

UK Trade. The New Agenda.

View our priorities through a trade lens

June 2021



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Background

At PwC, we 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. We believe there is a once in a generation opportunity for the UK to recast its role in global markets in a way that is genuinely differentiating, reset priorities on the sectors that will drive long term prosperity, and to rework how the UK collaborates to deliver trade and investment success. [In our first report](#) we set a four-point agenda for change; this report is the third in the series, and picks up on one of the action points: the need to view the UK's priorities through a trade lens.

www.pwc.co.uk/UKTrade

Achieving the UK's strategic goals through trade and investment

Trade and investment is inseparable from the UK economy at large. The UK receives the second largest amount of foreign direct investment (FDI) in the world after the US (Source: [UNCTAD](#)).

So however the UK economy changes as a result of the pandemic, what won't have changed is the importance of international trade and investment to the UK's overall prosperity and productivity. In recognition of this fact, the Office for Investment was established by the Government in November 2020 to support the landing of high value investment into the UK, which aligns with key government priorities, including a focus on key sectors, net zero, investment in infrastructure and advancing research and development.

In March 2021, the Government also published the Integrated Review of Security, Defence, Development and Foreign Policy (the Integrated Review). Entitled '[Global Britain in a competitive age](#)'. It sets out an ambitious definition of Global Britain, as well as a policy framework for what it means in practice. Its headline messages include that transnational challenges such as climate change and global health risks are threatening our shared security and prosperity, and the UK should become a 'science and technology superpower' to secure its relevance and prosperity. Trade and investment is integral to this ambition. While not articulated as an objective in its own right, trade and investment is a crucial enabler of our ability to drive influence internationally, as well as build prosperity at home.

And the recent refresh of the [GREAT Britain & Northern Ireland campaign](#) by the Prime Minister shows the importance that is being placed on international trade and investment.



Supporting UK businesses to trade internationally and promoting the UK as a place to invest will drive productivity and job creation across the country: in 2019-20 inward investment created over 56,000 jobs across the UK, of which over three quarters were outside London, and in 2018 foreign-owned businesses spent more on R&D (£13.4 billion) than domestically owned businesses (£11.7 billion)”

Source: UK Government policy paper '[Build Back Better: our plan for growth.](#)'

UK trade
contributes nearly
55% to GDP.
Source: DIT, UK Trade in
Numbers, February 2021

The infographic features a large, light grey teardrop shape pointing downwards, which contains the text. To the right of this shape are several overlapping circles and teardrop outlines, creating a decorative background pattern.

Exploring our priorities

In November 2020, PwC held a UK Trade Summit to explore the UK's role in this changing global environment and to develop an agenda for driving trade and investment. We gathered a wide range of different perspectives and ideas from more than 120 senior participants from across the public and private sectors, including representatives from all UK nations and regions, as well as some major international investors from the US, India, China and Europe.

Among our Trade Summit participants there was broad support for the Government's levelling up agenda, recognising that prosperity needs to be shared across all parts of the UK. There was also a clear recognition that the UK needs to rise to the challenge of becoming a net zero economy by 2050, if not earlier, 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 their 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. If international trade and investment is inseparable from our economy at large, it should be an inseparable part of the solutions to our strategic priorities.



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 UK trade Summit participant
(Strategy Director, global engineering consultancy).



Looking through a trade lens – some examples

To bring this to life, we have looked at some of the UK's strategic priorities, and considered what role trade and investment might play in their delivery.



1. Net zero through a trade lens

The Government has announced radical [new climate change commitments](#) to put the UK on course to cut carbon emissions by 78% by 2035, and to be a net zero economy by 2050.

The transition to net zero is both a global climate imperative and a trade opportunity, but the UK hasn'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 the industrial opportunity was missed. 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 the UK fighting a rearguard action to encourage foreign manufacturers to invest here, which will rarely realise the same economic benefit as a successful UK-headquartered manufacturer. So let's not make that mistake again, let's look at net zero through a trade lens and see if the UK can make it an economic success story as well as an environmental one.



Climate change is the biggest investment opportunity in the world. Energy has become clean, green and cheap. The North Sea presents a great opportunity for the UK to become a world leader in offshore wind power. Carbon capture, hydrogen, onshore wind, solar, retrofitting 20 to 25 million houses. This all adds up to a trillion-pound industry creating tens of thousands of jobs if we put in place policy and regulation to make these things happen”

(Nigel Wilson, L&G, [PwC UK CEO survey, 2021](#)).

A recent [PwC report](#) calculated that around £40bn of investment per year is required in infrastructure to set the UK on the right decarbonisation trajectory. This represents investment in infrastructure and technologies including electric vehicle charging, batteries (via gigafactories), microgrids, onsite clean energy solutions, CCUS (carbon capture, utilisation and storage) and hydrogen. In considering how best to support this investment – most of which will come from the private sector – the Government should be considering not only how to drive demand, but also how to drive the development of the UK supply base. For example, the Government has put in place a number of mechanisms relating to electric vehicles and charging infrastructure that drive both demand and UK supply. Grants for individuals looking to buy an electric vehicle, or to install a home charger, are successfully driving demand, but don't directly drive the development of the UK industrial base. In contrast, the Government's £400m Charging Infrastructure Investment Fund provides growth capital to UK-headquartered businesses looking to expand in this sector and, therefore, has a direct impact on UK industrial capabilities.

The Government now has the opportunity to drive both demand and UK supply of other net zero technologies. There is a window of opportunity to develop the capabilities of the UK supply base in these early-stage, but high potential, industries. If the Government can drive demand in a way which supports the development of the UK industrial base, this will create the export titans of the future, which will help the rest of the world decarbonise, whilst bringing jobs to the UK. If we don't consider the development of the UK industrial base in setting these policies, we will repeat the mistake of offshore wind, and be a net importer of net zero solutions.

Roughly half of the required investment in net zero infrastructure is in mature and relatively low risk technologies – making it appropriate for low cost, long term capital from infrastructure and pension funds. That investor set is very much international based. The less mature net zero technologies and infrastructure categories (for example grid scale batteries) are initially likely to be attractive to higher risk venture capital, private equity and corporate investments. That is an open market for investment, and the Government should focus on how to make some of those segments less risky and more attractive to investors, whether they are inbound or domestic.

‘Buy British, buy clean.’

The transition to net zero also provides an opportunity for us to promote the UK as a clean economy. Our decarbonisation trajectory is the fastest in the G7. In 2020, more of our electricity was generated from renewables than from fossil fuels, and with the right Government policy support, clean heat for industrial processes can soon be a reality. As consumers, companies and investors around the world wake up to the need for cleaner, more sustainable products and services, the UK can offer overseas customers and inbound investors a route to minimise their carbon emissions i.e. ‘buy British, buy clean’. There are other countries that are making great strides too, but the UK has a head start. The Government should seize this opportunity and continue to drive the clean industrial revolution, with ‘clean industry hubs’ creating world-leading capabilities and driving exports from across the UK.

Hosting COP26 and taking on the G7 presidency in a single year is an extraordinary opportunity for the UK, that is well aligned with the policy recommendations outlined above. Both are platforms to champion low carbon innovation and mark the UK as a top destination for foreign investment.



The extent to which the UK Government and its partners are successful in levelling up the UK and tackling inequalities will play a major role in determining what kind of nation we will be in the future”

(Levelling up the UK, The future of government, Strategy&)



2. Levelling up through a trade lens

Addressing regional wealth disparities across the UK is a key Government priority which was supported by attendees at our Trade Summit. Our own research has previously shown that UK GDP could receive an £83bn boost if regional productivity gaps are halved, showing the size of the prize (and the size of the disparity). But while much of the discussion around ‘levelling up’ is focused on new roads or railways, PwC’s Future of Government research shows the public’s concerns are closer to home and that social divisions have grown during the COVID-19 pandemic. After housing, the public believes the best way to even out geographical disparities and create a more equal society would be to help people into better paid jobs and invest in skills for the future.

This is directly aligned to the trade and investment agenda, as exporting companies are more productive and job-creating than businesses which do not export. And foreign-owned businesses are more likely to export than domestic business. So we need to make the link more strongly between trade and investment and levelling up, to drive this virtuous circle in areas of the UK that are perceived to be left behind.

The CBI also argues that trade offers one of the most powerful routes to post-pandemic recovery and that this means reaffirming London’s global investment status, while extending the scale and reach of UK inward investment to all UK regions and nations.

In March 2021, the Government launched its plan for growth to develop a new export strategy to align support for exporters with the plan for growth and sectoral priorities. As part of this plan, it announced the opening or expansion of UK Government trade hubs in Edinburgh, Belfast, Cardiff and Darlington. This regionalisation of export promotion is important as a visible demonstration of exports being ‘for everyone’, not just for London. The development of regional peer-to-peer networks in supporting regional businesses on their export journey is another welcome mechanism for driving an ‘export culture’ in less developed regions. Finally, in the Budget in March 2021, the Chancellor of the Exchequer also announced the creation of eight new Freeports in England – including seven outside London. This is a flagship policy for levelling up, with international trade and investment as the key economic driver.



The role of the City

The UK's professional services sectors are not only spearheading the drive to become net zero organisations, but are very well positioned to support their clients in meeting their own commitments. For example, the UK legal sector is already experienced at supporting organisations as their environmental, social, and corporate governance (ESG) reporting requirements extend to broader transparency and disclosure requirements that will have contractual and compliance implications. Business information providers are supplying data, ratings and analysis for investors. And banks are offering more ESG products, such as sustainable bonds, to clients while also advising on and arranging their financing needs, for example as vehicle fleets are converted to hybrid or electric. The combined platform of the City of London and all regions, should be ideally placed to respond to this opportunity.



PwC's own regional investments recognise the importance of levelling up. We've continued to grow our regional teams, with over 10,000 staff outside London now representing our commitment to inclusive opportunities for people from all backgrounds. Northern Ireland is PwC UK's fastest-growing region with Belfast recognised as our global centre for technology, digital advisory services and research and is a major exporter of technology and regulatory advisory services. Last summer we announced a new office opening in Belfast.



3. Other priorities through a trade lens



For me, the longer term strategy is about getting more companies export ready, with world class products and services."

PwC UK trade summit participant
(Regional director, business association)

We have brought out two key priorities in the sections above, but it is hard to think of any cross-cutting strategic priority the UK faces that would not benefit from considering how trade and investment might contribute. Further examples include the following.

- The skills and jobs agenda could be enhanced by developing training and qualification programmes related to exporting. The Department for International Trade (DIT) and its partner organisations already provide a range of training programmes for companies looking to export, but these are mostly focused on providing advice to

companies, rather than focusing on the personal and career development of individuals. The training concept could therefore be taken further to develop a series of recognised personal qualifications that companies would value when making recruitment decisions. This could help to make exporting a new career path, perhaps even working towards a 'chartered exporter' qualification that employers recognise and trust, in the same way as chartered engineers.

- The research and development (R&D) agenda could be enhanced by programmes of support to help early-stage technologies access new markets. As discussed in [our last report](#), we believe the UK needs to declare its innovation credentials more vocally than it has done in the past. The Integrated Review continues the welcome commitment to grow R&D spending to 2.4% of GDP, but achieving the objective of being a 'science and technology superpower' is not just about R&D, it's also about the ecosystem that allows new technologies to be exploited and commercialised. If export promotion was aligned to the R&D strategy, these investments would have a greater chance of commercial success (countering the long-held perception that the UK is great at developing new technologies but less good at exploiting them commercially).
- The R&D agenda might also be enhanced by focusing on developing the private capital markets in the UK. Our private equity ecosystem – including venture capital, growth capital and infrastructure fund managers – is already the most advanced market in Europe, but lags behind the US in some areas, in particular the availability of venture capital and growth capital to support early stage businesses. A programme to encourage US venture capital firms to establish operations in the UK, using the UK as their European headquarters, could bridge the gap between private funding levels in the UK and the US. Again, this could be aligned to the net zero agenda as the UK and some European markets are more advanced in decarbonisation technologies than the US.
- The small and medium-sized businesses (SME) agenda could be enhanced by expanding and developing programmes such as DIT's Export Academy and peer-to-peer networking services, which focus on providing personalised support and encouragement to small businesses that might otherwise think that exporting wasn't for them.

What should be the priority actions for business to help increase international trade and investment? (ranked #1 priority)

34%

Business need to invest more in innovation and digital skills

Source: PwC online survey

Recommendations

- Recognise trade and investment as a primary driver of jobs, skills and prosperity; treat trade and investment as a powerful lever for the successful delivery of key priorities as well as long term prosperity.
- Consider all key government priorities from the perspective of trade and investment; allow time and resources to consider trade and investment implications in the development of policy, not just as an ex-post addendum.
- Ensure that policies designed to stimulate growth in key sectors also consider how to develop the UK industrial base in exportable products and services.
- Recognise in particular that driving the decarbonisation agenda is an economic opportunity as well as a climate imperative; it is an opportunity to:
 - develop a clean-tech industrial base that can drive export growth
 - position the UK as a clean economy to attract inbound investors
 - promote UK exports as cleaner than those from competing markets.
- Success in the above will require the UK driving decarbonisation faster than other major European markets.



Trade and investment is a social as well as an economic imperative

We have provided some examples about how trade and investment can contribute to the UK's wider strategic priorities. We believe that if we are not looking at these priorities through a trade lens we are missing an opportunity.

In particular, the Government is setting an ambitious agenda for decarbonisation. But what will our industrial legacy be from the transition? Will we grow a handful of British unicorns that are world leaders in decarbonisation technologies? Or will we be importing the products we need from our European neighbours?

The next ten years will tell us. But if we look at decarbonisation through a trade lens we will have a much greater chance of securing inclusive prosperity into the long term.

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2021-06-09_RITM5456851