly competitive, the UK can't expect to be good at everything. There was a sense from our Trade Summit participants that we should not try to be world leaders in all sectors – that our national prosperity would be better served by focusing our resources on being genuine world-beaters in a few sectors where we already have a comparative advantage, rather than trying to up our game in sectors where we do not already have a strong position. To one participant, devoting resources to supporting weaker sectors in global markets felt like 'pushing water uphill.'

This focus is easy to say but hard to do, because prioritising some sectors implies de-prioritising others, which is a complex trade-off for the Government in particular. But there was appetite from our participants for having a constructive debate about this issue, bringing it into the open rather than carrying on spreading our export support resources across all segments of the economy.

Perhaps the answer lies in having a balanced portfolio of priorities. This could include firstly doing everything we can to support our 'export titans' – sectors where we are already leaders on the world stage and that drive our overall export performance. These might include, for example, aerospace and defence, financial services, professional services, the pharmaceutical and life sciences sector, the education sector and creative industries.

It could also include sectors which are important for our economic resilience and employment, for example the automotive and infrastructure sectors. And lastly, it could include some sectors of the future – sectors which we know will be high growth and where there is an opportunity for the UK to build a leading position. These could include fintech, artificial intelligence and of course net zero – the export titans of the future that will secure our prosperity through the next generation.

This of course is just a framework, with some examples to bring it to life. Whatever the sectors, and however they are grouped and defined, there was a strong steer from our participants that we should be focusing our finite resources on sectors that will have the greatest economic impact (now and in the future), as well as on sectors where the UK can build or maintain real global leadership.



We realise that we can't be all things to all people, we really want to focus on those areas where we know we have some clear strengths."

PwC Trade Summit participant
(Trade & Investment leader – Devolved Authority)

4. Make trade and investment a team sport

Lastly – but perhaps fundamentally – our participants wanted to see more collaboration on Trade and Investment. The pandemic has shown us what can be achieved when different organisations across the public and private sector align behind a common goal and shared values. For example, our world-class healthcare ecosystem has shown innovation, organisation and compassion in equal measure in developing and delivering the Oxford-AstraZeneca vaccine. This has involved rallying new partnerships, combining public and private investments, creating new global supply chains, navigating regulatory requirements and standing up complex logistics networks to support the vaccination programme.

In the same spirit, making a material difference to the UK's export performance will need a collective response between businesses large and small, between the public and the private sector, between the industrial and financial communities, between the education sector and employers, and between Westminster, local government and the devolved authorities. This means internationalising our Industrial Strategy and working together to shape a package of support for priority sectors, including innovation-friendly regulation, R&D incentives, skills development programmes, incubation support, infrastructure and regional investment. This will also require collaboration between regions, coming together under common strategic objectives to build a stronger brand globally, thereby maximising the total

economic prize for the UK rather than, for example, creating a number of competing regional clusters that fail to achieve critical mass.

This level of collaboration feels new for a country that has traditionally maintained a respectful distance between state and industry, and that has encouraged unfettered competition in the private sector. It's certainly true that the UK is competing in export markets with countries that have structurally closer relationships between their governments and their major corporations, and whose governments have traditionally been more partisan in promoting their exports in-market.

But we should learn from the current collaboration between the public and private sector as we get behind the need for an economic recovery and show that trade and investment is best played as a team sport.



It is important to have collaboration. We are at a point in history where government and businesses need to share common goals.

PwC Trade Summit participant
(Chair of board, utilities industry)

Survey respondents ranked investing in innovation and digital skills as the top priority for businesses to help increase international trade and investment.



Even before COVID-19, CEOs were concerned about the availability of key skills. The pandemic has only intensified the challenge and highlighted skills disparities across different regions of the UK.

Closing that gap is essential to making the UK fairer, more sustainable and more competitive on the global stage. That will require a concerted and coordinated effort from all stakeholders. National and regional governments must adopt an agile approach, working with nonprofits and the education sector. Business must

invest to build an innovative combination of experiences, technologies and policies to develop skills, and make time-bound pledges to act. And education providers must use this moment to normalise lifelong learning for all.

We have a collective responsibility to ensure everyone has the fundamental skills they need to succeed. Digital skills are central but resilience, leadership, innovation, judgment and empathy, have risen to equal importance.”

Fiona Camenzuli
People and Organisation leader, PwC UK



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In a time of change, it feels right that we take a fresh look at how the UK is performing in global markets. We have much to be proud of, and much to build on, but across all industries and markets the bar is being raised, meaning that we cannot rely on existing skills, historical relationships or legacy perceptions to drive future success.”

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This is a once-in-a-generation opportunity to recast our role in global markets in a way which genuinely differentiates the UK, to reset our priorities on the sectors that will drive long term prosperity, and to rework how we collaborate together to deliver trade and investment success.

We look forward to sharing further points of view on these themes to help advance the debate and develop a plan of action for the months and years to come.

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