GLOBAL BRITAIN

ACCELERATING GROWTH: DRIVING TRADE AND INWARD INVESTMENT

FUTURE OF THE ECONOMY
WHERE BUSINESS BELONGS

British Chambers of Commerce
GLOBAL BRITAIN

FUTURE OF THE ECONOMY

WHERE BUSINESS BELONGS

This paper is part of a series of five policy areas which develop realistic recommendations for the future of the UK economy, and fresh and compelling proposals for government.

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FOREWORD
LORD HARRINGTON OF WATFORD

Lord Harrington of Watford

The world remains just as complex and challenging a place for the UK to navigate as it ever was. The nature of some of these difficulties may have changed over the years but the key components of our broad response should come as no great surprise.

It is vital for government, business, and wider society, to draw together with a cohesive plan to build business growth and achieve a more prosperous economy and society.

Earlier this year I published a review of inward investment which was accepted by the Chancellor at the Autumn Statement and endorsed by the Labour Party.

The review landed on three categories of policy that can combine to drive it forward. First, and most important, are the UK's macro conditions, such as our culture, our language and educational offer.

Second in importance is policy context. This means setting up taxation, planning and a skilled workforce to appeal to foreign markets. Finally, we need to look at the promotional activities we carry out, to sell the UK as an investment destination.

I am pleased that the BCC supports these guiding principles and that it endorses the specific recommendations in my report, as well as presenting insightful advice on a range of additional measures.

The UK has a tremendous story to tell the world, and how it is told, and by who, matters to the success of our economy. Combining the power of our diplomatic, cultural and economic networks, can make a significant difference to our trading and investment prospects.

But this must be matched by a laser-like focus and dogged determination to get the economic fundamentals right and sell the story of our success.

This report is a positive, welcome, and proactive contribution to the vitally, important debate on how to make the best of the UK's trade and inward investment opportunities.

I am delighted to endorse it, and I thank BCC for their vital contribution.

CHAIR'S INTRODUCTION
MICHAEL HAYMAN MBE DL

Michael Hayman MBE DL
Chair, Global Britain Challenge

How does Global Britain present itself on the international stage? In considering this question we have heard from many about a long-term optimism, but juxtaposed with short-term anxieties. This is a great country. And with it a great belief in our cultural capital, our talent, our institutions and our capacity for innovation.

But too often, we are seen as unpredictable and uncertain from the investors, innovators and industrialists who want to know where they stand and where things are going.

It matters because we live in a world of choice. And the UK is faced with competition from the entrepreneurial zeal of economies globally.

Trade has continued to change and develop, and we must change with it. Discussions about the spirit of national renewal have a global impact. This renewal requires a shift of mentality from one of an incumbent, to one of a challenger. Our position as a historic inward investment winner only continues if we can be a dynamic investment location of the future. While at home our businesses need to develop an export passion if we are to achieve the national growth mission.

What happens now matters: we need an unparalleled focus on commercial diplomacy, a revitalised message around what it means to be 'Great', and a mobilisation of the country's economy around exports.

With that in mind, we must reinvent the story of our future. What is our purpose and relevance in a demanding digital age? How we do we keep our seat at the top table when there are many other countries clamouring for a piece of the action? In short, why does 'Global Britain' matter right now?

The answers lie in reforming how we promote the UK, creating investment-ready opportunities and cultivating high-growth countries as partners, while taking politically tough decisions on post-Brexit issues such as regulation.

We must also offer more effective support for our small and growing firms, so that they are empowered to take advantage of the UK's trade agreements; and we need government to double down on the trade agenda.

This report examines these issues; the UK's appeal both as a location for inward investment and indeed, what we can offer through our exports. We have found that there is an urgent need to establish how we present the strengths of our reputational power assets – our education, culture, language, diversity, fairness and quality of life – in tandem with forward thinking policies and regulations. I speak with both inward investors and exporters, and know that despite the political flux, the demand for the talents of our nation is there.

Our report is the result of vibrant discussions on the future of the economy with the Global Britain challenge group, as part of the British Chambers of Commerce Business Council. I want to thank everyone who has contributed to it and commend the work of the BCC in its ambition to develop business-backed, pro-growth policies that support the UK economy.

The UK's is an international standing hard won, but even harder maintained. To do so and to thrive as a prosperous nation, we need a Global Britain. And this is a story not only of Britain's place in the world but the world's place in Britain.

insightsunit

BRITISH CHAMBERS OF COMMERCE INSIGHTS

5TH LARGEST TOTAL VALUE OF EXPORTS

IN 2022, THE UK RANKED FIFTH GLOBALLY FOR TOTAL VALUE OF EXPORTS

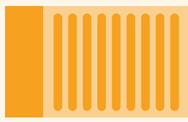
FOUR-FIFTHS OF UK SERVICES EXPORTS ARE SENT DIGITALLY

40% TOTAL UK TRADE VALUE FROM AIR CARGO

IN THE UK, ALTHOUGH AIR CARGO REPRESENTS JUST 1% OF TOTAL UK TONNAGE, IT ACCOUNTS FOR 40% OF THE TOTAL VALUE OF UK TRADE

UK PERFORMANCE ON GLOBAL METRICS (SELECTED EXAMPLES)

Metric	Year	UK position
Transparency International Corruption Perception Index	2023	20 of 180
Web: https://www.transparency.org/en/cpi/2023/index/gbr		
Global Innovation Index	2023	4 of 132
Web: https://www.globalinnovationindex.org/analysis-indicator		
World Bank GNI per capita	2022	$49,250 (23 of 195)
Web: https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=GB		



TOP 10

THE UK IS IN THE TOP 10 IN THE LINER SHIPPING CONNECTIVITY INDEX

EXECUTIVE SUMMARY AND RECOMMENDATIONS

SECTION 1: THE WORLD'S PLACE IN BRITAIN: FOREIGN DIRECT INVESTMENT (FDI)

Create the best possible conditions for FDI

- Government must provide a stable framework for business investment and growth. Recent years have seen unusual turbulence in British politics and the economy. It is vital that the UK enjoys a period of calm, to boost home-grown businesses and attract FDI.
- FDI decisions rely heavily on education, culture, language, diversity, quality of life, and other less tangible, but no less important, factors. The UK is amazingly strong in all these areas and must do more to pitch them to the global business audience.

Improve the business environment to attract FDI

- Research is clear that to attract inward investment there must be a positive and clear business environment. This means tax incentives, appropriate regulation, availability of a skilled workforce with a rapid work visa turnaround time and a planning system that considers the investment implications of decisions. The government must continue to work constructively with business to create these conditions.

Implement the Harrington Review and speed up planning

- The BCC fully supports the Review's conclusions and it is encouraging that the government has committed to taking forward many of its conclusions. It should fully implement the proposals in the report, including appointing a cross-departmental Minister for Investment attending Cabinet and embedding the Office for Investment at the heart of government.
- Accelerating grid connections and improving resources for planning authorities are vital priorities for the whole broader business environment in the UK, as well as providing a boost to greenfield FDI.

Implement reforms to further boost FDI

- Secure best value from promotion activity by focussing on countries which are the largest sources of inward investment, such as the US, India, EU countries, Canada and Australia. Carefully target promotional resources to deepen existing relationships, while also focusing on the highest growth potential markets.
- Take a targeted market and sector approach to securing FDI building on the High Potential Opportunities programme.
- Work with business to refresh the 'Great' campaign to ensure it is as effective as possible.
- Set up an FDI Council to improve public-private partnership on FDI, recognising the increasing role of private sector in securing inward investment.
- Convene an international network of cultural, societal, commercial and business networking bodies into a cohesive "Team UK" to promote the country's offer to the world.

SECTION 2
BRITAIN'S PLACE IN THE WORLD

Boosting exports

Services

- Reduce restrictive business mobility provisions, increase mutual recognition of professional qualifications, and remove regulations restricting services companies' entry into fast growing key export markets, such as the Americas and Asia-Pacific.
- Secure more open access for Mode 5 provision of services embedded with goods.

Goods

- Reduce technical, fiscal, and regulatory barriers to trade and place renewed focus on digitalisation of border processes and trade documentation at global levels.

Institutional changes

- Create an Exports Council, led by Ministers and key stakeholders, drawing on trade, sectoral and economic data to review, advise and recalibrate the Export Strategy.
- Expand the SME trade preference utilisation unit within the Department for Business and Trade to cover all trading partners the UK has a free trade agreement with, and boost export advice to SMEs.
- Work with business to upscale UK trade shows and promotion. Develop localised export strategies to harness the strengths of regions and nations.
- Retain and build upon the strengths of the UK Trade Envoy network (appointed by the Prime Minister) to drive investment, closer business and trade links with strategically important trading markets for the UK. Also strengthen the role trade envoys for the nations and regions of the UK can play in improving export and investment performance with key partners overseas.

Safeguarding critical supply chains

- The government should evaluate where future trade policy agreements can deliver the goals of the Critical Imports and Supply Chain Strategy, for example reaching a critical minerals agreement with the US, or by upgrading the UK's trade agreement with Chile.

Enabling the UK to retain its world-class status in logistics

- As the UK continues to adapt to its new trade and logistics requirements, it is vital that the government works closely with the whole supply chain, including shippers, logistics providers, customs agents, and their customers, to minimise disruption and help ensure the UK regains its position at the top of the World Bank logistics scores.
- The UK government should prioritise our trade and customs relationship with the European Union (EU), implementing our proposals for improving the TCA agreement as set out in our 'TCA: Three Years On' document.

Deepening UK trading relationships

- Improve UK trading terms with our largest trading partner, the European Union.
- Ensure the Atlantic Declaration secures tangible benefits for business e.g. internationally set standards being reflected in regulation by the USA, UK and EU.
- Successfully conclude ratification of the UK's Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) Accession Protocol and play a constructive role in the review of CPTPP now underway.
- Complete India free trade agreement negotiations if a balanced agreement on market access for UK goods and services can be obtained.
- Progress free trade negotiations with the Gulf Co-operation Council and negotiations for upgraded bespoke UK agreements with Mexico, Canada, South Korea, Israel and Switzerland.
- Achieve good start to trade negotiations with Turkey in 2024 and restart bilateral trade negotiations with Canada at the earliest opportunity.
- Negotiate future free trade agreements with Thailand and Indonesia and digital trade agreements with the USA and Brazil.
- Ensure that UK businesses are extracting the maximum advantages of trade agreements - through focus on take-up and non-tariff barrier monitoring and reductions as agreements are implemented.

Ensuring post-Brexit regulation meets the needs of business

- On traded goods, there is good sense in keeping business costs as low as possible by mirroring the primary regulations adopted by the EU.
- Stronger arrangements for regulatory co-operation between the EU and UK should be established to minimise business compliance frictions with new rules.
- On financial services, the UK should continue to seek a distinctive regulatory approach which is appropriate to its capital and financial markets (and continued growth in associated services), and its financial stability. This should be done within the scope of its commitments as a member of the Organisation for Economic Cooperation and Development (OECD) and the Bank for International Settlements.
- Decisions on regulation should be taken after consideration of the impacts on UK importers and exporters.
- In sectors that have not previously been greatly regulated, such as AI and quantum computing, a balance should be struck between industry self-regulation, matching the approaches taken by leading trading partners, or taking divergent regulatory positions; whichever best help UK growth.
- Regulations should be subject to scheduled reviews to check they are working as intended and encouraging investment. Key factors should be predictability, certainty, and facilitation of growth in fast-evolving economic sectors. Approach on future regulatory decision making should be informed by the industrial policy context.

Deliver planned reforms to increase domestic investment in UK firms

- Adopt a balanced approach to implementing the Mansion House commitments to leverage equity investment for long-term growth while mitigating the risk associated with unlisted equities.
- Measures to support the domestic scaling of growth businesses are needed to foster innovation and enterprise within the UK and mitigating risks associated with global geopolitical factors.

EXECUTIVE SUMMARY

This report summarises the approach of the British Chambers of Commerce to helping the UK grow and prosper as an independent nation. It covers an analysis of the world's place in Britain, summarising our history in attracting foreign direct investment (FDI) and proposing recommendations to improve our impressive track record.

The first recommendation is to ensure that the fundamental benefits of the UK economy - such as its stable policy framework, and our cultural and educational offer are both built upon and expressed clearly. These form the bedrock for investment decisions.

Second, we call for continued action by government to create a positive business environment - including tax incentives to drive investment, an effective skills policy and planning rule improvements. These measures drive overseas funding and domestic growth.

Thirdly, the report presents recommendations on attracting overseas investment, building on the Harrington Review, which we fully endorse. We urge its implementation in full, including changes in machinery of government to embed the Office for Investment at the heart of government policies on growth. Our proposals include making best use of promotional activity by refreshing and re-energising the "Great" campaign; combining geographic promotion with place-and-sector based offers; and launching a new FDI Council to bring government, business and wider society together, to drive the agenda forward.

Finally, we call for a greater role for commercial and cultural diplomacy. By drawing together our world-leading cultural and diplomatic institutions; our fantastic network of multinational businesses and the network of international British Chambers of Commerce, to create a new 'Team UK' to facilitate further growth.

The second section of the report explores Britain's place in the world. It summarises policy changes to support growth in exports, such as helping businesses make use of trade agreements. It then looks at how Britain's air, maritime and logistics sectors connect traders to the world, and propose ways to help the UK retain its global status. It also examines how the UK can cement its trading relationships, by concluding the next wave of agreements and deepening existing trade relationships. We also propose building upon the strengths of approaches with proven success, such as the Prime Minister's Trade Envoys to key markets, and the role of envoys from the nations and regions of the UK

The report then sets out guiding principles on how the UK should approach domestic regulation. It studies their impact on international trade, including when to mirror and when to diverge from EU regulations, to get the best benefit for businesses and the wider economy. Finally, we look at the crucial issue of attracting domestic investment into UK firms. Here we explore how policy and voluntary approaches are combining to begin shifting the dial. Examining a range of measures, which when fully implemented, will lead to more firms retaining their footprint and growth potential in this country.

In conclusion, we encourage governments, stakeholders, and the business community to review, absorb and reflect on these recommendations. They propose positive, impactful and practical steps that business, cultural institutions, government and wider society can take together, to facilitate growth and development in these challenging times.

DRIVING TRADE AND INWARD INVESTMENT

SECTION 1
THE WORLD'S PLACE IN BRITAIN: FDI

1.1 OVERSEAS INVESTMENT IN THE UK

Background and definitions

The OECD defines FDI as an important channel for the transfer of technology between countries, it promotes international trade through access to foreign markets, and is an important vehicle for economic development[i]. In the UK, where business investment is lower than comparable economies, FDI plays an important role in closing the investment gap[ii] and is a significant contributor to job creation and economic growth.

There are various forms of overseas investment and different ways of collecting statistics. As well as investment, this includes international Mergers and Acquisitions activity, capital flows across borders and the expansion of foreign-owned companies already located in the UK. There are also forms of investment from overseas sources such as Venture Capital that are not included in official statistics as FDI (see Appendix for more information). This section briefly summarises trends in FDI and other forms of inward investment, before moving on to explore ways to improve the UK's investment offer to the world.

Foreign investment in the UK

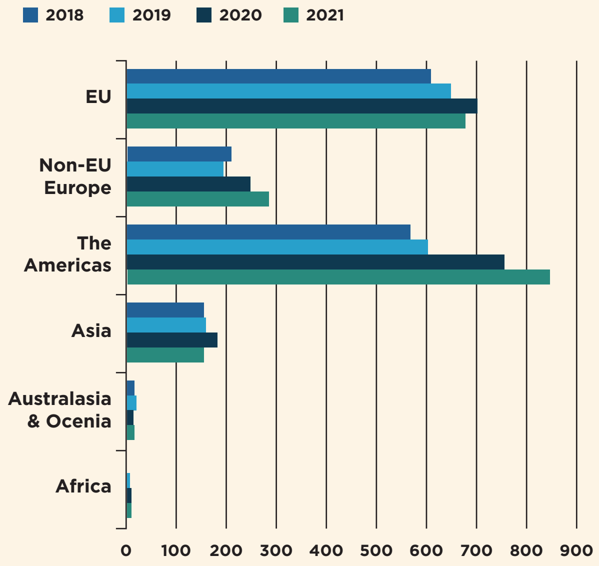
The UK has the third-highest stock of assets owned through FDI in the world, behind only the United States and China. This stock more than doubled between 2012 and 2021, rising from £0.9 trillion to £2 trillion. As a proportion of GDP, the UK's FDI stock is the highest in the G20, at 88% in 2022[iii]. The United States is the largest source of direct investment into the UK. Thousands of U.S. companies have operations in the UK and the UK also hosts more than half of the corporate headquarters of American-owned multinational firms in the Europe, Middle East and Africa (EMEA) region[iv].

FDI from the United States has increased by £90.4 billion between 2020-21, and from non-EU Europe by £37.3 billion. ONS analysis suggests this was mainly from a few companies with large changes in professional, scientific and technical services with the United States[v]. The UK's FDI position with Asia and the EU decreased by £26.3 billion and £20.3 billion over the same time period. This was driven by lower values for Japan and Belgium respectively, which in turn resulted from much lower FDI by a few companies (see chart above).

Inward FDI positions with the Americas and non-EU Europe were the main continent increases in 2021 compared with 2020.

FOREIGN DIRECT INVESTMENT INWARD POSITIONS BY PARTNER CONTINENT

2018 TO 2021



Source: ONS

FDI figures: Projects and jobs

The figures above illustrate how much FDI statistics vary due to activities by a few large companies. A clearer measure of UK attractiveness to overseas investment is provided by the government's annual figures on FDI projects and jobs created. In the latest figures, for FY 20-21 through to FY 22-23, the number of FDI projects in the UK saw a modest increase, but the number of jobs created per project improved substantially (see table overleaf).

Professional services firm, EY, highlight this trend in their annual FDI review, arguing that this is due to a policy shift by UK national and regional government agencies which currently focus on securing higher value from FDI projects rather than chasing volume[vi]. EY also note that the UK has the highest FDI jobs total in Europe, at 46,779, ahead of second-placed Spain with 39,104 and France on 38,102[vii].

FDI PROJECTS AND JOBS

	20-21	21-22	22-23
FDI Projects	1,538	1,589	1,654
FDI Jobs	55,319	84,759	79,549
Jobs per project	36	53	48

Source: DBT Inward Investment Results 2022-23.

FDI Projects and Jobs: Sector Analysis

Government figures show that the software and computer services sectors have been the most important contributor for FDI over the past three years, with 23% of all projects and 25% of jobs created. Financial services, transportation, environmental, and food and drink sectors were other major contributors (see Appendix for further details)[viii]. These results reflect activity from successive governments which have focussed on promoting both the sectoral and regional strengths of the UK, as an investment location.

Global trends

The UK is far from alone in seeking FDI. Competition for global investment is fierce and foreign direct investment flows, in general, are declining worldwide. The US Inflation Reduction Act, introduced in August 2022, is already altering the dynamics of FDI. Figures from FDI Markets showed that the UK global market share of FDI peaked in 2021 at around 8% and has decline since then to around 6%, with the USA share increasing to around 12% over the same period[ix]. With this context in mind, it is more important than ever that the UK has a compelling offer for global investors[x].

Additional forms of overseas capital investment

As noted earlier, overseas investment from Venture Capital investors, and so-called "Large Capital" (overseas institutional investment into big capital projects in real estate, infrastructure and energy) do not meet government criteria for FDI and are recorded differently[xi] with fewer details available. Both are significant sources of funding, however. Venture Capital investment worth £1,239 million landed in 2022 to 2023, and Large Capital investments worth £17,253 million were made in the same period, with a further £25,777 million of commitments to invest (see table opposite)[xii].

VALUE OF VENTURE CAPITAL AND LARGE CAPITAL OVERSEAS INVESTMENT FY 2018-19 TO FY 2022-23.

		Large Capital Investments	
	Venture Capital Investments (£m)	Investments (£m)	Commitments to Invest (£m)
2018 to 2019	583	3,732	7,373
2019 to 2020	1,031	4,023	11,151
2020 to 2021	773	3,821	7,503
2021 to 2022	960	4,683	13,911
2022 to 2023	1,239	17,253	25,777

Source: Department for Business and Trade[xiii].

1.2 THE FUNDAMENTALS: WHAT MAKES THE UK A GOOD INVESTMENT DESTINATION?

The UK has strong fundamentals, and an exceptionally strong record of attracting foreign investment. The United States' government 'Investment Climate for the UK'[xiv] lists a wide variety of positive points, including:

- Few impediments to foreign ownership.
- Legal, regulatory, and accounting systems are transparent and consistent with international standards, and the legal system provides a high level of protection.
- Private ownership is protected by law and monitored for competition-restricting behavior.

There are various metrics to help compare different countries' investment climates (see table to the right). These illustrate that the UK, while not perfect, is highly competitive on the world stage, particularly on its status as an incubator of innovation.

UK PERFORMANCE ON GLOBAL METRICS (SELECTED EXAMPLES)

Metric	Year	UK position
Transparency International Corruption Perception Index	2023	20 of 180
Web: https://www.transparency.org/en/cpi/2023/index/gbr		
Global Innovation Index	2023	4 of 132
Web: https://www.globalinnovationindex.org/analysis-indicator		
World Bank GNI per capita	2022	$49,250 (23 of 195)
Web: https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=GB		

Another highly significant driver of FDI is our culture, language, educational opportunities, and lifestyle. This point is well made in the 2022 EY attitudinal investor survey: 'The UK remains favoured by investors on important criteria including the size of its domestic market, the quality of education, and the quality of life, diversity, culture, and language'. A particularly important element of the UK's offer to the world is Higher Education – see case study on next page.

CASE STUDY

UNIVERSITIES AND GLOBAL BRITAIN

The UK has some of the best universities in the world in research, skills development, innovation, and enterprise. It has 18 of the top 100 international universities by research spend and research standing, which contribute to the British economy in various ways:

Direct economic benefits

In 2021/22 international students contributed £41.9 billion to the UK economy through their tuition fees and spending in local areas[xv]. The Graduate visa, or Post Study Work visa, and other visa routes provide opportunities to retain students in areas challenged by supply of skilled workers.

Attracting inward investment

A strong higher education system can attract foreign investment and businesses to the UK. Universities leverage their international connections to attract major foreign direct investment into R&D programmes that catalyse innovation-led growth and create skilled jobs across the local economy[xvi].

Soft power and global influence

The UK's higher education sector contributes to the country's soft power, enhancing its image as a global leader in education, research, and innovation[xvii].

UK educators overseas

There is also the impact/income from programmes that UK universities run abroad. In 2021–2022, 558,215 students were studying for awards from 162 UK providers in 230 countries and territories through Transnational Education – a 9.3% increase from the previous year[xviii].

The UK's international reputation must not be taken for granted, however. There has been unusually high levels of political and economic uncertainty in recent years which has had a negative impact on FDI performance. Analysts at EY concluded that the UK's declining share of all European FDI projects 'likely reflects the political instability and uncertainty experienced in 2022, plus a trend towards net outbound project flows since Brexit[xix]'.

Things have improved since 2022, and, in its 2023 review of the UK, the IMF welcomed the financial stability intervention by the Bank of England, the improved political stability provided by the Windsor Framework, and the prospect of longer-term economic signals from the Autumn Statement[xx]. The points made above echo the Harrington Review's view on inward investment which said that the 'macro context', including factors such as economic stability, language, and culture, is the most important component of FDI decisions[xxi].

RECOMMENDATIONS

CREATE THE BEST POSSIBLE CONDITIONS FOR FDI

- Government must provide a stable framework for business investment and growth. Recent years have seen unusual turbulence in British politics and the economy. It is vital that the UK enjoys a period of calm, to boost home-grown businesses and attract FDI.
- FDI decisions rely heavily on education, culture, language, diversity, quality of life, and other less tangible, but no less important, factors. The UK is amazingly strong in all these areas and must do more to pitch them to the global business audience.

1.3 IMPROVING THE BUSINESS ENVIRONMENT TO ATTRACT FDI

The second most important factor to encourage FDI is the overall business environment, especially removing barriers to investment. This includes the availability of a skilled workforce; certainty in securing visas (with a rapid turnaround); efficient planning consent processes, faster grid connections and power supplies; competitive business taxation; banking services; effective regulatory frameworks and access to growth finance.

A full review of these issues is outside the scope of this paper; but these are the fundamental drivers of business growth, and the subject of BCC's wider policy, research and advocacy work. Broadly speaking, the business environment has stabilised and improved since the Autumn Budget in 2022. There is now an ambitious capital allowance programme to incentivise business investment; firm commitments and funding to improve the electricity grid, and energy market reform to reduce the volatility of prices.

However, our research tells us that, aside from inflation, interest rates and a lack of policy consistency towards business, there remain significant barriers to securing FDI. Government needs to address them all, but BCC research has identified two areas which are currently constraining growth. These are the availability of an international skilled workforce (linked to ready access to visas) and efficient planning rules (including access to power). Alongside these is the pressing need to ensure that Net Zero targets are met, and that businesses take full account of the opportunities of new technologies[xxii].

RECOMMENDATION

IMPROVE THE BUSINESS ENVIRONMENT TO ATTRACT FDI

- Research is clear that to attract inward investment there must be a stable, positive and clear business environment. This means tax incentives, appropriate regulation, availability of a skilled workforce, (including a 14-day work visa turnaround), and a planning system that considers the investment implications of decisions. The government must continue to work constructively with business to create these conditions.

1.4 IMPROVING POLICIES AND PROMOTION TO ATTRACT INWARD INVESTMENT

The UK has developed various policy and promotional initiatives in recent years designed to boost inward investment. These include two place-based policy initiatives, Freeports and Investment Zones, a sectoral approach to championing clusters and assets and an extensive promotional network, led by the 'Great' campaign, aiming to boost awareness and ultimately investment in the UK. This section of the paper will propose ways forward to boost FDI, building on the Harrington Review, and make several recommendations on how to present the UK's investment offer to the world.

Improving the greenfield FDI offer

A recent landmark review into greenfield FDI[xxiii], led by Lord Harrington, analysed government facilitation and promotion, 'concierge' services, employment visas and targeted tax breaks. The review found that once renewables were excluded, levels of UK greenfield FDI have remained at best flat since the 2008 global financial crisis[xxiv]. On this basis, the review called for significant changes to government institutions and planning rules. These included the creation of a new Investment Committee reporting to the Cabinet; using regional political structures to drive place-based development; boosting the capacity of the Office for Investment and reforming planning rules to create investment-ready sites for investors.

These points echoed the views of Chambers of Commerce experts working on FDI projects, who have repeatedly found planning constraints rarely help and sometimes hinder the delivery of deals and projects. A specific example is the development of new Data Centres (DCs), which are needed to power Britain's digital infrastructure and generate vast investment flows. However, the decision to locate a DC, and other strategic investment sites, often rests with local planning authorities who often have constrained resources which can delay processing of complex cases.

The Chamber Network calls for planning consent-in-principle to already be in place when making pitches to overseas investors; a point also made in the Harrington review. More broadly we call for better resourcing for planning authorities to improve turnaround times for business applications.

RECOMMENDATION

IMPLEMENT THE HARRINGTON REVIEW AND SPEED UP PLANNING

- The BCC fully supports the Review's conclusions and it is encouraging that the government has committed to taking forward many of its conclusions. It should fully implement the proposals in the report.
- Accelerating grid connections and improving resources for planning authorities are vital priorities for the whole broader business environment in the UK, as well as providing a boost to greenfield FDI.
- Make changes in the machinery of government to embed the Office for Investment in a central role at the heart of government as an engine of UK growth and private investment and with a cross-cutting Minister for Investment sitting in Cabinet

Country level promotion: Build on what works and find new sources of growth

To drive best value from FDI promotion, the government and business should focus resources on countries that are consistently the largest sources of investment into the UK. Countries including the US, India, France, Germany and the Netherlands, as well as Australia and Canada, all have great appetite to invest more in the future.

It is unlikely that, for various reasons, promotion to China is going to be as effective in building new investment as promotion to India, which is the biggest growth area of FDI to the UK. In addition, the Gulf States are already a very significant investor in UK infrastructure and should be an important geographic focus. The government should carefully target its promotional resources to deepen existing relationships, while focusing on the highest growth potential markets.

Employ a targeted sectoral approach

While FDI promotion can work as a blanket approach to raise awareness of the UK, it is also crucial to target sectors, sub-sectors and individual foreign-owned companies which will add the most value to the UK economy and its supply chains. This concept was used effectively in the Covid-19 pandemic to attract vaccine manufacturers and should be developed further (see case study below), and by the government's High Potential Opportunities programme which showcased sectors such as healthcare, energy and electronic devices across the UK[xxv].

CASE STUDY

THAMES VALLEY CHAMBER AND MODERNA

Thames Valley Chamber of Commerce was an instrumental part of the wider government team that helped secure the Moderna investment into the UK.

Without public subsidy, the Chamber has actively worked under contract and within DBT for over 10 years, delivering FDI. Among the most significant investment projects it has been involved in was the Moderna Innovation and Technology Centre (MITC).

Working within a cross HMG project team, this included helping shape and present the initial client proposal showcasing the UK, identifying suitable sites, supporting the planning application process and, throughout, liaising with local planning authorities and stakeholders before, during and after key stages.

The Chamber has also maintained an essential ongoing relationship with Moderna. It has joined the Chamber, chairs the Local Skills Improvement Plan for Oxfordshire and is an active participant in the Thames Valley's health and life sciences working group (showcased as good practice in the Life Sciences Vision) and wider Chamber activities.

Life sciences in general has benefited from a long-term partnership (the Life Sciences Vision) between government and industry strategy to improve the UK's attractiveness for investment in this sector. Launched in 2021, this includes strategies to attract large capital funds and sovereign investment; improvements to regulatory processes; a strategy to attract skiled staff, competitive tax treatment and policies to boost domestic manufacturing[xxvi].

Renewables has also been a successful sector for inward investment, especially offshore wind. which accounts for nearly a third of the UK's total greenfield FDI projects[xxvii]. As we argue in our Green Innovation report, government should build on the success of offshore wind by developing a wider "Green Industrial Strategy" to encourage both domestic and overseas investment into areas such as Sustainable Aviation Fuel (see case study below) and Carbon Capture and Storage, where the UK has the potential to be world-leading in other (non-renewables) sectors[xxviii].

Other sectors that have successfully invested into the UK include the film industry; Data Centres; and the broader life-sciences sector, amongst others. If a structured, targeted sector strategy can be combined with the planning rule changes proposed by the Harrington Review, it could lead to a compelling set of opportunities that are already primed for overseas investment.

Build on the success of the 'Great' campaign

The 'Great' campaign should be refreshed and strengthened, in partnership with the business community. The campaign plays a hugely positive role in promoting opportunities to invest, trade and study in the UK. It is globally recognised and lands well with overseas audiences.

But there should be better engagement with the internatonal British Chambers of Commerce Network, as well as national and sectoral business representative bodies in the UK, to test how messaging lands with domestic and overseas audiences. There should also be further development of sub-branding, to add sectoral as well as place-based approaches. There is a case, for example, to develop a 'Great and Good' banner to focus on the burgeoning role of UK firms in green innovation.

CASE STUDY

SUSTAINABLE AVIATION FUELS

Britain has a world class aviation industry, which is firmly committed to reaching net zero by 2050 by accelerating the use of SAF combined with other lower carbon technologies. This commitment provides Britain with the opportunity to create a globally competitive sustainable aviation sector.

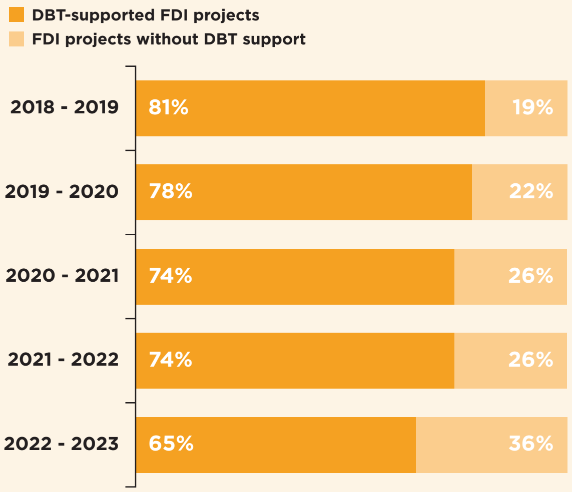
Evidence suggests that investors are seeking certainty in longer-term domestic demand before investing capital in the 14 SAF plant locations across the UK. These sites, located in Scotland, Wales, the North East and the North West, have exiting infrastructure and skills to support a range of innovative green technology that converts households and industrial waste products into SAF and other sustainable products.

A successful home grown SAF industry will help the UK secure sustained economic growth and will generate 60,000 jobs across all UK regions and nations, worth £10 billion in GVA benefits by 2050. These would be high-quality, long-term green jobs. Government intervention via a price support mechanism will support emerging sustainable industries to be economically competitive.

An FDI Council is needed to boost public and private sector cooperation

It is important to recognise, and take advantage of the fact, that over time the proportion of FDI projects landed with central government support has fallen substantially, from 81% in 2018-19 to 65% in 2022-23 (see chart below)[xxix]. With stretched public sector budgets, there is more need than ever for public-private cooperation in attracting firms to the UK. The government should set up an FDI Council with firms and representative bodies, who work in the FDI space, to explore how to maximise public-private partnerships to drive inward investment.

FDI PROJECTS WITH AND WITHOUT DBT SUPPORT



Source: DBT inward investment results 2022-23

Make best use of cultural and commercial diplomacy

The UK's cultural and societal offer is one of the most compelling attractors of overseas investment, and our Commonwealth links are vital growth markets for FDI as well. The UK is fortunate to have a wide network of international institutions and partners who can play an informal, but important, role in supporting a positive view of UK culture and society. These include the British Council, the Commonwealth network, the Prince's Trust International, and more.

Commercial diplomacy is also a strength for the UK, due to the comparatively large number of multinational companies based here. These institutions broadcast a positive image of British businesses to the world, which helps build their profile and positive reputation for investment. The British Chambers of Commerce International Network is an agent of both cultural and commercial diplomacy, driving two-way commerce and trade between overseas markets and the UK.

The government should take a more proactive role to draw together cultural, societal and business stakeholders and convene a network of 'Team UK' to work together to promote the UK overseas. This could be delivered by the Foreign Office using existing embassy and consulate infrastructure.

RECOMMENDATIONS

IMPLEMENT FURTHER REFORMS FURTHER BOOST FDI

- Secure best value from promotion activity by focussing on countries which are the largest sources of inward investment, such as the US, India, EU countries, Canada and Australia. Carefully target promotional resources to deepen existing relationships, while also focusing on the highest growth potential markets.
- Take a targeted market and sector approach to securing FDI building on the High Potential Opportunities programme.
- Work with business to refresh the 'Great' campaign to ensure it is as effective as possible.
- Set up an FDI Council to improve public-private partnership on FDI, recognising the increasing role of private sector in securing inward investment.
- Convene an international network of cultural, societal, commercial and business networking bodies into a cohesive "Team UK" to promote the country's offer to the world.

SECTION 2
BRITAIN'S PLACE IN THE WORLD

2.1 THE TRADING WORLD CONTEXT

Global trade has been through a torrid time, marked by economic shocks from the pandemic, the war in Ukraine and geopolitical instability[xxx]. This has been compounded by the impacts on global shipping and logistics from the crisis in the Middle East[xxxi]. The results have been higher inflation and energy prices, leading to patchy growth, even if a hard economic landing may be avoided[xxxii]. Many industries have had to review their access to resources, as long-standing supply chains come under pressure[xxxiii].

A number of barriers to international trade were created in 2023, albeit measures facilitating easier trade also rose[xxxiv]. The geopolitical climate has hampered open trade. There has been a move towards more unilateral measures by the world's three largest trading actors - the US, EU and China - in regulation, tariffs and subsidies. Progress towards a multilateral e-commerce agreement, through the World Trade Organisation (WTO), has slowed and even been reversed[xxxv]. Commitment by some global actors to resuscitate processes at the WTO, to enforce the rules-based global trading order, is still uncertain.

There have also been positive developments. These include agreement by 70 countries on the Domestic Regulation in Services initiative[xxxvi], progress in the UK on trade document digitalisation[xxxvii], smoother border processes in many countries due to digital economy[xxxviii] and free trade agreements, and economic growth through the removal of non-tariff trade barriers[xxxix].

But, the overall picture is that UK trade is now facing a climate of far more powerful protectionist headwinds than has been the case for a generation. Against this backdrop, the argument for open trade to generate prosperity, productivity and investment has never been more important, and is one the UK must continue to advance globally.

2.2 TRADE PERFORMANCE

Exporting is the backbone of the UK economy. In 2022, the UK ranked fifth globally for total value of exports. Exports added roughly £900 billion to the economy, supporting around 300,000 businesses[xl]. However the UK's goods export volumes performance (excluding inflationary effects) has been weak in the past few years, underperforming the G7 average by 15% since 2020 (see chart)[xli].

The UK Office for Budget Responsibility found trade intensity in the UK economy had fallen by 1.7% by 2023 compared with 2019 - whereas the average increase in trade intensity across the G7 over the same period was 1.9%[xlii]. The Office for National Statistics trade data for 2023 revealed a 4.6% drop in chained export volumes (removing inflationary effects) in goods for the year, whereas services chained export volumes rose by 5.3%[xliii].

The UK's position in trade in services is a stronger one in recent years, with a growth in export volumes of around 7% since 2020[xliv], but issues around restrictions in the EU market, from new trading terms, still provide stronger headwinds to service exporters than a decade ago.

2.3 EXPORTS: TRENDS AND RECOMMENDATIONS FOR GROWTH

The UK's major success story over the past two decades has been strong growth in exports of its services across Europe, North America, and Asia[xlv]. This has been led by financial services, but, increasingly, professional and other business services sectors are assuming a larger share of UK exports[xlvi]. As prosperity grows in Asia-Pacific in particular[xlvii], strong markets for UK services will continue expanding.

Four-fifths of UK services exports are sent digitally, so maintaining multilateral, duty-free electronic transmission of goods and services across the world for the long-term is a priority[xlviii]. The greatest barriers for services exports are those caused by restrictive business mobility provisions, lack of mutual recognition for professional qualifications, and regulations restricting entry by overseas companies providing services. Free trade agreements can ease some of this and are effective at placing market access on a firmer legal footing. But more plurilateral or multilateral measures can be equally successful in removing regulatory barriers. It also important to recognise that some services are intrinsically linked with certain goods. These are Mode 5 services, and the UK should seek to promote access[xlix] for these whenever possible. This would future-proof entry to markets for our innovative exporters.

On goods exports, areas of growing demand are likely to be in pharmaceuticals, medical devices and technologies, and advanced manufacturing products, including aerospace. The UK should focus on reducing technical barriers to trade and making customs procedures more efficient. This can be done through market access work, bilaterally and multilaterally, as well as by free trade and digital trade agreements with like-minded partners. Technology and digital measures can go a long way to reducing costs for exporters. The UK should encourage its trading partners to adopt the principles of electronic trade into their own customs processes. It should also engage strongly with other states introducing Single Trade or Customs Windows - to make them as interoperable as possible.

There also needs to be a more effective e-commerce strategy to grow trade. Government must focus on delivering this with the private sector, particularly SMEs. While defending key economic interests from unlawful or unfair overseas state action, the UK should seek to push back on an increasingly protectionist approach to global trade. It is in everyone's interests to avoid a spiral of higher tariffs and unsustainable subsidies. Greater integration of trade policy priorities with diplomatic, economic, and strategic business policy goals would yield important benefits in terms of growth and sectoral export success.

The government's Export Strategy needs a reboot to boost its effectiveness. An Exports Council should be created – led by Ministers and key stakeholders, and drawing on trade, sectoral and economic data to review, advise and recalibrate the Strategy. Too many UK businesses are unaware of the link between exports and profitability, and this must change. As many as 6.5m full-time equivalent jobs in 2016 were directly or indirectly supported by the positive economic effects of exports[l].

The Department for Business and Trade should expand its SME trade preference utilisation unit to cover all trading partners the UK has free trade agreements with. It should also include those key markets where it trades on non-preferential terms, such as the US, China, and India. This would help SMEs extract maximum value from the UK's trading relationships.

More must be done to showcase the high-quality goods and services the UK produces. Government and business must combine to upscale the standard and breadth of our trade shows, as well as the quality of the UK's trade promotion presence and output.

The UK government should develop localised export strategies that harness the strengths of individual regions and nations. For example, the West Midlands has a strong industrial base and large, thriving diaspora communities. Government should also use its convening and procurement roles to establish, in collaboration with the private sector, better advice on regulatory and fiscal barriers to trade in overseas markets.

RECOMMENDATIONS TO GOVERNMENT
HOW TO BOOST EXPORTS

Services

- Reduce restrictive business mobility provisions, increase mutual recognition of professional qualifications, and remove regulations restricting services companies' entry into fast growing key export markets, such as the Americas and Asia-Pacific.
- Secure more open access for Mode 5 provision of services embedded with goods.

Goods

- Reduce technical, fiscal, and regulatory barriers to trade and place renewed focus on digitalisation of border processes and trade documentation at global levels.

Institutional changes to boost exports

- Create an Exports Council – led by Ministers and key stakeholders, drawing on trade, sectoral and economic data to review, advise and recalibrate the Export Strategy.
- Expand the SME trade preference utilisation unit within the Department for Business and Trade to cover all trading partners the UK has a free trade agreement with, and boost export advice to SMEs.
- Work with business to upscale UK trade shows and promotion. Develop localised export strategies to harness the strengths of regions and nations.
- We should build upon those parts of export promotion which add value to UK trade and growth, such as the Trade Envoys to key markets, appointed by the Prime Minister, and strengthen the role of trade envoys for the regions and nations of the UK.

2.4 SAFEGUARDING CRITICAL SUPPLY CHAINS

The recent publication of the Critical Imports and Supply Chains Strategy[li] was a step forward but business engagement with the new Critical Imports Council will be vital. In terms of UK manufacturing trade, 75% involves imports, as well as exports, to assemble or manufacture goods[lii].

The premise of the new strategy is correct – the UK needs to adjust to the world of the 2020s, but widespread onboarding of supply chains here is not desirable nor possible. However, within key individual sectors there can still be a case for more diverse or efficient options to secure critical raw materials and components.

Government needs to have clear maps of future supply chain needs and an understanding of what goods will be imported, and which ones will be produced in the UK. This should reduce reliance on import routes which are controlled by individual state actors. The UK should consider where future trade policy agreements or actions can assist with this – for example through a critical minerals agreement with the US and by upgrading its trade agreement with Chile.

RECOMMENDATION TO GOVERNMENT
SAFEGUARDING CRITICAL SUPPLY CHAINS

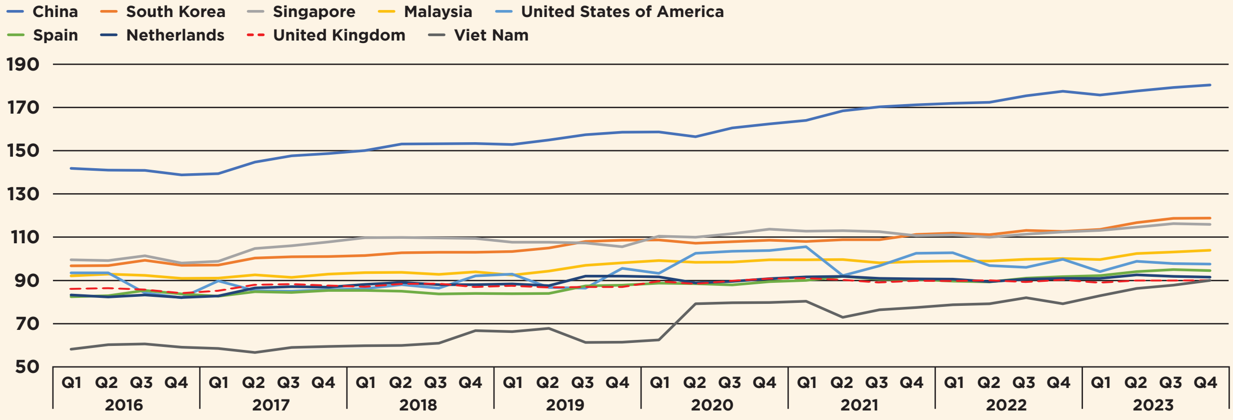
The government should evaluate where future trade policy agreements can deliver the goals of the Critical Imports and Supply Chain Strategy, for example reaching a critical minerals agreement with the US, and upgrading the UK's trade agreement with Chile.

2.5 BUILDING ON THE UK'S INTERNATIONAL LOGISTICS EXPERTISE

The UK has a world-class international logistics sector, facilitating trade across all forms of transport. Since the EU referendum, the sector has worked at pace with supply chain partners and government to smooth the transition to post-Brexit trading arrangements. Data shows that the sector has delivered for UK businesses, continuing to perform well on international connectivity. On maritime shipping, for example, the UK remains in the top 10 in the liner shipping connectivity index, a vital indicator of trade health (see chart below)[liii].

LINER SHIPPING CONNECTICITY INDEX: TOP 10 Q1 2016 - Q4 2023

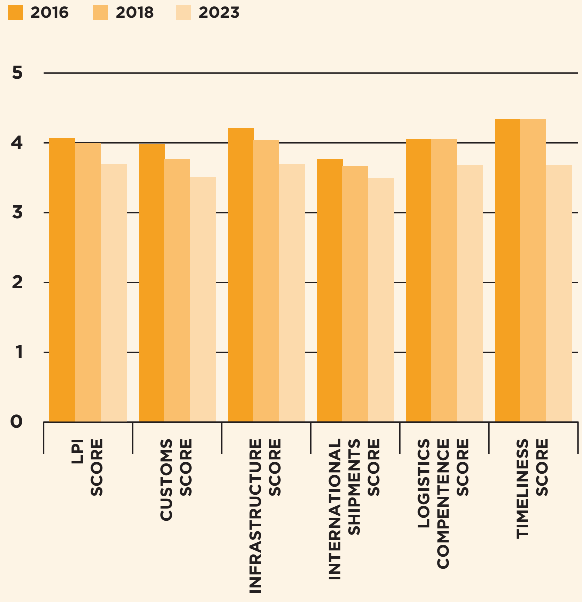
Maximum 2006=100 for China



Source: BCC analysis of UNCTAD LSCI data

However, the UK's comparative performance on logistics, measured by the World Bank Logistics Performance Index, has seen a modest decline, the UK falling from 9th in 2018 to 25th in the world rankings by 2023, with a notable decline in timeliness, (see chart to the right and see Appendix for further data)[liv]. This may indicate the requirement for logistics operators to adapt to controls and new documentation for exports to the EU, introduced with the Trade and Cooperation Agreement.

UK WORLD BANK LOGISTICS PERFORMANCE INDEX



Source: https:///pi.worldbank.org

Air cargo also plays a vital role in global trade with approximately 35% of global goods by value transported through aviation[lvi]. In the UK, although air cargo represents just 1% of total UK tonnage, it accounts for 40% of the total value of UK trade[lvii]. The UK is home to the third-largest aviation network in the world, the second largest aerospace manufacturing sector and the number one most connected airport in the world (Heathrow)[lviii]. The aviation industry employs more than 960,000 people across the UK and is worth £52bn to the British economy[lix].

The routes and frequencies offered by UK-based airlines provide the vital connectivity to the country's airports to support this value. IATA estimates that a 1% increase in air cargo connectivity is associated with 6% more trade, enabling exporters and supporting global value chains[lx].

While, in general, the UK imports more than it exports, in terms of air cargo, the trade surplus is positive, driven by the relatively high value of airfreight goods. Regulation should support the competitiveness of UK aviation; its ability to grow and offer greater connectivity, including on passenger aircraft. This would ensure that it does not become less favourable for shippers to move goods via UK airports.

Looking ahead there are going to be several new initiatives affecting supply chains and logistics. These include the delivery of the government's Border Target Operating Model for the GB border, the gradual introduction of the Single Trade Window and the implementation of Inbound Controls. For further information on our policy proposals on the TCA please see the Appendix to this report, and our separate document 'TCA: Three Years On'[lv].

There is also an opportunity to reinforce regulatory support. London is an important transhipment point, a hub that connects global supply chains, which goods move through.

RECOMMENDATION
ENABLING THE UK TO RETAIN ITS WORLD-CLASS STATUS IN LOGISTICS

- As the UK continues to adapt to its new trade and logistics requirements, it is vital that the government work closely with the whole supply chain, including shippers, logistics providers, customs agents, and their customers, to minimise disruption. It must ensure regulation supports imports, exports and transhipments, and helps the UK regain its position at the top of the World Bank logistics scores.
- The UK government should prioritise our trade and customs relationship with the EU, implementing proposals for improving the TCA agreement as set out in the BCC's 'TCA: Three Years On' document.

2.6 TRADE AGREEMENTS AND POLICY – THE DECADE AHEAD

Progress on trade agreements since Brexit

The UK took back full control of its trade policy in January 2021, but had secured consent to begin trade negotiations prior to this. This included continuity agreements to preserve most effects of the EU trade agreements which it had been party to, and new free trade agreements with other countries. The UK used this discretion to make a head start on trade negotiations with Australia and New Zealand, as well as an upgraded deal with Japan.

The UK has also negotiated an Accession Protocol to the CPTPP, which is awaiting ratification in the UK and the 11 existing members of the accord[lxi], and several digital trade agreements (focused on data flows and e-commerce) with Ukraine[lxii] and Singapore[lxiii].

There is very little prospect of a free trade agreement with the US in the short or medium term, and the focus of UK business and policymakers has shifted to mini-deals such as a critical minerals agreement instead.

The Atlantic Declaration[lxiv] provides a framework for the agreement of such deals, including on the supply of steel, iron and aluminium, but so far has yielded only an agreement to regularise data flows. More should be made of the potential of the Atlantic Declaration process in the coming years, for the mutual benefit of expanding bilateral trade and investment with the UK's second largest trading market. A complicating factor is the surrounding geopolitics, with the US likely to adopt a more hard-nosed approach, taking unilateral positions in terms of trade and industrial policy, whatever the outcome of the November 2024 US elections.

The current pipeline of trade negotiations is gradually being worked through. It includes India, the Gulf Co-operation Council, and upgraded bespoke UK agreements with Mexico, South Korea, Israel, Switzerland and Turkiye. The Swiss negotiations are particularly important to secure market access in services with one of the UK's largest export markets. Trade negotiations with Canada, to replace the continuity agreement (TCA) agreed before Brexit, have been paused for now.

If we exclude the US and China, only around 8% of UK trade is not covered by free trade agreements or other trade preferences. The priority for the next decade should be less about seeking new preferential trading partners and, instead, increasing the depth of trading relationships the UK already has.

Now is the time to deepen the UK's trade relationships

The top priority is improvement in our trading terms with our largest trading partner, the European Union. As noted above the BCC's 'TCA: Three Years On'[lxv] paper sets out recommendations on how to do this (see Appendix for a summary of proposals).

For rest of the world trade, it is expected that the Indo-Pacific region will experience strong growth in prosperity and consumer spending. Further efforts should be made to secure more market access for UK goods and services in that region. Therefore, key priorities are making a success of CPTPP accession and successfully concluding the India negotiations - if a balanced agreement on market access for UK goods and services can be obtained.

Beyond that, the UK should look to make free trade agreements with Thailand and Indonesia, which are not within the CPTPP bloc but play a key role in the region. It should also seek to diversify critical supply chains through upgrades to existing trade agreements or freestanding critical minerals and imports agreements.

The UK should also champion greater use of digital trade, prioritising the US as well as emerging trading nations such as Brazil. Other priorities include access for green goods and services, SMEs, and trade and customs facilitation - while ensuring fair provisions on intellectual property in the bilateral agreements it makes.

The UK should also continue to push for any agreements which can be reached at plurilateral or multilateral levels, with e-commerce being the top priority. And it must continue to spread the word on the full benefits of moving trade documents online. If more trading partners enact electronic trade document legislation at the national level, and commit to the UNCITRAL common principles on trade, it would be a major step forward[lxvi].

RECOMMENDATIONS

DEEPENING UK TRADING RELATIONSHIPS

- Improve UK trading terms with our largest trading partner, the European Union.
- Ensure the Atlantic Declaration secures tangible benefits for business e.g. internationally set standards being reflected in regulation by the US, UK and EU.
- Successfully complete CPTPP accession.
- Complete India free trade agreement negotiations if a balanced agreement on market access for UK goods and services can be obtained.
- Complete free trade negotiations with the Gulf Co-operation Council and Greenland, and negotiations for upgraded bespoke UK agreements with Mexico, South Korea, Israel and Switzerland.
- Achieve good start to trade negotiations with Turkey in 2024 and restart bilateral trade negotiations with Canada at the earliest opportunity.
- Negotiate future free trade agreements with Thailand and Indonesia and digital trade agreements with the US and Brazil.
- Ensure that UK businesses are extracting the maximum advantage from trade agreements - through focus on take-up, and non-tariff barrier monitoring and reductions as fresh agreements are implemented.

2.7 ENSURING POST-BREXIT REGULATION MEETS THE NEEDS OF BUSINESS

The UK has helped build global regulations

The UK has long been instrumental in shaping global regulations on commercial activity. It helped build global economic institutions, including the International Monetary Fund (IMF), the World Bank, the World Trade Organisation (WTO) in 1995, and the Organisation for Economic Co-operation and Development (OECD). These institutions developed multinational regulatory frameworks and conventions on finance, taxation, and trade.

Regulatory divergence post-Brexit

The UK's departure from the EU has changed its regulatory approach in many key areas of economic activity, but in others there are barely any perceptible differences. Brexit has not, so far, led to a wholesale abandonment of the regulatory approaches inherited from almost half a century of EU membership in terms of trade in goods. Divergence, where it has occurred, has been in relation to some climate standards, and parts of the rulebook on agri-food. The notable exception is in financial services and banking[lxvii], through initiatives such as the Edinburgh Reforms. Some differences are becoming clearer however, with a post-Brexit UK government more inclined to restore risk-based approaches to regulation.

However, on key policy areas such as carbon leakage, corporate responsibility on supply chains, deforestation, and Artificial intelligence (AI), the EU is making the running, while the UK is wrestling with whether to follow the EU lead, or actively diverge. These decisions are complex and will often involve economic trade-offs, as the impact varies - depending on each sector's dependence on regulatory alignment and trade with the EU.

Constraints on the UK

A further constraint to regulatory divergence is the Windsor Framework[lxvii]. Should the UK choose to diverge in regulatory areas relating to trade in goods with the EU, it would not necessarily apply to Northern Ireland. This could create unintended divergence for goods trade between Great Britain and Northern Ireland, as the Framework means it still follows around 300 pieces of EU regulation. In practice this requires deeper consideration of alignment questions within the UK internal market, especially after the publication of the January 2024 Command Paper and associated legislative changes[lxix].

Another constraint on wholescale divergence is the need to maintain a stable and predictable regulatory environment, which is critical to trade and how the UK is perceived as an investment location. A rules-based system, with transparent regulations, and independent regulatory bodies - left to conduct their tasks without interference by government, is crucial to seize future investment opportunities in areas like life sciences and advanced manufacturing.

A pragmatic approach is required

In conclusion, sweeping deregulation to kickstart growth, or sudden divergence from existing regulation, is not a consensus position at Westminster as a solution for the UK economy. There has been a gradual acceptance that a pragmatic approach to regulation is needed as the UK's trade system is still entwined with the regulatory systems, fiscal policies, and economic firepower of our two largest trading partners, the EU and US.

RECOMMENDATIONS

ENSURING POST-BREXIT REGULATION MEETS THE NEEDS OF BUSINESS

- On traded goods, there is good sense in keeping business costs as low as possible by mirroring the primary regulations adopted by the European Union.
- Stronger arrangements for regulatory co-operation between the EU and UK should be established to minimise business compliance frictions with new rules.
- On financial services, the UK should continue to seek a distinctive regulatory approach which is appropriate to its capital and financial markets (and continued growth in associated services), and its financial stability. This should be done within the scope of its commitments as a member of the OECD and the Bank for International Settlements.
- Decisions on regulation should be taken after consideration of the impacts on UK importers and exporters.
- In sectors that have not previously been regulated, such as AI and quantum computing, a balance should be struck between not regulating, matching the approaches taken by leading trading partners, or taking divergent regulatory positions, whichever best help UK growth.
- Regulations should be subject to scheduled reviews to check they are working as intended and encouraging investment. Key factors should be predictability, certainty, and facilitation of growth in fast-evolving economic sectors. The approach on future regulatory decision making should be informed by the industrial policy context.

2.8 ACCESS TO UK-BASED GROWTH FINANCE

This section briefly analyses recent developments to enable firms to access domestic growth capital, which should, over time, encourage them to stay in the UK while continuing to thrive.

Accessing UK capital for businesses

In 2022, UK businesses actively using international capital to drive their development saw a substantial infusion of approximately £432 million from global pension funds into UK-managed venture capital and growth equity funds. Swedish pension funds emerged as the primary contributors, injecting around £180 million.[lxx] In contrast, UK pension funds contributed £48 million to venture capital funds and were not involved in growth equity funds.

While the influx of overseas investment underlines confidence in the quality of UK companies, it concurrently underscores concerns about the nation's limited domestic capacity to foster the scaling of knowledge-intensive sectors.[lxxi] There is a need for a more diversified and robust approach to fuelling domestic innovation and enterprise.[lxxii]

Pensions funds: Mansion House reforms

The UK pension market is undergoing a transformation from Defined Benefit (DB) to Defined Contribution (DC) schemes. DB schemes, with employer-bearing investment risks, are declining, while DC schemes, where individuals bear the risk, are gaining momentum. The Mansion House reforms signify a collaborative shift within the UK pension industry, with major DC providers committing to allocating 5% of default fund investments to unlisted equities by 2030.[lxxiii] This can deliver investment benefits, provided that the risks are carefully managed, participants are well-informed, and the strategy aligns with the overall pension fund objectives.

British Business Bank and pension funds

The Chancellor has announced that the British Business Bank (BBB) will create an investment vehicle, leveraging its market access and position as the UK's largest domestic investor in venture capital. This initiative, supported by a permanent capital base of over £7 billion, will allow pension funds to invest, managing a combined £350 billion in assets.

Additionally, the Chancellor extended the Future Fund: Breakthrough program with at least an extra £50 million, managed by British Patient Capital.[lxxiv] It supports high-growth UK firms in breakthrough tech sectors, co-investing in R&D-intensive companies with a minimum round size of £30 million and a maximum share of 30%. The BBB has extensively consulted the market to assess the need for increased government involvement in creating investment vehicles for pension schemes. The aim is to facilitate swift and effective investments in UK unlisted growth companies, employing the expertise of the Bank's commercial arm.

BVCA Investment Compact

The British Private Equity & Venture Capital Association (BVCA) Investment Compact complements the Mansion House Compact, and it is designed to facilitate investment by DC and other pension funds into venture capital and growth equity, with a view to building private capital investment for the future. This will allow UK pension schemes to benefit from the higher potential net returns that can arise from investment in unlisted equities, such as those in private capital funds as part of a diversified portfolio, acting in accordance with the best interests of UK long-term savers.[lxxv] BCC welcomes the BVCA compact, as it offers an investment opportunity for pension savers and could enable significant investment into the UK science and tech sectors.

Progress so far

Government and industry are taking steps to deliver greater private investment in UK businesses. The Mansion House commitments can potentially do this, if a balanced approach is promoted, such as leveraging equity investment for long-term growth while mitigating the risk associated with unlisted equities. However, allocating funds to unlisted equities could enhance portfolio diversification, and potentially improve risk-adjusted returns.

We welcome the investment vehicles launched by the BBB and support the BVCA Investment compact, which should make a difference in boosting growth in UK businesses. These measures to support the domestic scaling of growth businesses are urgently needed. It is crucial for fostering innovation and enterprise within the UK, reducing over-reliance on foreign investment and mitigating risks associated with global geopolitical factors.

RECOMMENDATION

DELIVER PLANNED REFORMS TO INCREASE DOMESTIC INVESTMENT IN UK FIRMS

- Adopt a balanced approach to implementing the Mansion House commitments to leverage equity investment for long-term growth while mitigating the risk associated with unlisted equities.
- Measures to support the domestic scaling of growth businesses are needed to foster innovation and enterprise within the UK and mitigating risks associated with global geopolitical factors.

APPENDIX

UNITED KINGDOM WORLD BANK LOGISTICS PERFORMANCE INDEX: 2007 - 2023

	LPI Score	Customs	Infrastructure	International shipments	Logistics competence	Timeliness
2023	3.7	3.5	3.7	3.5	3.7	3.7
2018	3.99	3.77	4.03	3.67	4.05	4.33
2016	4.07	3.98	4.21	3.77	4.05	4.33
2014	4.01	3.94	4.16	3.63	4.03	4.33
2012	3.9	3.73	3.95	3.63	3.93	4.19
2010	3.95	3.74	3.95	3.66	3.92	4.37
2007	3.99	3.74	4.05	3.85	4.02	4.25

Source: https://lpi.worldbank.org/

UNITED KINGDOM LOGISTICS PERFORMANCE INDEX SCORE AND RANKING

	LPI Score	Rank
2023	3.7	25
2018	3.99	9
2016	4.07	8
2014	4.01	4

Source: https://lpi.worldbank.org/

TCA THREE YEARS ON: POLICY RECOMMENDATIONS

The BCC's 'TCA: Three Years On' report sets out 26 recommendations to improve UK-EU trade. Its top five proposals for quick action are:

1. Create a supplementary deal with the EU which either eliminates or reduces the complexity of exporting food for SMEs.

2. Work with the EU to develop simpler guidance on the Brexit deal so that it is applied consistently across all member countries.

3. Develop new arrangements on changes to regulations to minimise disruption to businesses and raise awareness of any fresh impacts.

4. Establish a supplementary deal, like Norway's, that exempts smaller firms from the requirement to have a fiscal representative for VAT in the EU.

5. Make side deals with the EU, and member states, to allow UK firms to travel for longer and work in Europe, and provide mutual recognition of professional qualifications.

For the full report, please see: https://www.britishchambers.org.uk/policy-campaigns/global-britain/our-impact/trade-and-cooperation-agreement-three-years-on/

FDI DEFINITIONS AND MEASUREMENT

Source: House of Commons Research Briefing, FDI Statistics, June 2023

FDI can cover a range of forms of investment, some examples include:

- A UK company establishes a branch or subsidiary in a foreign country, injecting start-up capital. This is often known as a 'greenfield' investment.
- A UK company buys or sells (fully or partially) the equity of an existing foreign company. This is often known as M&A (mergers and acquisitions) activity.
- A UK company puts additional capital into an existing foreign subsidiary or allows it to retain profits rather than return them to the parent company.

FDI CAN BE EITHER INWARD OR OUTWARD:

- Inward FDI measures investments made in a country from another country – for example investment from a foreign country into the UK.
- Outward FDI measures investments made by domestic companies in a foreign economy – for example investment from the UK into a foreign country.

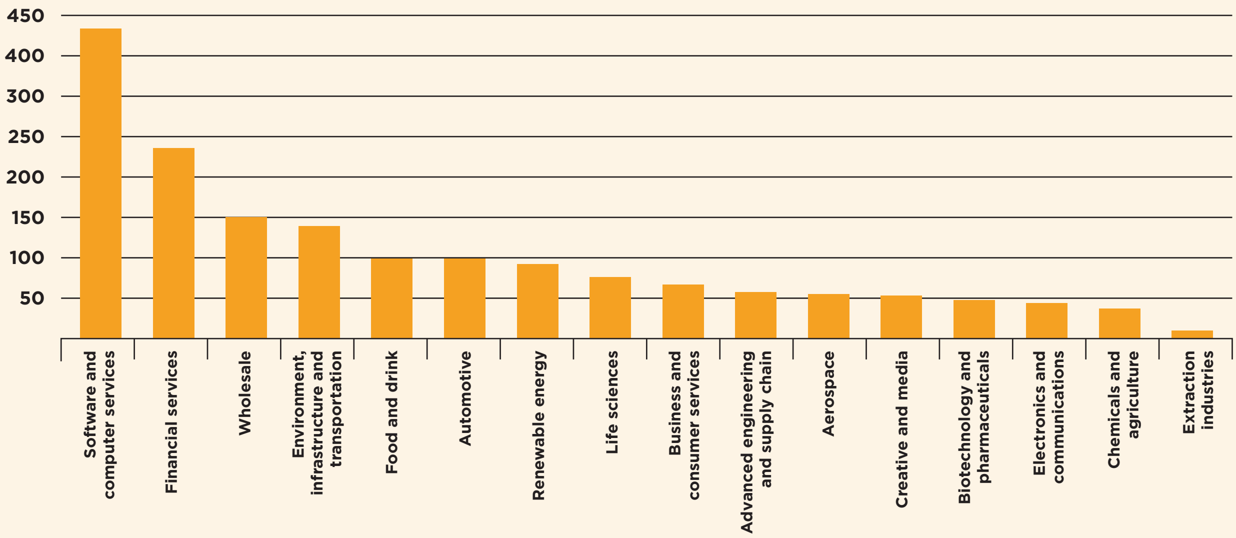
FDI statistics measure two different concepts – flows and stocks.

Flows measure annual levels of investment on a net basis. For example, in the UK, inward flows would measure foreign companies' investments in the UK, while outward flows would measure investments made by British companies abroad.

Flows data can vary significantly from year to year and should be used with caution - a significant proportion of FDI flows can be accounted for by large multinational mergers and acquisitions and do not necessarily indicate significant 'greenfield' investments. High flows can also be dominated by a small number of high value transactions.

The stock measure records the total book value of all existing FDI, inward or outward at the end of a given period, rather than being a sum of investment over time. Consequently, stock values are subject to changes in valuation in company accounts, as well as exchange rate fluctuations, and values can change from year to year even without new investments.

FDI: INVESTMENT BY SECTOR – FURTHER DETAILS
SECTOR BREAKDOWN FOR ALL FDI PROJECTS
2022-23



Source: DBT, Inward Investment Results

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