Department for Business Innovation & Skills

Trade and Investment for Growth

CM 8015 FEBRUARY 2011 £20.50

Trade and Investment for Growth

Presented to Parliament
by the Secretary of State for
Business, Innovation and Skills
By Command of Her Majesty

February 2011

Cm 8015 London: The Stationery Office £20.50

Any enquiries regarding this publication should be sent to us at 020 7215 5000 bisenquiries@bis.gsi.gov.uk.

This publication is also available on http://www.official-documents.gov.uk/

ISBN: 9780101801522

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID: 2404132 02/11

Printed on paper containing 75% recycled fibre content minimum.

Contents

Foreword

As the global economy recovers from the worst crisis in many years, trade and investment are central to re-generating strong, sustainable and balanced growth in the UK and overseas.

The British economy is open for business, open for trade and open for investment. Just as importantly, the Government is committed to doing everything possible to ensure that the world is open to our business, open to our trade and open to our investment.

This is because the evidence is clear that open trade and investment, underpinned by an effective framework of rules, delivers the best results for both developed and developing countries. It is good economics. And it has been the UK's own experience too: increased trade with Europe since the early 1980s has added almost £3,300 a year to the net income of the average British household. The fastest growing emerging economies are now creating new opportunities for all to benefit further from trade and investment.

Despite these benefits, there is an urgent need to restate the case for open markets because the insecurity that is a legacy of the economic crisis fosters a mood of protectionism. So far, the world's nations have largely resisted the temptation to put up trade and investment barriers. But we must remain vigilant and reinforce the global system of rules that keep markets open for us all.

Britain has benefited from that global system over a long period of time. But we cannot afford to rely on history or sentiment if we are to earn our living. We cannot take it for granted that markets will remain open to our businesses, or that our businesses will always be able to take full advantage of the opportunities that exist.

Government can help. The role of Government is to provide the conditions for private sector growth and investment, to use all the levers it has to break down barriers faced by industry both at home and abroad, and to promote a strong and credible global trading system.

This is the trade and investment challenge.

This White Paper sets out the Government's strategy to meet that challenge. It sets out an ambitious framework for building trade and investment based on the results of a government consultation conducted with business, academics and NGOs. It explains how Ministers and officials across government aim to create the best possible environment here in the UK for trade and inward investment, and to deliver the practical support businesses need to trade and invest (with further detail in the forthcoming UK Trade & Investment Strategy). And it urges business people across the country to seize the opportunities presented by trade and international investment to innovate and to build their businesses. Budget 2011 on 23rd March will announce further measures to benefit businesses.

Internationally, it describes how we must work more intensively with the European Union and through our bilateral relationships with countries all around the world to shape an international environment that supports openness. It sets out how Governments can collaborate to manage new global challenges such as climate change, food security, natural resource pressures and the impact of new technologies. The UK can have particular impact here because, although the world is becoming more multilateral with a growing number of more powerful players, bilateral relations between countries remain as important as ever, and Britain's strong bilateral relationships underpin our economy, our trade and investment success and our wider influence in global economic affairs.

The White Paper also explains how, as we work to rebuild our own economy, we must redouble our efforts to enable developing countries to build their own paths to growth through trade and investment, and to help them develop the capacity to do so, especially in Africa. This is the right thing to do both on moral grounds and for Britain's national interest.

Finally, I would like to take this opportunity to acknowledge the hard work and commitment of Lord Brittan, Trade Adviser to the Prime Minister, who has guided the strategy set out in this White Paper. He, I, and the whole Government are convinced of one thing: that an open trading system, and a competitive British economy within that system, will drive growth and create jobs across this country and around the world. We look forward to that challenge.

The Rt. Hon. Dr Vince Cable MP
Secretary of State for Business, Innovation, and Skills

Executive Summary

Introduction

This document sets out a strategy for securing the benefits of greater openness for our economy, for British business, for the global economy and especially for the world's poorest people. This White Paper is the Government's initial statement to our trade and investment partners across the world about how we plan to work together for mutual benefit. It also sets out the Government's commitment to addressing the barriers that hold businesses back from trading and investing, and to ensuring that the UK is one of the most attractive places in the world to invest and do business.

Chapter 1: The Case for Open Markets

Trade and investment will be crucial to achieving strong, sustainable and balanced growth. Open markets and globalisation are key to growth. But some countries remain marginalised. (1.3 – 1.8)

The UK is an open economy and an active and successful international trader and investor. But the UK's reliance on debt-financed consumer and government spending, and on the financial sector, has driven growing imbalances in the UK economy. According to the OECD, by 2007 the UK had the largest structural budget deficit in the G7 group of countries. The current account deficit was around 2¾% of GDP in 2007, a figure that was offset by a 2¼% surplus on trade in financial services. The UK now needs to rebalance its economy, from the public to the private sector and toward increased exports and investment. (1.9 – 1.11)

Access to imports improves the competitiveness of UK companies and spurs innovation. The ability to export expands the market available to businesses and enables them to grow. The UK has competitive strength in a variety of sectors vital to a modern economy. About half our trade is with the EU, another quarter with the rest of the developed world, mainly the US, and most of the rest is with the new emerging economies. While the share of UK trade with emerging economies has been growing, it has grown less rapidly than has been the case for other advanced economies. This represents an opportunity for the UK. Very little UK trade is with the least developed countries. Most UK firms, especially small and medium sized enterprises (SMEs), do not export and UK SMEs actually export less than the EU average. (1.12 – 1.18)

Inward investment brings know-how, technology and increases in the UK economy's productive capacity. The UK is among the top three recipients of FDI in the world and has more European company HQs of overseas companies than all other EU members put together. Most of this investment comes from other advanced economies but more is now coming from the emerging economies. Overall, the competition for FDI is growing and the UK needs to raise its game with both traditional and new partners. The UK is also a major investor in other countries, allowing businesses to grow and diversify. Such investment is associated with productivity growth to companies and the sector. Sovereign Wealth Funds (SWFs) and State Owned Enterprises (SOEs) are a modest but growing part of the international investment landscape. (1.19 – 1.23)

The financial and economic crisis of 2008 – 2009 hit trade and investment hard. Global trade fell by 23% but has bounced back sharply. UK trade fell too, but only by 8% in Sterling terms, because of Sterling's depreciation and the specific pattern of UK exports. Inward investment fell during the crisis and has still not recovered. The human cost of the crisis fell disproportionately on the poorest countries that are also likely to bear the brunt of ongoing protectionism and the limited availability of trade finance. The Office for Budget Responsibility forecasts world trade growth of around 7% per year over the coming five years. (1.24 – 1.27)

The world is also facing new challenges. Although there has not been a wholesale surge in traditional protectionism, governments have persisted with non-tariff based crisis measures that are protectionist in nature. Trade finance has been significantly affected. We need to ensure that trade rules encourage food security, the right balance between the rights of owners and users of intellectual property, and help the shift to a green economy. Regulatory barriers can also be protectionist in effect and their domestic sensitivity means they are not always easy to tackle. Multilateral trade negotiations have become increasingly complex and harder to bring to a conclusion. Finally there are interactions between trade, investment and national security. (1.28 – 1.41)

Britain needs to be a voice in favour of openness, of free trade and of investment, in order to help deliver growth, prosperity and wealth in the UK and globally. We will work to improve the access that businesses have to trade and invest. The rest of this White Paper sets out the Government's strategy for doing just that and ensure that the UK is one of the most attractive places to invest and to do business in the world. (1.42)

Chapter 2: Opportunities for Trade and Investment Growth

The potential for growth in trade and investment over the next decade and beyond is huge, if protectionist pressures can be avoided and other challenges addressed. Bilaterally and multilaterally we will work to improve UK businesses' access to opportunities. Our approach is global and will include markets where the UK is already strong, for example the EU Single Market, together with the fast-growing emerging markets that play an increasingly large role in global trade and investment. Britain is able to build upon its existing strong relationships with many countries across the world. (2.1 – 2.5)

The EU is central to growth in the UK, and other developed countries are and will continue to be significant markets. But most new trade growth will come from the new emerging economies. The eight largest emerging markets have a combined GDP roughly equal to that of the US, but in 2009 the UK's export of services to these markets was around a third of that to the US. (2.6 – 2.10)

The EU will be Britain's major market for at least the next 10 – 20 years. But it will be a relatively slow growth region unless there is major further progress in reforming and deepening the Single Market. (2.11 – 2.16)

Barriers to other developed countries tend to be regulatory, rather than tariff-related. (2.17 – 2.18)

UK-US trade relations are exceptionally close and deep. The UK is the largest foreign investor in the United States and the US is the UK's top export destination after the rest of the EU. But UK businesses face difficulties from the complexity of the US regulatory environment and from litigation risks. Big economic gains are possible from simplifying this and the EU-US Transatlantic Economic Council can help get things moving. (2.19 – 2.24)

There is also a close relationship with Japan, in particular through Japanese investment into the UK. Exports to Japan are growing but the environment can be challenging. The Government supports launching negotiations on a comprehensive and ambitious EU-Japan Free Trade Agreement. (2.25 – 2.31)

Canada is a major export market. If an ambitious EU- Canada Comprehensive Economic and Trade Agreement can be completed this year, this will open up market access further and benefit the UK by up to £420million per year. (2.32)

There is a similarly close relationship with most other developed countries. (2.33 – 2.34)

The Government aims to boost the UK's ties in all areas with the emerging powers, notably China, India, and Brazil so that UK firms can benefit from their rapid growth. There is much to do: the environment is challenging and UK firms are not always competing effectively. (2.35 – 2.39)

The opportunities and challenges in China are great. The UK will use all the instruments at its disposal to get better market access for UK firms and to encourage Chinese investment in the UK. (2.40 – 2.43)

The economic opportunities are equally great in India. Relations with India are deep. There are strong partnerships in many areas and India is becoming a significant investor in the UK. An ambitious EU-India Free Trade Agreement, which we hope can be concluded in 2011, should boost both UK and Indian firms. (2.44 – 2.47)

Brazil offers big opportunities notably in energy, services and science. But overall the bilateral trade and investment relationship is underdeveloped. An ambitious and comprehensive EU-Mercosur Free Trade Agreement would make a big difference. (2.48 – 2.51)

In Russia, the business climate makes the country a difficult market for exporters, though some UK firms have invested heavily in Russia. WTO accession would be good for Russia and the global economy and we hope it will be possible in 2011. (2.52 – 2.55)

The Gulf is already a significant market and many opportunities exist for British companies, especially in supporting the vast infrastructure work planned in the region. We will work closely with the Gulf States and business to further develop UK-Gulf trade and investment. (2.56 – 2.58)

South Korea is becoming a significant international player and driver of world growth. The UK was the largest foreign direct investor in Korea at the end of 2009. The relationship can only improve when the EU-South Korea FTA comes into force later this year, bringing about £500m in economic benefit. (2.59 – 2.60)

The UK also has significant interests in other emerging powers. The UK-Mexico bilateral trade relationship is under developed whilst wider relations are strong. South Africa is an important trading gateway to the rest of the continent. We aim to double trade with Turkey and support its accession to the EU, with whom it is already in a Customs Union. The Association of South East Asian Nations (ASEAN) offers some major high-growth markets, notably Indonesia. EU FTAs will help here too. Finally, there are good long-term prospects in North Africa despite current instability. (2.61 – 2.65)

There is evidence that Commonwealth countries trade more with each other than would be expected from other factors, because of the legal, political, cultural and linguistic bonds which link us. There is much scope to develop this further. (2.66 – 2.67)

The UK is committed to helping developing countries take advantage of the opportunities presented by international trade as an important tool for stimulating growth, raising incomes and creating jobs. Freer trade can also improve food security and contribute to reducing conflict. The UK has ambitious bilateral aid programmes, with a strong Aid for Trade element, to help increase trade and regional integration in the developing world. (2.68 – 2.72)

Sub-Saharan Africa has strong growth prospects, but remains poorly integrated into the global economy. The region needs broader and deeper market integration, including infrastructure for power, transport and communications that will at the same time strengthen ties with global markets. Supporting trade and regional integration, through our Africa free trade initiative, is a top priority for the Government. We will do all we can to support African leaders to implement their plans outlined in the 1991 Abuja Treaty to move towards an African Economic Community. (2.73 – 2.79)

Despite its consistent growth record, South Asia has a high concentration of poverty. Intra-regional trade flows are low compared to their potential. Improved trade facilitation and logistics could cut the cost of trading by up to 70% within five years, helping create jobs, boost growth and improve the lives of poor people. The Government is using Aid for Trade to address priorities identified by businesses and partner governments in the region. (2.80 – 2.82)

In the Caribbean, significant pockets of poverty remain and the region is vulnerable to shocks. The region needs a more resilient economic base. We will support this by helping to implement trade agreements, improving the environment for business and lowering the costs and time needed to import and export. (2.83 – 2.84)

We are also working to improve the environment for trade and investment in the most fragile and Conflict-affected states of the world and also in the overseas territories. (2.85 – 2.88)

This Government will actively support UK firms and developing countries to take the opportunities offered by trade and investment to build prosperity for the UK and promote development worldwide. (2.89)

Chapter 3: The UK's Strategy for Trade and Investment Growth

The Government needs to act and sets out a trade and investment strategy which has been informed by a call for evidence and consultation. (3.1 – 3.12)

The Whole of Government approach

Trade and investment is crucial to achieving stronger and more sustainable growth. We will do all we can to reduce barriers and improve access to markets. We must adopt a whole of Government approach to trade and investment policy, involving all Departments and utilising our overseas networks. The Prime Minister has created a new sub-Committee of Cabinet under the chairmanship of the Minister for Trade & Investment to ensure coordinated action to implement the policies set out in this White Paper and continuous follow-through. (3.13 – 3.16)

A domestic environment that supports trade and investment

The Government will offer investors a world-class domestic business environment. The Growth Review led by the Department for Business Innovation and Skills (BIS) and Her Majesty's Treasury (HMT) will look at delivering the right environment to do business including in the areas of regulation, planning and access to finance. (3.17 – 3.19)

UK competitiveness is underpinned by a world-class research base which Government will continue to fund. The Government is also working to set the right policy framework for the UK's global low carbon and environmental goods and services sector. UK competitiveness is further supported by our Higher Education sector and Skills sector and by attracting the brightest and best temporary migrants. (3.20 – 3.24)

The UK has strengths in many industries, and so will press for broad-based liberalisation of barriers to trade and investment, but will also focus on removing some specific barriers identified with the help of business, including SMEs. (3.25)

We will endeavour to attract investors to the UK and welcome all types of investment, irrespective of nationality or types of ownership, provided that they meet corporate governance standards and do not break competition or national security restrictions. Government needs to attract a broad range of investors, improve management of relationships and identify priority investment opportunities, using its levers to facilitate private sector investment and growth. (3.26 – 3.29)

The Government will continue to invest in UK infrastructure to support trade and investment including rail projects. The Government will produce a new framework for aviation policy and continue to encourage port investments. Government is also considering a trade 'single window' at ports to reduce bureaucratic processes. (3.30 – 3.33)

The Government will consult on providing new guidance to UK domestic regulators to encourage them to have regard to the effect of their actions on trade and investment. (3.34 – 3.35)

Promoting and facilitating trade overseas

UK Trade & Investment (UKTI) provides information, advice and guidance to businesses of all types and sizes about trading internationally and investing in the UK. UKTI will publish a new overarching strategy later in 2011 which will set out plans to enhance the practical help provided to British exporters, and in particular to SMEs. The Government is working on a strategy to support the UK's tourism industry. (3.36 – 3.42)

The Government will provide greater access to trade finance aimed particularly at SMEs to supplement the current products available from the Export Credits Guarantee Department (ECGD) and the private sector. This will include the new Export Enterprise Finance Guarantee Scheme (ExEFG) from BIS, extending the eligibility of ECGD's existing short-term trade credit insurance policy and working with banks through the British Bankers' Association to share credit risks on new products. ECGD and UKTI will work together to increase the advice available to exporters. (3.43 – 3.51)

The Government will set out an international approach to intellectual property which is crucial for innovative businesses. We will continue to influence countries to effectively risk manage their export control licensing regimes. The UK will also implement and press for world-wide enforcement of bribery rules. (3.52 – 3.56)

The EU Environment

In order to achieve most of our trade goals the UK needs to be influential within the EU. Ministers and officials will attach high priority to our EU relationships. The Government supports the Single Market Act. Our priorities are to enforce the existing framework better, build on the implementation of the services directive, focus on export opportunities for SMEs and develop the single market in new areas like e-commerce. (3.57 – 3.60)

The Government welcomes the recently published Commission Communication "Trade, Growth and World Affairs" (2010) and strongly supports the Commission's strategy to pursue ambitious and comprehensive Free Trade Agreements between the EU and key trading partners. We do however remain concerned about 'reciprocity'. As part of the Growth Review, we will look at how the UK can encourage the EU to negotiate greater liberalisation of trade in services. (3.61 – 3. 64)

The Government will push for greater international investment protection, genuine and ambitious reform of the Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP) and the more targeted use of trade defence instruments. We will also be involved in the development of the European Globalisation Adjustment fund for those impacted by globalisation. (3.65 – 3.68)

The Government will press the EU to focus more on the regulatory barriers to trade and investment that businesses encounter outside the Union. We will also continue to expand the practical help we offer to individual UK firms facing legal and regulatory barriers when operating abroad. (3.69 – 3.70)

Strengthening the multilateral trading system

The Government will work for a strong and credible global trading system that promotes open markets, free trade and investment. We will work with our partners in the EU and internationally to strengthen the multilateral trading system and to push for a conclusion to the Doha Development Agenda (DDA) negotiations in 2011. It is also important to conclude the review of the Government Procurement Agreement in 2011. (3.71 – 3.75)

The Government proposes to work with the WTO, European Commission and other interested parties to develop ideas for strengthening the WTO to deal with a range of recent developments that now impede its effective functioning. (3.76 – 3.80)

Working with the Developing World

Ensuring lower income countries are fully integrated into the global economy is central to the Government's policy of driving growth and poverty reduction. An ambitious conclusion to the DDA and a strong multilateral system remain the most effective way of enhancing and sustaining developing country market access to global markets. Institutional and structural challenges can also prevent developing countries from making the most of trading opportunities. The UK will champion a DDA agreement that benefits developing countries and honour our G20 commitment to maintain Aid for Trade spending at or above its current level. (3.81 – 3.83)

We will focus the attention of the G20 and multilateral banks on trade facilitation and scale up our own bilateral support. We will develop innovative approaches to working with the private sector, ensuring that businesses in developing countries have access to trade finance. We will tackle poor working conditions in developing countries and support responsible, ethical and sustainable trade. (3.84 – 3.85)

Trade negotiations are increasingly wide-ranging and complex. We will establish an Advocacy Fund for the least developed and low-income countries to boost their capacity to develop trade strategies and promote their interests in the global trading system. (3.86 – 3.87)

Opportunities and challenges are presented by the rise of the emerging economies. We will reflect this increasing differentiation within the group of developing countries in our trade and investment policies in order to focus benefits on the poorest. (3.88)

We will support a new and re-energised approach to regional integration to deal with the increasingly significant intra-regional trade barriers which less developed countries experience. We will focus particularly on the UK's Africa Free Trade initiative. (3.89 – 3.90)

As trade can be a powerful tool to address global challenges, we will ensure our trade policy creates opportunities for developing countries to improve health outcomes, tackle climate change and rebuild fragile economies. (3.91 – 3.96)

Conclusion

Boosting the UK's trade and investment capacity is a central task for this Government. Trade is also central to growth and poverty reduction around the world, but a shifting global environment necessitates a new approach. We will pursue these objectives vigorously but there is no quick fix. This is going to be a marathon, not a sprint. (3.97)

Chapter 4: The Trade and Investment Challenge

The Trade and Investment White Paper marks the beginning of an important process for this Government. The White Paper has set out a number of new policies, actions and positions which will be taken forward. The next steps in the Trade and Investment Challenge have been set out in the Framework for Action.

Introduction

i Free trade is a major driver of growth, the main engine of economic and social change in the world. While trade needs to be embedded in a framework of rules, like all aspects of a market economy, it is free and open markets which are the surest route to global prosperity. The success of the European Single Market, and the benefit the United Kingdom has drawn from being part of that market of over 500 million people, testify to this. Every day British businesses take decisions about where to source materials, about investing in joint ventures, or about breaking into a new market, which rely on their ability to reliably exchange goods and services, deploy people, and transmit ideas around the world.

ii The UK is a great trading nation and a major overseas investor. We are the world's sixth largest exporter and third largest investor in foreign markets. We are home to world-beating businesses, many of which have built up a strong presence in the world's developed markets. Nurturing those longstanding trading relationships, and the bilateral relationships that underpin them, while at the same time building and strengthening new partnerships, is fundamental to the success of our trade and investment policy.

iii In a changing world we cannot be complacent about future success. As the global economy recovers from the worst crisis in many years, trade and investment will be crucial to achieving strong, sustainable and balanced growth in the UK and overseas. But resilient protectionism, persistent difficulties in accessing some growing markets, increasing global competition both with our exports and for inward investment, weaknesses and imbalances in the UK economy, added to the challenges presented by new technologies and climate change, mean that we need to work to access the benefits of trade and investment. A central challenge is to seize the opportunities low carbon growth presents and join the countries that are already out in front, or risk being left behind.

iv This White Paper therefore sets out a strategy for creating opportunities, providing the conditions for private-sector growth through trade and investment that will help to rebalance our economy, and securing the wider benefits of greater openness for all and especially for the world's poorest people.

v This White Paper is based on the results of a consultation conducted with business, academics and NGOs. It builds on our existing strengths and capabilities and sets out a vision of how these resources will develop in the future. It explains how the Government will work with EU and international partners to break down global barriers to trade and investment. And it sets out how we will tackle the barriers that are holding businesses back, notably small and medium sized enterprises (SMEs) with the potential for high growth, so that the UK continues to be one of the most attractive places in the world to invest and to do business.

vi This means:

- Supporting a strong and credible global trading system that promotes UK values on open markets, free trade and investment. This includes strengthening and deepening the EU Single Market, pressing for the conclusion of the Doha Development Agenda, and strengthening the World Trade Organisation (WTO) so that it works for all its members in the 21st century, particularly the poorest;
- Working to improve the access that UK businesses have to trade and invest globally. This will include within markets where the UK is already strong, for example, the EU and also in the fast-growing emerging markets which play an increasingly large role in global trade and investment. This Government will relentlessly pursue those markets that provide the best opportunities for UK business. We will take action to break down barriers faced by British business abroad, and will prioritise bilateral work with our friends and partners across the world to remove barriers to trade and investment. We will also work to promote the UK as an open economy and to reduce obstacles to inward trade;
- Developing a new more focused strategy for supporting exporters and inward investment;
- Encouraging inward investment, including by Sovereign Wealth Funds, by offering investors a world-class domestic business environment including through open and competitive markets that lower the barriers to entry, through a transparent regulatory regime and through certainty over the long-term;
- Getting behind British business to exploit overseas opportunities using our extensive global network through the FCO and UKTI;
- Improving access to the financial products that support exporting, to ensure that the service they provide to UK exporters competes well against similar services provided in other countries;
- Supporting growth in developing countries by enhancing their opportunities and capacity to benefit from trade and investment;
- Supporting a rapid transition to a low carbon economy in the UK, and globally;

vii International trade and investment flows reflect a country's resources – skilled workers, capital and know-how. The Government will act to ensure that they will be developed through our broader policy agenda and be supported by our institutions. The 2011 Budget, on 23 March, will announce a further wide range of measures benefitting businesses to push further the rebalancing of the economy by driving private sector growth.

viii In short, this White Paper is the Government's initial statement to our trade and investment partners across the world about how we plan to work together for mutual benefit, and calls on them to share in our commitment to open and free trade and investment and to fight protectionism in all its forms. It sets out an ambitious framework for trade and investment to help the British economy to return to sustainable and balanced growth.

Chapter 1: The Case for Open Markets

1.1 Open markets, free trade and investment are a crucial element of the Government's growth strategy as we seek to rebalance the economy and secure strong and sustainable growth in the UK. But the UK's reliance on debt-financed consumer and government spending, and on the financial sector, has driven growing imbalances in the UK economy. According to the OECD, by 2007 the UK had the largest structural budget deficit in the G7 group of countries. The current account deficit was around 2 ¾% of GDP in 2007, a figure that was offset by a 2 ¼% surplus on trade in financial services. The UK now needs to rebalance its economy, from the public to the private sector and toward increased exports and investment. A large part of the UK's economic success has resulted from our ability to participate in the global trade and investment system, which has provided opportunities for business and prosperity for UK citizens. But the world is constantly changing and the Government needs to adapt its approach to trade and investment to reflect, for example, the rise of emerging markets and the opportunities they present, and the dissemination of new technologies and the scope for innovation. The Government should also remain vigilant against new forms of protectionism.

1.2 This chapter sets out the importance of trade and investment not only to the UK but to the global economy, and describes the UK's key strengths and capabilities as a trading nation in comparison to other countries. It also considers the impact of the 2008 – 2009 economic crisis on global and domestic trade patterns, the immediate threat to open markets of new and subtle forms of protectionism, and longer-term changes and challenges that the Government needs to consider in the formation of trade and investment policy.

Trade and Investment: the world and global growth

1.3 Historically trade and growth have been closely linked. We believe this will continue. Over the past twenty years, for example, the degree to which countries are engaging in and prospering from international trade has risen considerably. Evidence from a broad sample of OECD countries indicates that an increase of 10% in trade openness translates into an increase of around 4% in income per person.

1.4 According to the World Bank, in the 1990s per capita income grew more than three times faster for developing countries that had lowered trade barriers than for those that had not. There are well-known examples such as India and China, as well as the less publicised success stories such as Vietnam. This expansion of trade has created jobs and prosperity around the world and in the UK. Crucially, it has been secured by adherence to a system of international trade rules, spurred by progressive trade liberalisation and complemented and reinforced by domestic reforms.

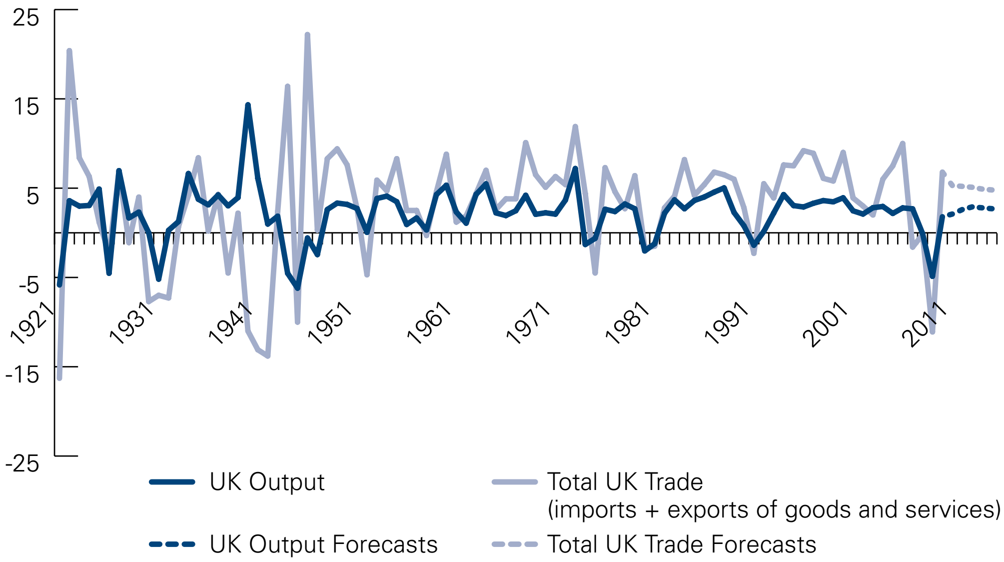
1.5 The factors that have driven this expansion of trade mostly look set to continue. Rapid technological change has reduced communication and transportation costs and led to innovation in business. New production methods have fragmented production processes, giving rise to "just in time" international supply chains. Political decisions have brought down barriers to international trade, financial flows and movement of people. The resulting connections across the world economy – the new networked world – have changed what is traded, how it is traded and the speed at which both trade and global shocks are transmitted across the world.

1.6 The free movement of capital and people seen in the late 19th and early 20th centuries remind us that globalisation is not a new phenomenon. Yet if we can learn from the mistakes of history, avoiding the protectionism and conflict that so disfigured and held back the world for much of the 20th century, then trade and investment can continue to be the pre-eminent engine of world prosperity.

1.7 But not all countries have been able to benefit from expanding global trade and international investment. Many developing countries remain relatively marginalised in the global economy. The European and Asian economies have benefitted significantly from 'open' regional integration, particularly by using regional supply chains to import and produce exports more efficiently. Africa has the potential to achieve similar benefits but has thus far struggled to successfully integrate.

1.8 As the global economy continues to grow, a transition to a green economy will be necessary to maintain current standards of living and ensure continued prosperity. Innovation and technology transfer sit at the heart of this transition, and the speed at which this will be required necessitates global cooperation and open markets.

UK Output and Trade, constant prices, annual growth rate (%), 1921–2015



Source: Macmillan Press, European Historical Statistics 1750-1970 (1900-1945 GNP data)

The Economist, Economic Statistics 1900-1983 (1900-1945 Trade data)

ONS UK Economic Accounts (1946-2009 data)

2010-2015 data are forecasts from OBR November 2010 Outlook

Note: 1900-1947: GDP multiplied by 2.978, Exports multiplied by 1.745, Imports by 1.633 to take account of change from 1980 prices to 2006 basis

Trade and investment: the United Kingdom

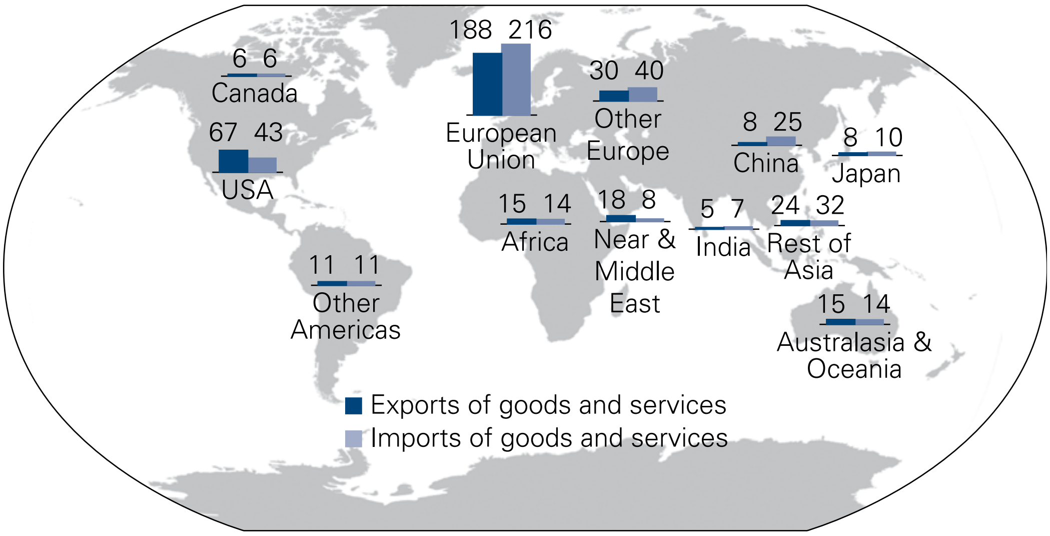
1.9 The UK is one of the most open economies in the world, ranks fourth in the world overall in the World Bank 'Ease of Doing Business Report', and compares well in the unranked 'Ease of Investing Across Borders'.

1.10 UK imports and exports of goods and services totalled £811 billion in 2009, equivalent to 3.9% of world trade. By the end of 2009, over £652 billion of FDI was invested in Britain. In 2009 flows of FDI into the UK amounted to £45.7 billion while UK companies invested £28.5 billion abroad.

1.11 As a country that has a proud and successful history of trading and benefiting from investment and that sees these factors as vital to our prospects for growth, the UK offers a good case study for how, in practice, trade and investment drive growth.

Trade

UK exports and imports of goods and services, 2009 (£ billion)



Source: BIS from UK Balance of Payments Pink Book 2010

1.12 Imports increase the competition faced by UK companies and so spur innovation and efficiency while bringing down costs to consumers. The UK is the world's sixth largest importer of goods and services and around two-thirds of EU imports are inputs to production.

1.13 Imports provide a competitive spur to British companies to innovate and become more productive and may provide a good route for knowledge and technology transfer. It is estimated that productivity in European manufacturing increased by 11% between 1988 and 2000, in response to increased imports. In addition, they offer greater choice and better value to British consumers. Industries shielded from foreign competition tend to decline in the long run. For example, throughout the 1960s the UK Government attempted to nurture a domestic computer industry through a range of measures, including a 15% import surcharge, a restriction on exporting computer technology, a preferential procurement policy, and by encouraging a consolidated computer producer to become a national champion. These efforts were neither effective nor successful. Indeed, these preferential policies discouraged British companies from innovating and meant that they were poorly prepared for the PC revolution of the 1980s.

1.14 The ability to export expands the market into which competitive British businesses can sell their goods and services, enabling them to grow, create jobs and generate profits. Research has found that UK firms engaging in international markets improve their skills, knowledge and management practices through a so-called export learning effect and are therefore less likely to fail. For some businesses, often referred to as 'born globals' because they internationalise very early in their life, selling overseas is particularly important for their growth or even necessary to achieve a volume of sales sufficient to operate at a profit. These businesses tend to be technology-intensive and serve a niche global market.

1.15 Compared with other countries, the UK has demonstrated competitive strengths in a variety of sectors including advanced manufacturing, equipment goods for ports and airports, educational, power and healthcare goods, chemicals, defence goods, financial and professional services and other services that support industry, such as architecture, technical services, advertising and R&D services. Construction service exports and personal, cultural and recreational services exports have grown significantly over the past ten years but still remain the smallest service export sectors. The UK's position in these sectors is underpinned by a broad-based set of capabilities arising from our product, labour and capital markets. For example, a flexible labour market together with a strong skills base has enabled the rapid growth of some new sectors in response to technological innovation. Continuing to support these underlying capabilities will enable firms to take advantage of new growth opportunities and develop new markets.

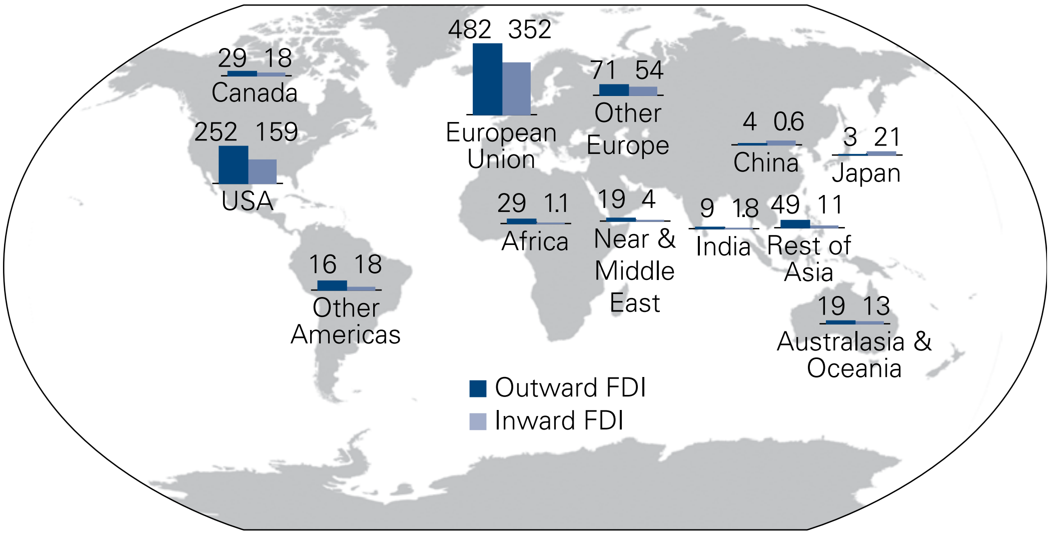
1.16 UK trade patterns are shaped by a variety of factors, including distance from the market, the size of the market and cultural, linguistic and historical ties. The EU remains our most important market; it is the destination for about half of our exports. About a quarter of the UK's trade is with the developed countries outside the EU: the US, Canada, Japan, EFTA (including Switzerland) Australia, New Zealand and Israel. A relatively small, but growing share of our trade is with emerging economies, and while the share of UK trade with emerging economies has been growing, it has grown less rapidly than has been the case for other advanced economies. This represents an opportunity for the UK. Only a tiny proportion (0.6%) of the UK's trade in goods is with low income countries (LICs). So there is potential for growth here too, and their engagement in trade will also be of fundamental benefit to the UK firms who will gain new markets and new sources of inputs. The growing importance of the Fairtrade brand (UK Fairtrade sales amounted to £800 million in 2009 up from £22 million in 1998) indicates that UK consumers have an increasing preference for helping developing countries to trade their way out of poverty.

1.17 In most countries, including the UK, only a minority of firms account for the majority of exports. SMEs (companies with less than 250 employees) tend to export a low proportion of their output: for example, half of exporting firms in the UK with 10 – 49 employees export less than 7% of their output. This may be due to the fact that many firms do not do more than respond to enquiries from overseas. Recent surveys show that the UK had a slightly lower share of exporting SMEs than the EU average and that the share of UK SMEs' revenues accounted for by exports was also lower than the EU average. Evidence certainly suggests that smaller and innovative firms face disproportionate barriers to exporting, a theme that has been strongly reflected in the results of annual UKTI surveys. There is a vital role for the Government in encouraging firms to export, in addition to the Government's market access work to reduce barriers to trade and the support services provided to firms to help them overcome obstacles and enter new markets.

1.18 Available evidence suggests that international trade is a more important driver of economic prosperity for some UK regions than for others. For instance, the ratio of total exports of goods to regional gross value added was between 8.3% (London) and 23.9% (North East) in 2009, against 17.9% for the UK as a whole. Although further reliable statistics are not available, it is very likely that there are also significant disparities between regions in terms of reliance on trade in services and on foreign investment.

Investment

Stock of UK outward and inward foreign direct investments (£ billion)



Source: BIS from ONS Foreign Direct Investment statistical bulletin, on 31 December 2009

1.19 Inward investment enables the UK economy to grow and create or maintain employment. It can also bring know-how, technology and the means to increase the UK's productive capacity and it also diversifies the economy's sources of capital. In 2009, new inward FDI created more than 53,000 jobs in the UK. While the UK recorded a fall in its inward investment position in 2009, it remains one of the top three recipients of FDI in the world, with a stock of over £652 billion at the end of 2009. Most inward investment to the UK came from other OECD countries (90%), with the largest share coming from other EU member states (54%). But this is beginning to change.

1.20 The UK continues to be home to more European headquarters of overseas companies than all the other European economies combined. This matters because such headquarters are often the base for higher value-added work, such as design, research and development or raising finance. Inward investment makes a key contribution to innovation and R&D in the UK. Within the OECD, the UK is second only to the USA in attracting R&D investment from abroad. The perceived quality of the UK research base was rated the most important factor in attracting these projects. Inward investors account for some 40% of UK business R&D.

1.21 The profile of investors is changing. While traditional investors such as the US, Japan and other advanced economies still provide the great majority of non-EU investment in the UK and will continue to do so for the foreseeable future, flows of inward investment from emerging markets, especially China and India, has increased in recent years. The UK's success in attracting FDI is in part the result of a pro-active promotion strategy focused on areas where there is market failure. There are many other factors contributing to the UK's success in attracting investment including UK competitiveness, flexible labour markets and skills, a stable and transparent legal system, a low regulatory burden, our membership of the Single Market and the quality of life in the UK. But the competition for FDI, including from emerging economies, is intensifying and so the UK needs to raise its game.

1.22 Investment in other countries enables British businesses to grow and diversify. The UK is the world's third largest foreign investor and at the end of 2009 the UK's total stock of FDI in other countries stood at £1034 billion. Most is in the rest of the EU (54%) and the Americas (33%), with just 3% going to Africa. However, in recent years, the stock of UK investment in other parts of the world has been growing at a faster pace, in particular in Asia, where UK outward FDI stock rose by over 55% between 2006 and 2009. In 2009, earnings from UK direct investments abroad represented around 5% of Gross National Income. Sovereign Wealth Funds (SWFs) and State Owned Enterprises (SOEs) are a modest but growing part of the international investment landscape with those based in the Gulf and China playing a prominent role. SWFs are not homogeneous; their size, governance and motivations differ enormously. Most SWFs are typical profit-motivated investors who will invest where risk-adjusted returns are highest.

1.23 Investment in other countries can sometimes also provide a way of accessing opportunities in markets that maintain barriers to imports. Research has found that outward investment by UK firms in low and medium tech industries is associated with productivity growth both to the firm in question and also to other UK firms in the sector. Such investments may help firms to survive in an increasingly competitive business environment, maintaining jobs in the UK. An analysis of French firms has found that investment in other countries is associated with stable or even increased employment in the home country. It also frees up resources at home to undertake more productive activities and makes a direct contribution to the UK economy through income earned on foreign assets owned by UK investors.

The Impact of the Global Economic Crisis

1.24 Trade and investment were hard hit by the financial and economic crisis of 2008 – 2009. The shock to the global economy was severe and accompanied by a sharp fall in world trade from which no economy emerged totally unscathed. The value of goods exports in seventy leading economies fell by 23% in 2009 compared to 2008. While the fall in trade was sudden and sharp, the recovery has been relatively rapid, with much ground regained. The IMF estimates growth of 12% in global trade volumes in 2010. The Office for Budget Responsibility's November 2010 Economic & Fiscal Outlook forecasts world trade growth of around 7% per year over the coming five years. However, there is still significant uncertainty, especially about the pace, consistency and distribution of the global economic recovery. Asian economies are contributing strongly to growth, but growth in the US and Europe remains fragile. Widespread global production chains may in part explain the high degree of synchronisation of the downturn and its sharpness (with trade falling much faster than output).

1.25 UK trade fell with global demand, but not as much as elsewhere. There was an 8% decrease in UK exports of goods and services by value in Sterling in 2009. This more limited fall may owe something to Sterling depreciating, but also to the specific pattern of UK trade. The UK is relatively less heavily dependent than some other countries on manufacturing exports, especially of consumer durables and capital equipment, the products that saw the steepest falls in trade. Sectors which are more important for UK trade such as pharmaceuticals were more resilient to the downturn. In value terms, UK manufactured exports fell by 8% whilst service exports declined by only 4%. Still, even though this performance was better than elsewhere, given the importance of exports for firms' growth, one can expect the decrease in UK exports in 2009 to have some lasting negative impact on the UK's long term growth prospects.

1.26 Foreign Direct Investment (FDI) was also affected by the crisis. After a 16% fall in FDI global inflows in 2008, flows declined a further 37% in 2009. The fall in FDI flows in 2009 is mainly accounted for by the decrease in cross-border mergers and acquisitions. Recent evidence points to a modest recovery in FDI flows in 2010, with global inflows expected to return to 2008 levels by 2012. However, these forecasts depend on many factors, including the sustainability of the global economic recovery. Changes in global FDI patterns are likely to continue post-crisis, with the relative weight of developing and emerging economies as both destinations and sources of global FDI expected to keep increasing. A continuing decline in manufacturing FDI relative to FDI in primary and services sectors is also likely.

1.27 Sound macroeconomic policies adopted over the last decade as well as high commodity prices, have meant that the economic impact in most developing countries, including those in Africa, was not as dramatic as had been feared. But even despite this, the result was to slow and in some countries reverse, recent progress in reducing poverty, with estimates suggesting some 64 million additional people thrown into poverty as a direct result. Moreover, given the lack of social safety nets in developing countries, even small economic shocks can have large impacts in terms of nutrition, health and the loss of livelihoods. As a result, the human costs of the crisis fell disproportionately on the poorest countries. Developing countries are also likely to bear the brunt of the longer term repercussions of the crisis, in particular due to protectionism and the drying up of trade finance. The crisis instigated welcome and major reforms to the international architecture for assisting LICs in the face of these major external shocks. These reforms will go some way towards assisting them to respond in future economic crises but there is still more to do.

Challenges to open markets

1.28 This background explains why trade policy must become a more urgent concern of the world's economic policymakers. The immediate damage done by the crisis, its potentially protectionist legacy, and the need to spur trade and investment as part of rebuilding global growth, all require political attention. But the world is also facing new challenges that must be addressed if we are to continue to benefit from open markets in the future.

Protectionism

1.29 The most encouraging aspect of the reaction to the economic crisis has been the collective global agreement to adhere to open markets. Unemployment, macroeconomic imbalances and currency tensions have strained this consensus, but there has not been a wholesale surge in traditional protectionism such as tariffs and export restrictions. This contrasts with the 1930s, when the US introduced the 1930 Smoot-Hawley tariff Act, which raised import duties by about 20 percent: extensive increases in duties were made almost immediately by Canada, Cuba, Mexico, France, Italy and Spain.

1.30 Yet this largely positive outcome must not hide the genuine setbacks. Despite the continuing global recovery, there is evidence of governments persisting with crisis measures that in ordinary times would be considered protectionist. Many governments have implemented subtler, non-tariff means of protectionism, such as subsidies and support packages, 'buy national' incentives and pressuring companies on where to locate production facilities. There has also been increased use of export restrictions. If these measures became part of the post-crisis trade regime, they would have a lasting, dampening impact on trade flows. The WTO describes it as a crucial challenge for the G20 to wind down emergency measures as soon as possible.

1.31 Overall, we cannot be confident that protectionism will not return. We should be clear about the damage it can cause: constraining the benefits of trade and investment, disrupting supply chains, increasing costs faced by consumers and producers and souring the climate for global cooperation.

Trade finance

1.32 Given that the recent crisis has been characterised by problems for much of the global financial system, it is not surprising that access to trade finance – an essential enabling mechanism for trade – has been affected. The financial crisis reduced the availability and increased the price of, international trade finance, thereby contributing to the dramatic decline in global trade. Even with domestic and international measures, the global recovery in trade finance has been uneven, with very limited and expensive, private sector finance cover for developing and low-income countries. There is also a concern that trade finance markets in general, including in the UK, have tilted against new or small firms in particular.

1.33 The financial crisis showed the need to build a stronger, safer international financial architecture. A robust regulatory framework and well capitalised banks will play an important part in safeguarding against the negative impacts of financial crises, which have a damaging effect on trade finance availability. As part of this architecture it will be important to ensure trade finance is treated appropriately under the New Capital Framework (also known as Basel III).

Global issues

1.34 Efforts are required to ensure the global population has enough to eat and has access to medicines. Here the world needs to find a way of addressing the need without inadvertently taking a protectionist path. There are, for example, different views on whether trade and investment rules worsen or assist food security, but the UK's position is that open trade is essential to ensure that the world's food supplies can reach the right markets. Greater openness will also present opportunities for British firms providing agricultural products and services, for example those specialising in areas of agricultural research such as plant science and diagnostics. These firms, many of which are small or medium sized enterprises, could benefit from a more open trade regime in services, and the sharing of their expertise could help to increase agricultural productivity and food production in other parts of the world.

1.35 We have to ensure that the rules of the 21st century enable both the dissemination of new technologies and the incentives to develop them. An effective international intellectual property framework is crucial to innovative business seeking to operate in new markets, but there are still many barriers to those who seek to access, use and license intellectual property rights across borders. Meanwhile we must ensure that intellectual property provisions in trade agreements do not affect the ability of the poorest to access low cost medicines. The application and enforcement of intellectual property laws can also vary significantly between different markets, creating barriers and disincentives to innovation and growth. The UK's approach to international intellectual property will seek to make the framework work well.

1.36 Climate change poses at the same time a major threat to global prosperity and well-being and an important opportunity. The expansion and liberalisation of trade in environmental goods and services, particularly in low-carbon sectors, can make a significant contribution both to tackling climate change and to leading economies out of recession. More open, flexible economies are expected to be better placed to cope with climatic shocks and to adapt to trend changes in the climate. Overall, only a global commitment to green growth can ensure sustainable increases in living standards. This will require the dissemination and transfer of technology at an unprecedented rate, for which open markets and trade will be vital – a better approach than pursuing potentially harmful border adjustment mechanisms. But trade itself can have negative environmental impacts, including through emissions from transport. These are not covered in this White Paper, but will be explored further in a separate paper on Trade and the Environment to be published later this year.

1.37 Liberalisation of trade is also needed to enable the very significant levels of investment required to meet rising global energy demand and to maximise the huge business and wider economic opportunities of doing so. International energy companies – including UK majors – bring both the expertise and the finance to increase oil, gas and low carbon energy production in partnership with others around the world. However, they can only do so effectively in markets open to foreign investment, with stable fiscal and regulatory environments that recognise the multi- billion pound size and decades long lifetime of major energy projects. We also need to work for transparent, competitive energy markets that allow greater diversity and reliability of energy supplies, free from inappropriate or arbitrary political and regulatory constraints.

Regulatory barriers

1.38 Regulatory systems now present the most significant barriers to trade and investment. Diverse use of technical regulations and standards and a lack of transparency can be problematic. National regulations sometimes seem to be set arbitrarily and can be used as an excuse for protectionism. A European Commission report estimates that approximately half of the barriers in place are 'behind the border' measures. These barriers affect both the developed and the developing world and those in the developing world have less voice and ability to negotiate change. For the EU, completing all ongoing trade negotiations would add more than 0.5% to EU GDP, and making further progress on services and regulatory issues with major trading partners could push this figure above 1% of EU GDP. But there are real challenges to making progress in this sensitive area where domestic regulation is often deeply rooted and where there is a growing cadre of national and supra-national regulators.

International relations and national security

1.39 International relations are increasingly complex. The number of players in any international negotiation has grown rapidly: there are now 153 members of the WTO. More importantly, with the rise of the emerging powers such as China, India and Brazil, the number of real powers that can substantially influence negotiations has grown. While this is welcome, it makes reaching agreement more complicated. This has been one factor in the failure of some international negotiations in recent years (for example at Copenhagen) and has probably made it more difficult to bring the DDA to a conclusion. Finding ways to manage this is becoming a major challenge and requires policymakers, especially in the EU and US, to adjust their approach.

1.40 Trade and national security are also linked. A well-regulated trade in defence and security products provides an opportunity to underpin strategic relationships, enhance the security capacity of our allies and help to sustain a critical mass and reduce costs to our own high-technology defence and security industries. The UK is a world leader in many parts of these industries and therefore the UK already has one of the most effective export control regimes for military and dual use goods. However, the boundary line between military and civilian applications is increasingly blurred, with high-specification goods and technology designed for military use being used in general commercial applications (for example secure communications, advanced materials, space technology) and vice versa. This creates new risks for companies trading in these goods who may unwittingly be drawn into supplying overseas regimes with military capabilities that run counter to the UK's foreign and security policy interests. We need to ensure that our export control arrangements are responsive to these new circumstances.

1.41 Trade Sanctions are a tool that can be used, generally to exert economic pressure on countries in order to motivate political change. The Government supports the use of such sanctions when appropriate and preferably with broad international backing, while recognising that we should only resort to such sanctions after the most careful consideration of their negative consequences.

Conclusion

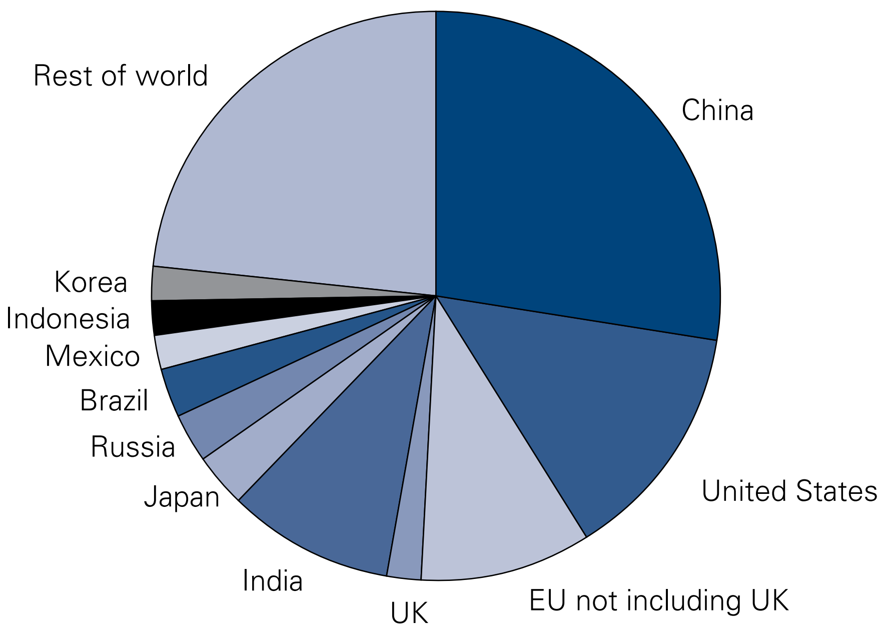
1.42 Trade and investment flows are central to durable and sustainable global growth. Much of the UK's economic success comes from its ability to participate in global trade and investment, to the benefit of companies and people in Britain. Many developing countries too have gained much from increased interaction with global markets. Although the economic crisis has not fundamentally threatened the open global economy, there are still risks to trade and investment. Britain needs to be a voice in favour of openness, of free trade and investment. Not only is that right globally, it is also a central route to producing growth, prosperity and wealth in the UK and around the world. The rest of this White Paper sets out the Government's strategy for doing just that.

Chapter 2: Opportunities for Trade and Investment Growth

2.1 The potential for growth in trade and investment over the next decade is huge as demand picks up in those countries adversely affected by the economic downturn, and the fast growing emerging markets continue to play a larger role in global trade and investment. The IMF forecasts the world economy will expand by $20 Trillion over the next five years, with advanced economies contributing around $8.5 Trillion while faster-growing emerging and developing economies contribute around $11.5 Trillion. In recognition of these opportunities, the Government will work to improve the access that UK businesses have to established markets like the EU and USA and also to the fast-growing emerging markets where the new opportunities to grow will be greatest, in particular in India and China. The Government will mobilise all of its extensive overseas network through the FCO and UKTI to get behind British business and relentlessly pursue those markets that we think provide the best oppportunities.

2.2 According to the IMF, the list of the top ten largest economies will look very different in 50 years time, with China and India growing closer to the EU and the USA.

Top 10 contributors to global growth 2010 to 2015



Source: IMF WEO, October 2010

2.3 The Government's long-term goal is open trade and investment flows with all countries, including through Sovereign Wealth Funds (provided that they meet corporate governance standards and do not break competition or national security restrictions). Of course this goal presents different challenges in different parts of the world. In order to realise the potential to grow through trade and investment, we will continue to work through the EU, including through EU trade negotiations with fast-growing economies, and bilaterally, to remove barriers that remain. Regular and country-specific consultation with business is the principal way in which the Government establishes the barriers of highest priority in trade negotiations and to pursue bilaterally. We also work with many governments in the developing world to assist them to use trade as a tool for growth and poverty alleviation.

2.4 Trade and investment relationships also form an integral part of the UK's wider relations with countries around the world. Our strong bilateral relationships with other countries underpin our economy, our trade and investment success and our wider influence in global economic affairs. Our friendships and partnerships with other countries enable us to be effective in supranational and multilateral bodies: the EU, the G20 and the UN Security Council. The legitimacy and credibility of multilateral agreements are built on a myriad of bilateral relationships. As the world is becoming more complex with a greater range and number of powerful players, bilateral relations between countries remain as important as ever. It is fundamental to the success of our trade and investment policy that we nurture our long-standing alliances and partnerships and that we build new ones. This goal requires effective economic and commercial diplomacy, led by close Ministerial relationships with international counterparts, across the whole of government.

2.5 This chapter looks at global trends in growth, examines the UK's current trade and investment relationships and identifies markets where there are new opportunities for business.

Trends

2.6 Europe is the world's biggest free trade area and the UK's most important market today. The EU is vital to the UK's growth and prosperity, with European markets accounting for half of the UK's total exports of goods and services. Seven out of the UK's ten main export markets are in the EU and investment from the EU accounts for 54% of the total stock of FDI in the UK.

2.7 The Single Market has driven growth in the EU. Businesses have benefited from the opportunities provided by the Single Market: access to new markets; better connected and cheaper networks; mutual recognition of standards; and easier access to cheap and competitive inputs. In addition, greater competition within the single market has fostered innovation and created more choice and lowered prices for consumers. But the EU remains a relatively slow-growth region of the world.

2.8 About 25% of the UK's trade is with developed countries outside the EU including the US, Canada, Japan, EFTA (including Switzerland), Australia, New Zealand and Israel. About one third of the UK's stock of FDI at the end of 2008 was from these countries. The US is Britain's largest market after the EU and is the leading destination for British overseas investment. Although these are generally relatively low growth markets, UK trade with them increased by around 50% over the last ten years and they are still more significant markets today for UK firms than are many emerging markets.

2.9 The major emerging powers of Asia, Latin America and the Gulf have been the fastest growing in recent years and are recovering more quickly from the crisis than others. The eight largest emerging markets have a combined GDP roughly equal to that of the US, but in 2009 the UK's exports of services to these markets was around a third of that to the US. This represents an opportunity for the UK to grow its exports. From a low base, absolute trade between the UK and the emerging powers has more than doubled over the last decade and trade with the BRICs increased fourfold. This growth has pushed emerging markets' share of UK trade from under a sixth to over a fifth. About 11% of the UK's stock of outbound FDI at the end of 2008 was in emerging markets.

2.10 Only a tiny proportion (0.6%) of the UK's trade in goods is with Low Income Countries (LICs), most of this with Bangladesh, Kenya and Ghana.

The European Union

2.11 The EU is likely to remain the major market for British trade and investment over the medium term, with Germany, France and Benelux countries likely to remain our most important trade partners. There is also particular potential for working closely with the Nordic and Baltic countries, notably in renewable energy, energy efficiency and innovative technologies.

2.12 However, long-standing structural weaknesses in the European economy, in particular product and labour market rigidities, could slow recovery in the short to medium term. The World Bank predicts 1.8% GDP growth in the Eurozone in 2012 compared with 3.0 per cent in the US and 8.2% in China. This means that boosting European growth, through further Single Market reforms for example, is central to trade and investment growth for UK firms within the EU, as well as in our national economic interest.

2.13 The potential for reform of the Single Market and the wider European economy is great. Significant non-tariff trade barriers remain in the Single Market. Recent analysis suggests that current trade between the UK and other EU member states could be as much as 45% below potential. In today's terms this would equate to untapped export potential of around £80 billion. Completely removing these non-tariff obstacles to trade could translate into 7% additional income per capita per UK household.

2.14 Research has also found that the use of international standards increases trade, by opening up markets to products and services meeting these standards. This makes interoperability standards an essential feature of a widening range of products. Internationally accepted standards can facilitate the remaining obstacles to free circulation of products and give a major boost for trade in goods between EU Member States.

2.15 The Single Market has contributed to the growth of inward FDI to the UK and outward FDI by the UK to other EU countries, by reducing access costs to a larger market and by increasing returns on investment. Important potential future FDI gains are possible from further improving the functioning of the Single Market, particularly in relation to services. Furthermore, a reduction in the costs of non-tariff barriers between EU member states would increase the overall attractiveness of the UK and EU as a place in which to invest.

2.16 So Europe is our principal market, but there is much still to be done in maximising the opportunities for trade and investment.

Developed countries beyond the EU

2.17 Trade and investment is already very open with the rest of the developed world, including the US, Canada, Japan, EFTA (including Switzerland), Australia, New Zealand and Israel. But the volumes are high, so relatively small improvements could yield significant benefits.

2.18 The barriers to deeper economic engagement with these countries tend to be regulatory not tariff-related. The Government considers addressing these to be a top priority. We need to develop greater regulatory co-operation in areas such as new technology (e.g. healthcare and environment sectors), better mutual recognition of standards and certification processes and improved access to services markets and public procurement opportunities.

US

2.19 UK-US trade relations are exceptionally close. The UK is the largest foreign investor in the United States (stock of $454 billion at the end of 2009). The UK and US are each other's largest services partners. Two-way trade in goods and services in 2009 was $184 billion, representing 22% of total EU-US trade that year.

2.20 The US is the UK's largest source of foreign direct investment (stock of £159 billion at the end of 2009), providing over a million jobs in the UK. Over a quarter of the new UKTI investment projects in the UK in 2009/10 were from the US, creating over 31,000 new jobs, more than the next five largest investors put together. Financial services (other than banking) account for just over one third of US investment in Britain and manufacturing just under one third.

2.21 The US is one of the largest foreign investors in research and development in the UK and the UK's most important scientific partner. Many multinational US firms collaborate with UK universities: this is important to the long-term competitiveness of the UK's science base and to firms' international competitiveness.

2.22 These deep trading and investment relationships stem from shared history and culture, strong underlying relationships and political and economic stability. The US is also a gateway to wider market access to Canada and Mexico through the North America Free Trade Agreement (NAFTA). There is proactive support at state level for international investment. With the exception of a few import quotas and some strategic industry ownership restrictions, there are few limitations on foreign firms seeking to do business in the US. **There are three sector-specific areas in the US – Public Private Partnerships, High Speed Rail Transit and Low Carbon Energy – where the UK Government can play an important role in helping UK businesses secure significant contracts**.

2.23 However, many UK businesses face difficulties from the enormous complexity of the US regulatory environment and from litigation risks. If the EU and US were to move together to "best practice" regulation, EU GDP per capita could be boosted by between 2% and 3.5%. This would require getting upstream regulation right, by encouraging consultation and best practice between regulators on both sides of the Atlantic. Accordingly, an important instrument in dealing with these regulatory issues is the EU-US Transatlantic Economic Council (TEC). **The Government welcomes renewed EU and US efforts to reinvigorate the TEC and is committed to strengthening and expanding it**, following the progress made at the TEC Summit in December 2010. We want the TEC to continue existing work in areas such as information and communication technology, chemicals, pharmaceuticals, reinsurance, securities trading, air and maritime services, intellectual property and secure trade. We also want the TEC to press further on cross-cutting regulatory issues, through the High-Level Regulatory Co-operation Forum, especially in innovative areas like energy efficiency, e-health, bio-based areas and electric vehicle standards.

2.24 Finally, at the global level, the US is pivotal to the conclusion of the DDA. Completing the DDA will depend in part on the US showing flexibility in areas of interest to negotiating partners, including in agriculture. US action at the G20 Summit in Seoul was a welcome signal of the pro-free trade stance that will be needed from the US Administration in 2011 if we are to conclude the DDA deal. However, US business and Congress consider the current DDA offer to lack sufficient access to emerging markets for US firms. Certainly, negotiations on further market access for US firms in China, India and Brazil will be crucial to the success of the DDA.

Japan

2.25 Japan is the world's third largest economy and a significant contributor to UK prosperity – both as an export market and as a major investor. The value of all UK exports to Japan exceeded £8 billion in 2009, 2.3% of all UK exports. And trade is continuing to grow fast: goods exports between January and November 2010 rose by 23% compared with a year earlier, while total UK goods exports only rose 16% over the same period.

2.26 UK exports to Japan include chemicals, pharmaceuticals, automotive components and cars, electrical machinery and scientific instruments. There are about 450 UK companies operating in Japan including Rolls Royce, Cable & Wireless, AstraZeneca, GSK, GKN and Dyson. British retailers and designers with a presence in Japan include Tesco, Burberry, Lush, Topshop, the Conran Shop and Paul Smith. Succeeding in Japan can enhance companies' global competitive position and bring significant profit and technology advantages.

2.27 The UK benefits from a substantial amount of Japanese FDI; there are about 1,400 Japanese companies located in the UK including 100 who have set up their European headquarters in the UK. Japanese-owned companies employ more than 100,000 people in the UK, with Nissan, Toyota and Honda accounting for 50% of vehicle manufacturing. The automotive sector is largest in terms of manufacturing employment and capital expenditure, but the ICT and biopharma/healthcare sectors are also significant sources of investment.

2.28 Japanese companies are major innovators and Japan is the second largest spender on research and development in the world. The UK and Japan collaborate closely in R&D; around 6,000 Japanese research scientists are now based in the UK and around 1,000 UK researchers are based in Japan. The Government is committed to working through the EU to address regulatory barriers to pharmaceutical exports, where UK exports were over €500 million in 2008.

2.29 UK firms face a range of challenges in investing and operating in Japan. This is one reason why foreign investment in Japan represents only 3.9% of GDP (compared to 52% of GDP in the UK). If this figure could grow, it would benefit both the UK and Japan.

2.30 This is why **the Government supports launching negotiations on a comprehensive and ambitious EU-Japan Free Trade Agreement**, provided that it can address the full range of barriers that currently face British companies wishing to enter and succeed in the Japanese market. The potential gains are significant: the maximum removal of tariff and non-tariff barriers between the EU and Japan could deliver €43.4 billion additional EU exports to Japan.

2.31 In international trade negotiations, Japan is a long-standing advocate of a conclusion to the DDA, but, like other countries, will need to be prepared to go further to help conclude the deal.

Other Developed Countries

2.32 Canada is also a major export market for the UK. £6 billion of UK goods and services were exported to Canada in 2009 and the UK is the second largest foreign direct investor in Canada after the US. Canada is also an ally in seeking a successful conclusion to the DDA and supports open markets actively within the G20. There is scope for more trade and increasing liberalisation with Canada in the areas of procurement, financial and business services, industrial sectors such as machinery, pharmaceuticals and automotives, as well as for agricultural products. **The Government's main priority for Canada is completion of an**

ambitious EU- Canada Comprehensive Economic and Trade Agreement (CETA). We hope this will be possible later in 2011. Initial analysis suggests that the economic benefits to the UK of the CETA could be over £420 million in the short run and over £1.3 billion in the long run. UK businesses would also benefit from modernisation of the intellectual property regime in Canada.

2.33 The Government will **encourage a stronger partnership between British and Israeli companies** to exploit the potential synergies between Israel's high levels of innovation and British strengths in design, business growth and finance, as well as the UK's own high technology and scientific strengths.

2.34 The UK enjoys strong trade and investment relationships and close bilateral relations with other developed countries, notably (in this context) Australia, New Zealand, Singapore and Switzerland. These countries are important opinion leaders in trade and investment policy and their views can influence the international debate significantly. All are important advocates for concluding the DDA. **We will work closely with all of them on the range of issues identified in this White Paper**.

The Emerging Powers

2.35 The emerging powers (notably China, India and Brazil) are experiencing rapid growth. Their middle classes are growing fast. They will become increasingly important consumers of higher-value-added goods and services. The rise of the emerging powers is not only reducing poverty globally, but represents a major opportunity for UK trade and investment. Hitherto, the emerging powers have been considered attractive mainly as low-cost manufacturing bases for international business, but this is beginning to change.

2.36 The Government has an ambitious vision for elevating the UK's relations with the Emerging Powers by boosting the UK's commercial, political, development, cultural, economic and educational ties with these countries. UKTI is already targeting seventeen high growth emerging markets where there are growing opportunities for UK business. It is in the UK national interest to ensure Britain and British firms can take advantage of the opportunities for future prosperity through bilateral trade and investment in partnership with the emerging powers.

2.37 UK trade with these high-growth markets has more than doubled over the last decade and has been particularly strong in the fastest growing markets. But the UK's share of China's goods imports fell from 1.8% in 1999 to 0.9% in 2009. The shares for the US, Japan, France and Italy all also fell, as China imported more from other Asian economies and exporters of raw materials. Germany is the only exception to this trend; it is particularly competitive in capital goods which the emerging markets need at this stage in their development. But analysis suggests that higher prices charged for UK goods are the primary cause of the UK's loss of market share.

2.38 There are other reasons too. Securing the opportunities is not always easy. The emerging powers are often more challenging places for British firms to do business. In some countries market access is getting harder. Exports are held back by excessive regulation, by other non-tariff barriers and by difficulty in gaining access to the right business and government contacts. Overall, barriers to trade and investment with the emerging powers are generally higher and commercial decisions can be influenced by political factors. As the Government has set out in the National Security Strategy, we therefore need to give more attention to developing strong political as well as economic relationships with the emerging powers. This will ensure UK companies can take advantage of the commercial opportunities and maximise the prospects for the success of the UK's commercial diplomacy.

2.39 One particular issue of importance to many UK firms is intellectual property (IP). China, India and Brazil are working to bring their IP systems up to global standards. Their commitment in doing so is likely to grow as increasingly they become independent innovators. Still, there are growing backlogs and delays in processing applications and weak enforcement. **The Government will provide practical support by strengthening relations between intellectual property authorities and by tackling common problems**.

China

2.40 China has experienced thirty years of uninterrupted growth averaging 10% per annum. This has transformed it into the second largest economy in the world. It is the world's largest exporter and the third largest importer and is expected to continue on its rapid growth trajectory over the next five years. China is the UK's biggest trading partner outside the EU and the US. Even so, it accounted for only 2.4% of UK exports of goods in 2009. China's next phase of development presents a huge economic opportunity for the UK. **At their November 2010 summit the Prime Minister and Premier Wen agreed to a target of doubling the value of bilateral trade to $100 billion a year by 2015**. China's explosive re-emergence as a global economic force has already brought significant benefits. The UK is a top EU investor in China and recipient of Chinese inward investment. The next decade or two could see a dramatic acceleration in China's development as domestic consumption increases further and Chinese companies increase their international activity. Moreover, Chinese policies are critical for sustainable, low carbon, global economic growth, security and international development.

2.41 Although China's import tariffs are generally low and foreign companies in some sectors are doing good business in China, many foreign companies find the business environment challenging. Problems include selective inward investment regulations, uneven intellectual property enforcement, standardisation issues, an aggressive approach to technology transfer, limited access to public procurement and opaque and discriminatory licensing and certification requirements. Some commentators believe that the foreign business environment in China has deteriorated in recent years. Many foreign companies seeking to operate successfully in China's domestic market now find themselves competing against increasingly capable Chinese exporters in international markets.

2.42 **The UK will continue to use the full range of its ministerial and official level contacts with China, including its annual Summit, Economic and Financial Dialogue and Joint Economic and Trade Commission, to raise with the Chinese authorities the difficulties faced by individual UK companies, as well as to encourage greater Chinese investment in the UK including by Sovereign Wealth Funds. We look to take full advantage of the opportunities afforded by WTO dispute resolution mechanisms. The UK is also working to encourage the EU to adopt a more strategic, systematic and sustained approach to lobbying on market access and business issues, notably through the High-Level Economic and Trade Dialogue established in 2008. The EU is actively working to assist China in applying to join the Global Procurement Agreement.**

2.43 Internationally, China has assiduously extended in recent years its network of FTAs, prioritising countries in the East Asia region and those with natural resources to which China seeks easier access. China would be a major beneficiary of a successful conclusion of the ongoing DDA negotiations; and, as the world's second largest economy, it is increasingly influential in international negotiations including the DDA. It is important that China plays a leading role in helping to conclude the Round, including through offering more market access in industrial sectors and in services.

India

2.44 India is the world's second fastest growing major economy. It has massive future growth potential and is expected to grow by 8 – 10% annually over the next five years. This represents a significant opportunity to enhance the UK's extensive bilateral trade and investment relationship and at the same time to address some of the developmental challenges that India faces.

2.45 UK-India relations are already deep and rich. India and the UK share history, politics and culture. It is therefore natural that the bilateral trade relationship is growing rapidly. UK-India trade to and from the UK came in at over £11.2 billion in 2009. The UK is the fourth largest investor in India, whilst India's stock of FDI in the UK reached £3.6 billion at the end of 2008, an increase of more than 160% from 2007. The UK is seen as a natural partner for collaboration, in particular on education and skills, low carbon/energy efficiency, science and research and advanced manufacturing, including in aerospace and defence.

2.46 **The conclusion of an ambitious EU-India Free Trade Agreement (FTA) in 2011 is a top UK Government priority**. This will create significant benefits for both India and the EU, amounting to as much as €4 billion by 2020. Despite India's economic liberalisation since the early 1990s, there remain significant tariff and non-tariff barriers to the Indian market for British businesses. An ambitious and comprehensive EU-India Free Trade Agreement that addresses these barriers could deliver significant economic benefits to the UK as well as helping to reduce poverty in India. The Government will continue to work through this route and through wider economic and business dialogues to encourage further liberalisation of Indian markets, particularly for financial and professional services and on goods including wines and spirits, defence, chemicals and automotive parts. **The UK will work towards doubling trade with India by 2015**.

2.47 Internationally, India is a key player in the DDA negotiations reflecting its growing importance in international trade and publicly supports its conclusion on the understanding that the outcome genuinely supports development in poorer countries. India is an influential member of a number of groupings in the WTO, including the G20 (Group of Developing Country Agriculture Exporters), G33 and NAMA 11, which reflects its wide range of interests in the negotiations. India publicly supports conclusion of the Round, but it is important that – like other countries – India increases its offer to help complete the DDA.

Brazil

2.48 Brazil is the eighth largest economy in the world. It accounts for 55% of South America's GDP and has significant regional importance in trade negotiations. Brazil has recently championed the conclusion of the Sao Paulo round of the global system of trade preferences and it is a leading member of Mercosur, a customs union between Brazil, Argentina, Uruguay and Paraguay. Brazil's economy is forecast to grow by 4 – 5% per year over the medium term and to become the fifth largest economy within a generation.

2.49 Opportunities for UK companies abound. The UK ranks ninth as a source of FDI in Brazil with investments approaching £5 billion in 2009. UK companies have significant investments in the oil and gas, mining and financial services sectors. Brazil also has the most cited science base outside the G8. Brazilian FDI into the UK is starting from a very low base, but interest is growing consistently and with substantial scope to grow further. Looking forward, there are **opportunities to build on the strong relationship between the London 2012 Olympic and Paralympic Games and Rio 2016 Olympic and Paralympic Games and to capitalise on burgeoning UK-Brazil scientific co-operation and collaboration, including in pharmaceuticals and energy**.

2.50 Nevertheless, although the EU as a bloc is the largest trading partner for Brazil, the UK-Brazil bilateral trade and investment relationship is underdeveloped. Moreover, the Brazilian business environment is a challenge for UK business, in terms of both the costs and complexity of operations. The Government aims to make progress on behalf of British companies by **supporting completion of an ambitious and comprehensive EU- Mercosur FTA in 2011**. This would give the EU access to a rapidly growing and highly protected market. An ambitious deal would deliver at least 90% liberalisation in tariffs, including on industrial goods, pharmaceuticals, automotives and wines and spirits; services liberalisation, including financial, professional and retail; and new market access on procurement.

2.51 As one of the most competitive agricultural exporters, Brazil will be one of the biggest winners from concluding the DDA and has traditionally played an influential and positive role in negotiations. It will be important that this continues and that Brazil, like everyone else, is prepared to increase its offer to help bring about conclusion of the Round in 2011.

Russia

2.52 The UK exported to Russia goods valued at £2.4 billion in 2009, substantially down as a result of the economic crisis and falling demand for luxury imports, but now recovering. Russia is only the UK's 22nd largest export market. However, British firms have invested heavily in Russia and about 600 UK companies were operating in Russia in 2009. Nevertheless, widely held perceptions of a difficult business climate, high levels of corruption and legal uncertainty remain deterrents to UK firms exporting to and investing in Russia.

2.53 Some of these problems would be helped by WTO accession. Russia is the only major emerging power that is not a member – indeed it is the largest economy outside it. **The Government supports Russian accession to the WTO**, as it would not only have a positive impact on the global economy, but should also stimulate changes to the business climate in Russia and strengthen the rules-based trading system. Moreover, the economic benefits for Russia itself are significant. The World Bank estimates that Russia would gain $53 billion per year in the medium term and $177 billion per year in the long term (around 11% of GDP). The EU and Russia reached an understanding on WTO accession in 2010 and the UK hopes that Russia will be ready to join during 2011.

2.54 We also hope that the ongoing bilateral partnership with the EU will improve the situation. **Through the EU the UK will work with Russia to help harmonise international standards for goods and services, eliminate WTO-inconsistent investment measures and improve protection of intellectual property rights**.

2.55 Russian accession to the OECD would also help. Russia's application was accepted in 2007, but Russia will need to demonstrate OECD standards are met in a number of areas including: tackling corruption (the proposed new Russian Anti-Bribery Law and renewed willingness to join the Anti-Bribery Convention are both positive indicators), investment, corporate governance, employment, labour and social affairs, insurance and private pensions.

The Gulf

2.56 The Gulf is already a significant market for UK goods and services, despite its relatively small population of around 40 million (28 million of whom live in Saudi Arabia). Gulf economies are booming, with a strong drive to diversify away from oil and gas, open up economies and bring down barriers to trade and investment. Significant opportunities exist for British companies, not least in supporting the vast infrastructure work planned in the region. UK investment in the region was over £13 billion in 2009.

2.57 UK exports of goods and services to the Gulf were worth over £14 billion in 2009, on a par with China and India combined and are rising – by nearly a fifth in the last year alone. Gulf States' investment in the UK – in financial instruments, real estate and businesses – is also significant and growing. Investment from the Gulf in the UK economy totalled around £2.3 billion at the end of 2008.

2.58 The Government sees the Gulf as a priority region. **We will continue to work closely with the Gulf States, business and others to develop UK-Gulf trade and investment further, including through reaching agreement on the long-delayed EU-Gulf Cooperation Council (GCC) FTA. We will also focus on addressing burdensome regulatory requirements, disproportionate ownership restrictions, over-restrictive licensing and burdensome visa regimes**.

High growth economies

2.59 South Korea will be the tenth largest driver of world growth over the next few years. In 2010 it grew at the fastest rate in the OECD. It is a high-technology economy, with the fastest broadband internet access in the world and home to international brands such as Samsung, Hyundai, KIA and LG. This fast economic growth means South Korea has rapidly asserted itself as an international player, including as Chair of the G20 in 2010 and as a strong advocate for the multilateral trading system and WTO negotiations.

2.60 Partnering with South Korean companies is increasingly important and lucrative for UK firms. South Korea is the UK's 26th largest market in terms of goods exports (£2.22 billion). In 2009, the UK was the largest foreign direct investor in Korea. The UK is the second largest recipient of Korean investment in the EU. All this can only grow once the recently negotiated EU-South Korea FTA comes into force in July 2011 (subject to European Parliament assent), removing virtually all tariff barriers. The agreement will result in new opportunities for UK companies in South Korea, particularly in legal and financial services, pharmaceuticals, advanced engineering and the low carbon industry. It should bring about £500m in economic benefit to the UK each year. **We will support UK business in taking advantage of these new opportunities**.

2.61 Turkey, an EU accession candidate state, is in a Customs Union with the EU. The UK has long been a strong supporter of Turkey's membership of the EU, as a major emerging economy in Europe that is set to be Europe's second largest economy by 2050. Turkey is pro-trade and is seeking a series of bilateral trade deals, with a focus on Middle East and Caucasus markets. **Turkey presents a significant opportunity and the UK is aiming to double current trade by 2015, from a base of £9 billion**.

2.62 ASEAN, with over 500 million people, nearly half of them in Indonesia, contains a number of high growth markets of very different natures. The UK already exports more to the six major ASEAN economies than to either China or India, but there is scope to make more of the opportunities. In Indonesia and Vietnam the UK does not yet rank among the top ten trading partners. Indonesia in particular has a growing affluent and aspirational middle-class of around 35 million, equivalent to a substantial country on its own. The UK is the third largest investor there and the country offers particularly good opportunities in transport infrastructure, in deepwater gas exploration and production and the development of Coal Bed Methane for gas production. EU FTAs with Singapore and Malaysia are under negotiation and other FTAs with Vietnam, Indonesia, Thailand and the Philippines are under discussion. This should enhance market access significantly. **The UK firmly supports ambitious FTAs with these countries. They will bring significant economic benefits to the UK and should act as building blocks to a future EU-ASEAN FTA**.

2.63 Mexico is one of the most open trading nations in the world, with an extensive and growing network of bilateral trade agreements and it is one of the strongest proponents of the DDA. Globally, Mexico and the UK cooperate to promote the benefits of free trade, to fight protectionism and push for multilateral trade deals. However, even though there is an EU-Mexico FTA, UK exports make up less than 1% of Mexican imports and the UK-Mexico bilateral trade relationship is not well developed. The investment relationship is stronger, with the UK the fifth largest investor in Mexico. **The Government is committed to elevating our bilateral political and trading relationship with Mexico**.

2.64 South Africa is the UK's largest export and import market in Africa and alone accounts for 40% of Sub-Saharan Africa's GDP. **The Government is committed to progress towards our joint commitment to double trade by 2015, from a level of £8 billion**. As part of the Southern African Customs Union and Southern African Development Community, it also offers an important trading gateway to Africa and is a keen collaborator with us on the Africa Free Trade initiative. South Africa is also influential on the Doha negotiations. Within the African Union, South Africa has taken responsibility for making the North-South Corridor a reality, and is working with the UK and others to establish this trade corridor spanning three Regional Economic Communities. It is also a member of the G20 – which provides another platform for our countries to promote common aims such as African regional economic integration – and has recently been invited to join BRIC.

2.65 The opportunities in North Africa for British business are increasing as the region opens up to international trade and investment, though of course the recent political situation in some countries may affect opportunities in the short run. Major British businesses such British Gas, BP, Shell, Unilever, GSK, Jaguar and LandRover already operate across the North African region. Egypt's economy has been growing steadily and UK exports to Egypt had already topped £1 billion for the first three quarters of 2010. The UK is the largest foreign investor in Egypt, with £3 billion of assets, in oil and gas, financial services, tourism, pharmaceuticals, telecommunications, textiles and consumer goods. Egypt also currently plays an important role as chair of the International Monetary and Financial Committee. Algeria also offers good opportunities: UK exports to Algeria have more than doubled in the last five years and the UK is one of the largest sources of European FDI in Algeria. The UK is the dominant foreign player in Tunisia's energy sector. Morocco is a stable market with very good long term prospects across broad range of sectors as the emerging power implements far reaching development plans. Many British firms are successfully doing business across a range of sectors in Libya, a market which should continue to offer very good prospects

The Commonwealth

2.66 There is over $3 trillion in trade between Commonwealth countries every year. Its combined GDP nearly doubled between 1990 and 2009 and, by 2015, its share of world GDP will have grown by 15% since 1980. It contains several of the world's fastest growing economies that will shape the global economy of the future, including India, South Africa, Malaysia, Nigeria and Singapore. Singapore, Brunei and Malaysia form a link to ASEAN and make up a quarter of its entire GDP. The middle class in the Commonwealth has expanded by nearly one billion people in the last two decades, representing a huge and growing consumer market.

2.67 Overall more than half of Commonwealth countries now export over a quarter of their total exports to other members. This is a powerful network and there is evidence that Commonwealth countries trade more with each other than would be expected from other factors, because of the legal, political, cultural and linguistic bonds which link us. There is much scope to develop this further to help UK firms to compete.

The Developing World

2.68 The UK is committed to assisting poor countries take advantage of the opportunities in the global trading system. International trade is one of the most important tools in the fight against poverty. Just as in other economies, trade can stimulate growth, raise incomes and create jobs. Trade can increase the variety and lower the price of consumer goods and inputs to production, with knock-on effects for a country's productivity and competitiveness. Freer trade can improve food security for the millions of hungry people in the world. Export bans exacerbated the 2008 food price crisis, in which prices rose more than 100% in Malawi and Ethiopia. Effective trade linkages can help to secure stable food supplies, enabling imports to meet shortfalls in local production and can mitigate price volatility through better functioning markets. Trade and inward investment will play a key role in helping countries adapt to a changing climate. Freer trade can also reduce conflict, providing the long-term foundation of economic growth needed to bring lasting progress. More open borders can also bring countries closer together, increasing interdependence and making peaceful solutions to problems more attractive.

2.69 A priority for the Government is lowering trade barriers to the poorest countries, giving them greater access to global markets and assisting low income countries in trade negotiations. However, on its own this is not enough. Intra-regional trade barriers are also particularly significant for economies with small domestic markets, limited diversification or poor connections to neighbouring countries. Overcoming these regional barriers and promoting regional integration is important. Doing so can reduce the costs of trading and production significantly through realising economies of scale by promoting cross-border value chains, by driving down prices for consumers and businesses, by increasing the efficiency of key services networks and by reducing transport costs.

2.70 Reducing tariffs is just part of this task. In Africa, the average applied tariff is 11.9%, almost three times that between OECD countries, so there are gains to be made. However, the challenges go much deeper and include ineffective institutions, weak macroeconomic policy-making systems, poor infrastructure, complex regulations and a lack of skills.

2.71 Low income countries also face the highest costs to trade and have the least capacity to take advantage of technologies. Complementary government policies are essential to ensure firms and individuals can overcome these challenges and take advantage of new opportunities. Supporting developing countries to build their trade capacity at all levels will help them increase their trade with each other and with the world, supporting them to play a full role in the international trading system.

2.72 **Accordingly, the Government is committed to supporting ambitious Aid for Trade programmes, both bilaterally and through major multilateral partners, to help increase trade and regional integration in the developing world**. "Aid for Trade" means supporting developing countries in overcoming trade constraints, without aid being conditionally tied to trade with the donor country. It covers a wide range of needs, from developing effective trade policies to negotiating and implementing trade agreements, as well as undertaking reforms and infrastructure investments to improve competitiveness.

Sub-Saharan Africa

2.73 Despite reasonably strong growth in recent years, Africa is still marginalised from the global economy. Sub-Saharan Africa (SSA) has 12% of the world's population but 30% of the world's poor (income below US$1.25/day). It accounts for less than 2% of world income and 2 percent of global trade (actually down from about 4% in 1970).

2.74 Africa's longer term growth prospects are strong. Much of the global demand for oil, minerals, natural gas, food and agriculture and other natural resources is likely to be met from Africa because of its relatively abundant reserves. There is increased peace and macro-economic and political stability across the continent compared to the 1980s and 1990s.

2.75 Broader and deeper market integration in SSA is needed to realise this potential. Africa is poorly integrated into the global market, where most opportunities for exporting lie. Poor transport and communications infrastructure and costly and unreliable power supplies limit the functioning of African enterprises and households. Transport costs can account for as much as 75% of the total value of exports. These weaknesses in connectivity contribute significantly to raising the cost of doing business, which, in turn, constrain trade and undermines competitiveness. The challenges are particularly severe for the high concentration of LDCs and landlocked countries in the region.

2.76 Regional integration will help the many small or landlocked African markets take advantage of economies of scale and benefit from cross border infrastructure investments in transport, communications and power. African regional integration does not have to be inward looking; an "open regionalism" approach will at the same time help strengthen nations' ties with global markets. This is why supporting African trade and regional integration is a top priority for the UK Government. We will do all we can to support African leaders to implement their plans outlined in the 1991 Abuja Treaty – to develop free trade areas in each regional economic community (REC) as building blocks for a continent-wide customs union and ultimately an African Economic Community.

2.77 The UK's **Africa Free Trade initiative (AFTi)** is a programme of investment, technical assistance and political support for these objectives. We will use political engagement to build and maintain support for trade reform among decision makers and potential investors, technical assistance to translate political commitments into practice on the ground and overcome non-tariff barriers and coordinated investment to overcome the physical or 'hard' barriers to trade. We will build on the momentum achieved at the G20 in Seoul to engage others in support of these goals.

2.78 **We will help facilitate trade through an ambitious programme of investment designed to reduce bureaucracy and speed up border crossings**. The UK will help reduce costs and delays in the transit of people and goods along three key African trade corridors, notably the Tripartite North-South Corridor. This will improve the links between seven landlocked countries: Uganda, Rwanda, Burundi, Zambia, Zimbabwe, Botswana and Malawi and the sea. The UK will speed up transit times, including by investing in one-stop border posts, working with authorities to build facilities and to streamline trade bureaucracy.

2.79 **We will provide support to the Tripartite of COMESA** (the Common Market for Eastern and Southern Africa), **EAC** (the East African Community) and **SADC** (the Southern African Development Community) to establish a free trade area that covers 26 countries in East and Southern Africa.

South Asia

2.80 As discussed above, India is one of the world's major emerging powers and accounts for much of the South Asia region's 6% annual growth over the last twenty years. However, the region also suffers the highest concentration of poverty in the world, with over two-thirds of its 1.5 billion people living on less than $2 a day. It also faces big environmental challenges and energy shortages which are a major constraint to growth and job creation. Closer regional integration and cooperation will help ease many of these challenges. Both governments and the private sector in the region recognise this as a priority increasing growth, creating jobs and improving the lives of poor people.

2.81 Weak infrastructure, in particular in the energy sector, is a major constraint to growth in South Asia. Combined with logistics and regulatory challenges, this means that intra-regional trade flows are low compared to their potential. Improved trade facilitation and logistics could cut the cost of trading by up to 70% within five years, doubling intra-regional trade to $2.6 billion a year and boosting trade with the rest of the world by over 30%. Economic integration between

Bangladesh and India could raise growth in Bangladesh from 6% to 8% in the long run.

2.82 **The Government is focusing on using Aid for Trade to address the priorities of partner governments and businesses in the region**, spanning both the Eastern and Western Corridors of Asia. In doing so we work with and through multilateral partners, including the World Bank, Asian Development Bank and the International Finance Corporation, to ease transit and reduce the costs of cross-border trading; support closer regional cooperation on energy; improve the dialogue between firms and governments across the region so as to improve the regulatory environment; and assist in the creation of a regional mechanism to monitor non-tariff barriers and of an institution to settle disputes.

Caribbean

2.83 Although most Caribbean countries have reached middle-income status, significant pockets of poverty remain. The loss of preferential, guaranteed export prices and quotas has created challenges for the region, with small market size limiting opportunities for diversification and long-term growth. Growth rates have fallen in every decade since the 1970s. Levels of debt are amongst the highest in the world and act as a drag on competitiveness and limit policy options. The region also remains extremely vulnerable to economic shocks and natural disasters.

2.84 Securing and sustaining poverty reduction in the Caribbean requires not just raising incomes but also creating a more resilient economic base. In the trade context, **the Government aims to support this by implementing trade agreements and embedding regional integration** so as to increase trade opportunities at national and regional level. DFID has already supported the establishment of Economic Partnership Agreement (EPA) implementation units with the Caribbean Community Secretariat and in Grenada and Antigua and Barbuda, to help them implement the provisions of the EPA trade agreement. We aim to help improve the environment for business, reduce red tape and improve the region's investment climate. In Guyana, for example, we are supporting the establishment of a single window for international trade transactions which will lower the costs and time to export. Finally, we aim to support the private sector so as to foster innovation, encourage economic diversification and to access new markets. We are giving support through a regional Challenge Fund, co-financed with the Inter-American Development Bank and the Canadian International Development Agency.

Conflict-affected and fragile states

2.85 In post-conflict and fragile situations international trade can be vital to ensure access to food and medical supplies, to rebuild infrastructure, to provide livelihoods for poor people, to generate trade revenues. All these may be seriously constrained by breakdown in the rule of law and unusually high levels of bribery and corruption. But as border management and internal conditions improve there will be opportunities to build consensus on trade policy, to help trade institutions develop and to participate effectively in international trade negotiations.

2.86 The Government aims to help here too. To be effective we must carefully coordinate with host governments and international partners. **We will need to support state capacity development, while at the same time ensure we do not harm the interests of the poor in these very politically sensitive contexts**. For example, in Yemen the UK works with multilateral partners such as the International Finance Corporation and the World Bank to improve the climate for trade, foreign and domestic investment. In Iraq, we support preparatory work on the country's Investment Climate Assessment. In the Occupied Palestinian Territories we are building the capacity of the Palestinian Authority to attract investments and using matching grants to encourage innovation and strengthen SMEs' capacity to develop high value goods and services for local and export markets.

2.87 It is especially important in conflict-affected countries rich in natural resources for their governments to secure long term benefits from foreign investment, while avoiding the negative effects that can easily arise when groups seek access to valuable commodities in an unregulated environment. We work in countries such as Afghanistan and Yemen to support development of their mining sectors in line with international standards, so as to maximise the benefits to the local economy and local people.

The Overseas Territories

2.88 With a total population of around 200,000, mostly British citizens, the Overseas Territories are a modest collection of flourishing and vibrant markets with great potential. Some Territories have developed important niche positions in international financial markets. The UK Government has extensive responsibilities for the political economic and social development of the Territories and has an ambitious overall vision for the future. For all of them, trade is an important part of that vision.

Conclusion

2.89 As this brief survey shows, the opportunities for trade and investment by UK businesses around the world are significant. In some regions the UK is already doing well, as a prominent exporter and investor. In others there is significant potential which we have yet to take full advantage of. In some regions our focus is more heavily on assisting countries to fulfil their own potential for trade and growth. Doing so requires a clear action plan for trade and investment, including an activist role for the Government in supporting UK firms and developing countries to take the opportunities offered by world trade and growth, to build prosperity for the UK and to promote development worldwide. That is the subject of the next chapter.

Chapter 3: The UK's Strategy for Trade and Investment Growth

3.1 The role of Government is to create the conditions for private sector growth and investment, and to use all its levers to break down the barriers faced by industry at home and abroad. The Government believes that the world needs to act quickly to promote a new, more positive trade and investment agenda. We have, of course, the British interest foremost in our minds, as we seek to promote growth and prosperity in our country. Yet the threat of protectionism is a threat to all countries and the huge opportunities across the world are also opportunities for all. So, to meet the challenges faced by the UK in building a path to renewed economic growth and rebalancing its economy, the Government will act to maintain an open global environment for trade and investment from which British businesses and people can benefit and which continues to alleviate poverty around the world. Completing the DDA would be a major step forward in achieving all these goals and as such is an overarching priority for the UK.

3.2 We aim to build the best framework ever to promote trade and attract investment. This chapter sets out our framework and the first phase of action to realise it.

Consultation

3.3 A consultation was held with business and other stakeholders to identify issues of particular concern and ideas for policy development. The Call for Evidence elicited 108 written responses. A full analysis of the White Paper Call for Evidence has been published separately. Its main messages are, in summary:

Domestic environment

3.4 There were concerns about skills shortages (particularly languages and engineering) and about the limits on migration of skilled workers, including the difficulty and expense of obtaining visas. Many respondents saw the advantage to the UK of openness to investment, but several raised concerns about the investment environment, for example the complexity of the tax structure, bureaucracy in the UK planning system, and high energy costs. UK business also felt that infrastructure in the UK, particularly transport and aviation, was in need of investment. Aviation taxation raised strong concerns among UK air transportation companies. A number of UK businesses were concerned about the burden of regulations, notably in the environment and employment fields.

Promoting trade overseas

3.5 UK companies highlighted difficulties in obtaining finance or insurance for exporting, and many companies called for more export credit insurance. They felt that more support was needed from Government for exporting companies, with a more joined-up approach, with less emphasis on charging for services and more information and direct assistance from a regional base. Intellectual property issues were raised, especially by the creative industries.

The EU environment

3.6 Overall, respondents felt that the EU single market was beneficial to the UK, but a lack of harmonisation of national technical standards was a concern. Some felt that strong, transparent and predictable trade defence instruments, such as anti-dumping measures, help in sustaining the free and fair markets upon which European competiveness depends, others disagree. Several thought that a more joined-up approach should look at foreign policy aspects of trade, including human rights issues in FTAs. There was a difference in opinion on the merits of FTAs. NGOs and academics cautioned that, whilst FTAs can promote trade, they could introduce distortions, undermine multilateralism, and make it more difficult for developing countries to negotiate their trade objectives. Businesses, however, saw FTAs as a vital tool for promoting trade with key partners, especially as the DDA had stalled; but did think that the current network of FTAs could be simplified.

Strengthening the multilateral system

3.7 Most respondents lamented the lacklustre progress of the DDA, and noted that concluding the Round would boost trade and secure the centrality of the multilateral trading system. Many NGOs stressed that the Round should be development-focussed. incorporating reform of agricultural subsidies and adequate special and differential treatment for developing countries.

Working with the developing world

3.8 Many respondents agreed about the many challenges faced by developing countries seeking to benefit fully from trade and investment: a weak financial sector, low productivity, indebtedness, lack of education and political issues were amongst those mentioned. Corruption was also a major concern. Respondents felt that trade and investment should benefit the poor, rather than large businesses or foreign nations. Many commented on the working conditions faced by poor individuals, and on the need to improve developing country workers' ability to benefit from global supply chains. Many respondents underlined the importance of continued aid, several felt that aid should focus more on smaller businesses, and some thought that it should not be linked to trade negotiations. Several felt that the process of aid programming needed to be improved. Some respondents argued for more private sector finance to be involved.

3.9 The following strategy responds to these challenges and concerns.

Overarching goals

3.10 In setting out an action plan for trade and investment, the Government recognises first and foremost that success lies mostly in the hands of hundreds of thousands of individuals and businesses in the UK and abroad. Trade and investment result from businesses acting to take advantage of commercial opportunities. The Government should only intervene when markets fail to work properly and when the benefits of government actions exceed any costs. Indeed, much of trade policy is about undoing the historic interventions of Governments that restrict more open markets today.

3.11 So the UK Government's trade policy must act on a number of levels:

- Creating the best domestic environment in the UK to support the growth of competitive business and to make the UK an attractive destination for inward investment;
- Creating the best international environment for UK business to thrive through strong bilateral relations;
- Working through the EU and domestically to remove barriers to companies entering other markets to export or invest;
- Working through the EU and the WTO to ensure a robust and effective framework of EU and international rules and institutions that foster trade and investment and enable developing countries to pursue their trade objectives;
- Working with other countries (in the EU and G20) to address specific market challenges, such as in the provision of trade finance; and to provide developing countries with enhanced access to key markets;
- Working with the full range of international partners to create a benign global security environment that enables international shipping and trade;
- Working with other countries to ensure the sustainability of economic growth, through the promotion of a low carbon transition, driven by global technological innovation and transfer and resource efficiency;
- Providing aid bilaterally and through multilateral institutions to assist the poorest developing countries use trade and investment as levers of growth and development.

3.12 At every level, the Government will focus on three overarching goals:

(1) **maximising and realising the opportunities for businesses in the UK to trade and invest, and attracting investment to the UK;**

(2) **strengthening the multilateral trading system;**

(3) **enabling developing countries to benefit from trade and investment.**

Whole of Government approach

3.13 Trade and investment touches the lives of everyone in this country and every Government Department makes decisions that affect the UK's economic performance. So we will adopt a "Whole of Government" approach to this policy area. This Government has already refocused our overseas effort to prioritise economic and commercial work and better integrated trade and development policy through strengthening the BIS/DFID Trade Policy Unit. The FCO's Commercial Diplomacy initiative will harness more resource in FCO's overseas network to pursue our trade and investment goals, working closely with and complementing the work of UKTI's overseas trade teams. All other Departments and Ministers across Government will also examine how they can support trade and investment, as part of the Government's growth and prosperity agenda.

3.14 We need to go further. To this end the Prime Minister has created a new sub-Committee of Cabinet under the chairmanship of the Minister for Trade & Investment. **We will ensure that this Committee provides leadership in ensuring the whole of Government works toward supporting trade and investment and in challenging policies that risk or undermine this goal. The Committee will ensure coordinated action to implement the policies set out in this White Paper and continuous follow-through. The work of this committee will be prepared at official level by the most senior trade officials across Government**, to enable the network of those with an interest to be fully plugged in and to ensure its decisions can be fully and expeditiously implemented.

3.15 The Government aims to promote growth in all parts of the UK and will continue to work closely with the Devolved Administrations, building on the benefits of devolution. Although some of the policies in this paper are reserved matters for the UK Government, they have considerable impact on the Devolved Administrations, and **we will take these impacts into account when formulating policy and in delivering services**. In devolved areas of policy, it is for Northern Ireland, Scotland and Wales to determine their own policies and priorities. However, the Government welcomes the opportunity to share experience and ideas for creating the conditions for business success.

3.16 Overseas, **the FCO will work to improve the global economic environment for trade and investment**. Our Embassies and High Commissions overseas are uniquely placed to advise on the complex political, economic and cultural factors that affect trade and investment opportunities in other countries. They can help facilitate access for UK business, help overcome barriers to market entry, secure a better in-country operating environment, and work to attract foreign investment to the UK. Overall, a strong, sustainable and open global economy that builds prosperity is a central foreign policy objective.

A domestic environment that supports trade and investment

3.17 In order to make trade and investment work toward rebuilding and rebalancing growth and jobs in the UK, the Government will take steps to create a domestic environment in which competitive businesses flourish; to open opportunities for those competitive businesses to grow through expansion in the EU and globally; and to provide effective practical help to those businesses and to investors.

The Macro-Economy and the Growth Review

3.18 This work begins with restoring stability to the UK's macroeconomy, specifically by reducing the Government deficit. Work on this has been the Government's priority since taking office and the initial progress has resulted in significantly improved international confidence in the UK.

3.19 However, individual business decisions to invest and consider expanding abroad depend on the broader business environment. The Government has already published the document entitled 'Corporate Tax Reform: Delivering a More Competitive System', which outlines how we will work with business to enhance UK tax competitiveness. It is designed to provide business with certainty over the Government's plans and support the recovery by giving business the confidence needed to invest in the UK. The Growth Review led by the Department for Business Innovation and Skills (BIS) and Her Majesty's Treasury (HMT) is the focus for the wider economic reforms that are necessary, ranging from reform of the planning system to reducing regulation and removing barriers to growth that affect specific sectors.

Innovation and Skills

3.20 Investment in science and research creates new businesses and improves existing ones, brings highly skilled people into the job market, and attracts international investment. The necessity of a transition to a global green economy and the permeation of relevant new technologies through all sectors of the economy create new and potentially vast returns to innovation and research. The UK's research base is world-class, second only to the USA for number of citations and the most productive in the G8. The Government's £4.6 billion annual funding for science and research means that it will continue to help drive the UK's international competitiveness, economic growth and the transition to a green economy.

3.21 The Government is committed to being the 'Greenest Government Ever'. The UK is the sixth largest global low carbon and environmental goods and services (LCEGS) market in the world, worth £112 billion and employing 910,000 people, and is forecast to be worth £142 billion by 2015/16. We need significant levels of investment in our energy infrastructure: £200 billion of investment is needed over the coming decade. We recognise that investors need greater transparency, longevity and certainty to invest in low carbon. The Government aims to get the policy framework right to increase business confidence and stimulate investment in low carbon technologies and infrastructure, and we are working both nationally (e.g. Electricity Market Reform, the Green Deal) and internationally (e.g. pushing the EU to demonstrate leadership through moving to 30% emission reduction by 2020 and securing a legally binding deal under the UN Framework Convention on Climate Change) to achieve this.

The Government sees business opportunities associated with transition to low carbon as a key element in returning the UK economy to long term sustainable growth, and increasing the levels of low carbon exports and inward investment is crucial to this. **The Government will strengthen our support for UK LCEGS exports, particularly through UKTI and ECGD, as committed to in the Coalition Agreement**.

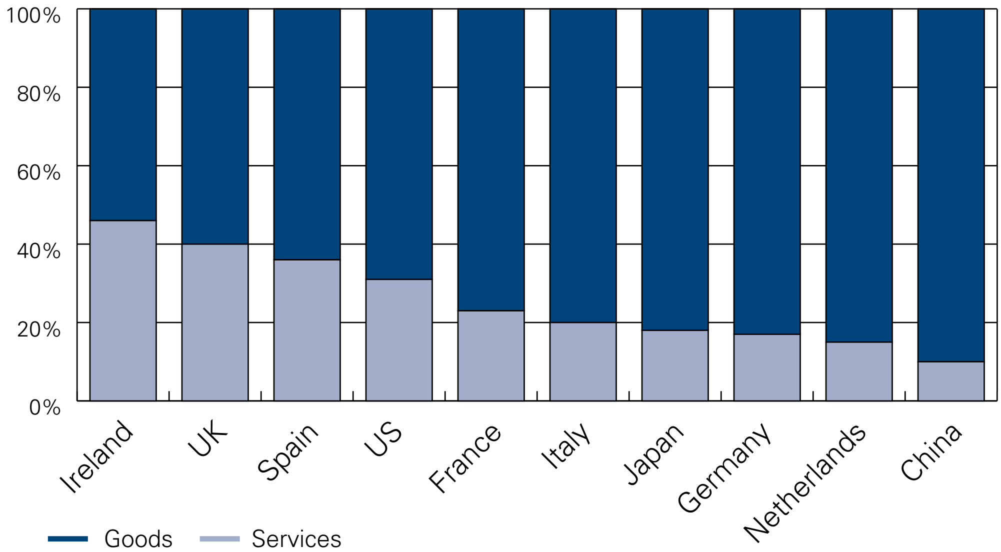
3.22 By any measure, the UK higher education sector is a success, and the government is building on this with the reforms to university funding and student finance. British universities are active internationally and have a world-wide reputation for excellence. UK universities attract more international students than any other country apart from the United States. The sector's gross export earnings have been estimated at £5.3 billion a year. The UK is also a major exporter of teaching and learning resources, English Language Training, Continuing Professional Development/Management Training, and vocational training. The British Council, along with UKTI, support the education and training through their networks of offices and contacts across the world, and provides expertise and services in global market research and analysis. The Government is committed to fostering greater international collaboration, partnerships and commercial opportunities by working with the UK education sector to boost trade and investment in this area

3.23 If we are to achieve a world-class skills base we need to increase the level of skills to meet the demands of our economy. The Government published a new Skills Strategy for England in November 2010 which sets out a vision for radical reform of the English Further Education and Skills system to deliver skills for sustainable growth.

3.24 The UK can increase its labour market flexibility further by attracting the brightest and the best temporary migrants from across the world. The UK is one of the best places in the world to work and live and we want to continue to encourage highly skilled people to locate here. The UK derives benefits in terms of increased trade, investment, productivity and growth as a result of attracting highly-skilled people from other countries. Furthermore, a key element of the EU's offer in trade negotiations is its willingness to admit temporarily to the EU high-skilled professionals ('Mode 4'). The Government's approach to taking commitments on Mode 4 will be consistent with our commitment to limit levels of economic migration to the UK. The Government has made it clear that the UK is open for business and has responded to the needs of business by excluding intra-company transfers from the annual limit on non-EU migration. This exemption has been welcomed by business, including the CBI. In addition, the application process for both investors and entrepreneurs will be improved and there will be no limit on the numbers of these wealth creators who can come to Britain.

Building on the UK's strengths

Largest services share of total exports, 10 largest services exporters 2009



3.25 The UK has a broad economic base. UK strengths evolve over time and are often in different parts of the product value chain, making simple, static, sectoral prioritisation of industries less useful. Pursuing broad-based liberalisation remains our overarching priority. While the Government cannot predict future areas of economic strength for the UK, it can support the underlying capabilities which have enabled UK firms to lead the development of new and growing markets. Analysis suggests that the UK would benefit most from the export of 'up-market' products (i.e. products that command a premium price thanks to a design, quality or sales service premium) and from specialising in those activities within the production chain generating most value added. Similarly, areas where demand is forecast to rise, such as low carbon products, may represent an opportunity for UK firms. There is therefore a role for government to help create the environment in which UK businesses are able to make the most of future trade and investment opportunities. This involves a comprehensive approach to strengthen the flexibility of domestic labour, product and capital markets, improve general business conditions, promote openness and market access, and develop firms' capabilities to compete globally. The Government affirms its commitment to pressing for broad-based liberalisation coupled with removing specific trade and investment barriers identified with the help of business. **To ensure that we have identified all the right barriers, we will take steps to establish a clearer picture of barriers to the overseas expansion of fast-growing SME exporters**. As part of the Growth Review we are considering what further steps can be taken to boost growth in areas where the UK could do more to take advantage of its strengths.

Attracting investment

3.26 Inward investment can contribute to growth by introducing new knowledge and expertise, skills and practices. Although the UK has been successful in attracting Foreign Direct Investment in the past, the competition from other countries for high-quality FDI is growing while at the same time the UK's demand for such investment grows. A strong, competitive economy is the most effective investor-friendly policy. Another important element in the UK's offer to international business is our continued commitment to an open, non-discriminatory, transparent and efficient regulatory regime. This is evidenced by the UK's high performance in international comparisons of openness to foreign investment (in the World Bank's Ease of Doing Business Report). The UK supports and endorses the OECD's work to maintain pressure on countries that restrict inward investment on discriminatory terms.

3.27 All investors, irrespective of their nationality or types of investment ownership such as Sovereign Wealth Funds, are welcome in the UK provided that they meet corporate governance standards and do not break competition or national security restrictions. The threshold for any interventions on public interest grounds, which are limited to national security, media plurality and the stability of the UK financial system, is applied to all investors and will not be used as an excuse for protectionism. Uncertainty over regulatory policies can act as a deterrent to investors. We commit to improving the clarity and transparency of our regulatory regime.

3.28 The Government intends to introduce a preferential regime for profits arising from patents, known as a Patent Box. The Patent Box will encourage companies to locate the high-value jobs and activity associated with the development, manufacture and exploitation of patents in the UK. It will also enhance the competitiveness of the UK tax system for high-tech companies that obtain profits from patents. The Government will also review the support that R&D Tax Credits provide for innovation, including the proposals of the Dyson Review.

3.29 **As part of the Growth Review, the Government is reviewing the UK's strategy and mechanisms to encourage and support investors**. The Government needs to attract a broad range of investors, improve management of relationships and identify priority investment opportunities, using its levers to facilitate private sector investment and growth. UKTI will lead much of this work, and is currently procuring a contract to provide support at a local level.

Infrastructure and trading across the UK border

3.30 The UK's own infrastructure and controls at the border are an important factor in ensuring efficient access to goods, services, people, investment and markets, while also preventing illegal commerce. The UK economy is closely bound into the global economy through global supply chains and multinational companies that seek to manage and deploy their resources on a global basis. To maintain the investment and job-creating growth that this country needs in the years to come, we need to maintain effective and efficient border systems that ensure the UK is open for business.

3.31 The UK's own infrastructure plays a crucial role in underpinning UK economic growth and making the UK a place which attracts business investment. Infrastructure UK published the first ever UK National Infrastructure Plan in

2010. This laid out the long term framework for investing in the infrastructure the UK economy needs. In autumn 2011 the Plan will be updated to explain in more detail where investment will go as between transport, energy, water, waste and digital infrastructure. In so doing it will give greater certainty on how the UK will develop the kind of world class infrastructure that business and investors seek when making strategic decisions for the future.

3.32 Transport is perhaps the most crucial piece of the infrastructure jigsaw as far as facilitating trade is concerned. Every day over 24 million commuters and five million tonnes of freight use the transport network. Transport is a key concern for trade and business. For inward investors, a modern and reliable transport system may mean the difference between choosing to invest in the UK or elsewhere. We will continue to invest in our roads network and local transport and to make sustainable upgrades to the strategic network to tackle congestion hotspots, delivering network-wide benefits that provide very high returns on investment. We will invest in projects like high speed rail and Crossrail, and will support the UK's fast-developing market for electric and plug-in hybrid vehicles. The Government is committed to producing a new policy framework for UK aviation which supports economic growth and protects Heathrow's status as a global hub, as well as addressing aviation's environmental impacts. The Government will issue a scoping document in March 2011, setting out the questions it is seeking to answer, with a view to publishing a draft policy framework for formal consultation in March 2012. The Government has also committed to modernise the framework for the economic regulation of airports, stripping out unnecessary bureaucracy and creating a regulatory environment which will support passenger focused investment in existing airport facilities.

3.33 Our ports have shown themselves to be capable of adapting quickly to changing patterns of market demand, using permitted development rights where possible and seeking consents where necessary. They are ready to invest on a large scale where significant growth is expected — largely without recourse to public subsidy and indeed making substantial developer contributions to inland infrastructure where required. The prime example currently is in the container sector, where over recent years consents have been given for major expansions including Felixstowe South, London Gateway, Bathside Bay, Bristol, Teesport and Mersey, with plans to accommodate further growth at Southampton too. Following detailed work between BIS and HMRC on other ways to facilitate trade in the UK, **the Government is also considering introducing a "trade single window" at UK ports to simplify the processes faced by importers and exporters**. This is being investigated as part of the Growth Review.

Regulation

3.34 Domestically, the UK already considers the impact of decisions about new technical standards on trade and investment. At EU level, all national technical regulations and standards are subject to a pre-screening process which provides for assessment of national measures against the creation of barriers to trade in the internal market. But we could go further by ensuing that similar consideration is taken into account by regulators more generally. The Government will **consult on providing new guidance to UK domestic**

regulators encouraging them to have regard to the effect of their actions on trade and investment, and will monitor this area closely.

3.35 If this proved successful, the example could be used to encourage deeper cultural change elsewhere in the EU and internationally. In the meantime, as well as tackling regulatory barriers through EU trade negotiations, we will continue to raise these concerns bilaterally, including through formal dialogues we have established in key markets, such as joint economic and trade committees (JETCOs).

Promoting and facilitating trade overseas

A new Strategy for UKTI

3.36 As the Government's lead provider of international trade and investment support to business, UK Trade & Investment (UKTI) provides information, advice and guidance to businesses of all types and sizes about trading internationally and investing in the UK. UKTI has trade teams in nearly a hundred markets around the world, to which companies throughout the UK, including those in the devolved nations, have access. UKTI has business-facing trade advisers in the English regions, and it works closely with the trade and investment promotion organisations of the Devolved Administrations. UKTI gives the Devolved Administrations full access to its internal systems, to ensure that their companies have full access to UKTI's services and global resources.

3.37 UKTI's services deliver practical support to exporters, especially SMEs, to help new-to-export companies take the first steps in doing business overseas. These or similar services are available to companies in the Devolved Administrations. UKTI also helps these businesses and more experienced exporters to win business in new markets, especially the fast growth markets of the future in Asia, the Middle East and South America. Support includes international trade fairs and delegations, matching businesses to overseas opportunities, introductions to overseas contacts and mentoring. These UKTI services are available to businesses throughout the UK.

3.38 UKTI also helps overseas companies bring high-quality investment to the UK by providing advice and support at all stages of their business decision-making, again working closely with the Devolved Administrations to ensure that all parts of the UK benefit from this investment.

3.39 UKTI focuses on the sectors, companies and markets where its work can add most value for the UK economy. This includes a focus on sectors such as ICT, life sciences, financial and professional services, creative industries and defence and security, advanced engineering and low carbon technologies; companies that are innovative and R&D intensive, which have the greatest potential to benefit from doing business overseas; and high growth, emerging markets – some 40% of UKTI's overseas resource is in seventeen of these markets, with one in seven of its overseas staff based in China and India. UKTI also supports a number of formal Ministerial bilateral economic and trade dialogues (JETCOs) with key emerging and high growth markets, such as Brazil, China, India, Russia, Turkey and the UAE. These aim to strengthen economic, industrial and commercial ties between the UK and these markets and also look at barriers to trade between these countries. Business from both countries is closely involved.

3.40 UKTI will publish its new strategy later in 2011. This will set out how to enhance the practical help British exporters and investors receive from the Government. The Government intends to:

(1) **Strengthen relationships with major exporters, overseas buyers and investors**. There will be greater focus in future on relationship management with key exporters and investors. The whole of government approach will ensure that traders' voices are better heard within Government and that problems can be solved sooner. UKTI is developing ways to target high value and supply chain opportunities overseas and to actively promote these to UK companies.

(2) **Provide a more supportive environment for SMEs that are innovative and high-growth and ready to export**. There will be a particular focus on supporting both first time and existing exporters, particularly SMEs, that are innovative and high growth and capable of succeeding in export markets in the longer term. We will consider the experiences of other countries that have successfully nurtured the SME sector, such as the growth and international focus of SMEs in Germany.

- **Specifically, the Government will launch a new prize for a successful first time exporter, to encourage companies ready to export to take the next step**. This will complement the Queen's Award for Enterprise (International Trade), which is focused on firms who have exported successfully for at least 3 years. The new prize will reward the most promising new export idea from a British SME ready to trade internationally for the first time, using a panel of "dragons".
- **A new on-line peer to peer trade service will be launched**. This will enable UK companies to help themselves and each other with the knowledge they need to effectively internationalise.
- Involve entrepreneurs and business leaders from the UK and the British diaspora overseas, along with friends of the UK around the world and those who have made their home in Britain, to support this effort. In addition UKTI will forge partnerships with the various overseas diasporas resident in UK, for example from the Indian sub-continent, to strengthen trading ties between Britain and overseas markets.

(3) **Increase UKTI's focus on emerging markets**. We have been reviewing the coverage and the balance between developed and emerging markets. The new UKTI Strategy will set out how we will enhance our focus on high growth markets while maintaining strong support in developed markets, whose opportunities for UK business should not be overlooked

(4) **Strengthen the linkage between UKTI's work and FCO commercial diplomacy**. The FCO and UKTI have been jointly working to ensure that

more of the UK's diplomatic network is actively supporting the UK's commercial objectives. This includes ensuring FCO ministers are always able to lobby effectively on commercial issues, as well as administrative action in joint planning, measuring success, planning resources, and better structures and training. A joint FCO-UKTI commercial diplomacy task force will report at the end of March with recommendations on action to embed commercial diplomacy further across the FCO.

3.41 Financial services and in particular the City of London remain important drivers for UK growth. The CityUK, a pan-UK private sector body, is the unified promotional organisation for the financial and professional services sectors and remains best placed to catalogue and showcase the skills and services that the UK can offer. Its Overseas Promotion Committee should continue to identify market opportunities that both UKTI and the Foreign and Commonwealth Office can pursue as appropriate. **Through its economic and financial dialogues with emerging markets, including China and India, the Government will continue to promote London as the world's leading financial centre and emphasise how UK financial services firms can help emerging economies meet their economic objectives**.

3.42 Tourism is our third highest export earner and in most years it is the fifth or sixth biggest sector of our economy (with over 200,000 businesses, providing 1.5 million jobs). Tourism is therefore vitally important and fundamental to the rebuilding and rebalancing of our economy and to generating employment and enterprise. It is an efficient and rapid way of driving economic growth and regeneration and it does that in all parts of the country. The Government's aim is to help the tourism industry achieve its potential for growth. The Government will shortly publish a new strategy for tourism, which will aim to raise the sector's productivity and performance so that UK tourism can compete more effectively in an increasingly crowded international market. In support of the strategy, the Department for Culture, Media, and Sport will be investing nearly £130 million in VisitBritain and VisitEngland.

Increase access to Trade Finance for Businesses

3.43 The economic crisis showed that the availability of trade finance cannot be taken for granted. Whilst there has been a recovery since then, the Government has been considering what additional support could be made available to ensure UK businesses are protected against future disruption and can compete internationally for export opportunities on a level playing field.

3.44 The Government will **therefore increase the support available for all exporters, including SMEs, through an expanded and better-coordinated, package of products on a pilot scheme basis** to supplement the trade finance and credit insurance products already offered by the Export Credits Guarantee Department (ECGD) and the private sector.

3.45 First, the **Department for Business, Innovation, and Skills will establish a new commercial scheme, the Export Enterprise Finance Guarantee Scheme (ExEFG)**, based on the successful Enterprise Finance Guarantee

Scheme. This initiative has been developed with the UK Banks' Business Finance Taskforce coordinated by the British Bankers' Association, and launched in response to the joint BIS-HMT Green Paper on business finance. It will support businesses seeking trade finance facilities to finance exports. The scheme is aimed at viable SME exporters with an annual turnover of up to £25 million that require export finance. Under the ExEFG, the Government will guarantee lenders to facilitate the provision of short-term export finance lines up to £1 million to exporting SMEs. The ExEFG will cover a range of trade finance facilities. Export products eligible for funding will include: Letters of Credit, Export Collections, Bonds, Guarantees and Indemnities, Trade Loans and Pre/Post-Shipment Finance. We intend to launch the scheme in April 2011, subject to terms and conditions being agreed with the participating banks coordinated by the British Bankers' Association. SME exporters will be able to access the scheme through a range of providers, including several which already participate in the Enterprise Finance Guarantee Scheme.

3.46 Second, the Government will increase its offer to exporters by **extending ECGD's existing short-term trade credit insurance policy to cover a broader range of exports**. This expansion beyond capital and semi-capital goods will be to creditworthy buyers in markets outside the OECD and the European Union. It is expected that cover under the new revamped policy will be available by March. ECGD will determine the nature of demand not being met by private markets and adjust the scheme in the light of experience.

3.47 **Third, ECGD will work with banks through the British Bankers' Association to provide further help for UK exporters by offering new products**.

- Exporters to emerging markets are often required to procure the provision of on-demand bonds from banks in order to give confidence that they will fulfil their contracts. In order to help exporters with these bonding requirements, ECGD will share risk on the issue by participating banks of contract bonds on behalf of exporters (Bond Support Scheme). It is expected that this product will be available to exporters from participating banks in March.

- ECGD has started discussions with banks on sharing risk with them on working capital finance facilities worth over £1 million (and thus not eligible for the ExEFG) and for a term of up to two years. This Export Working Capital Scheme will support SME exporters in winning or performing specific export contracts. We intend to launch this scheme in April.

- ECGD has also started discussions with banks on sharing credit risk with them on foreign exchange hedging contracts of up to two years for SME exporters. The aim is to facilitate exporters' management of their exposure to foreign exchange rate movements under specific export contracts receiving another form of ECGD support.

3.48 If the proposed three new ECGD schemes and the extension of ECGD's existing short-term credit insurance policy are launched successfully, ECGD's product range will then be broadly comparable to that of most leading international export credit agencies. This should ensure that UK exporters can pursue business with the confidence that their access to support will be comparable to that available to their OECD competitors.

3.49 In parallel, in order to deliver better value for money and enhance the quality of their services to exporters and investors, **ECGD and UKTI will work closely together to improve the targeting and coordination of government support to exporters**. This includes each having a representative on each other's Management Board. **The aim is to co-locate ECGD with UKTI to help reinforce this goal**.

3.50 Over and above this closer working, the Government is increasing the co-ordination of support available from UKTI, ECGD and BIS, through the Business Link website, Business Coaching for Growth, UKTI's international trade advisers and embassies. This will allow UK firms to understand and access the full range of support available and if appropriate, simultaneously use UKTI and ECGD services when expanding into new markets. We will work closely with the devolved administrations in Scotland, Wales and Northern Ireland, who lead on trade and investment promotion within their areas. We will strengthen contacts with trade associations and build ECGD's profile overseas, notably with sponsors of large investment projects.

3.51 As part of the Growth Review, the Government will evaluate the success of the new products to judge whether further action is needed to support British exporters and will continue to monitor any extensions in the stance or product range under publicly supported export credit programmes available to overseas companies competing with UK exporters.

Intellectual property

3.52 An effective international intellectual property framework is crucial for innovative business to maximise the value of their IP. **The UK will advocate a framework** that supports the growth of knowledge-intensive business, and is non-discriminatory and transparent in their application of IP rules, enabling a level playing field on enforcement. It also needs to strike the right balance between industrial and development priorities, in order to help stimulate economic growth and tackle critical global challenges.

3.53 **The Intellectual Property Office (IPO) offers support to business to commercialise their IP and to profit from their investment in R&D. It will work more closely with UKTI to provide support to businesses already trading in and those wishing to operate in, international markets**.

Export controls

3.54 **The UK will promote, worldwide, an approach to the licensing of military and hi-tech exports that is based on intelligent risk management**. We currently lead the world in this respect with our Open General Export Licences, but the growth of global supply chains means that UK companies are increasingly dependent on the smooth functioning of the export control regimes of other countries. **We will influence the development of the EU Dual Use Goods regime and the emerging EU work on intra-EU transfer of defence goods, with a particular focus on practical co-operation between EU export licensing authorities to reflect the increasingly free flow of goods and technology within the Single Market. We will also engage with our key international partners outside the EU, notably the US, to improve the "interoperability" of our export control regimes**. All of this work is underpinned by our continued commitment to the four main international export control regimes (the Wassenaar Arrangement, the Nuclear Suppliers Group, the Missile Technology Control Regime and the Australia Group).

Bribery and corruption

3.55 Bribery and corruption are barriers to trade and growth. They hinder development, distort competition and perpetuate poverty. It is essential that businesses have clear practical guidance on the Bribery Act, so that it serves to tackle genuine bribery not legitimate business practices, and so that its implementation does not pose undue burdens on business, especially SMEs. To support this process Government is targeting advice and Bribery Act awareness-raising on sectors which are particularly vulnerable to certain bribery and corruption activities. Government guidance on the law is supplemented by practical advice for exporters and overseas investors, including through UK Trade and Investment advice on overseas security risks and BIS sponsorship of on-line bribery risk management tools (www.business-anti-corruption.com). **Further advice and guidance will be published in due course.**

3.56 **The UK is pressing all 38 signatories to the OECD Bribery Convention to take active steps to enforce their own foreign bribery legislation, and we are working through the G20 to help emerging powers such as China and Russia to hold their own companies to account.**

The EU Environment

3.57 In order to achieve most of our trade goals, the UK's influence within the EU is vital. Trade and FDI policy (though not trade and investment promotion) is an EU competence and the Commission negotiates on behalf of Member States in accordance with instructions given by them. We must also ensure that we engage constructively and effectively within the EU, working closely with other Member States, the European Commission and the European Parliament to make the EU single market a better place for trade and investment. As a member of the WTO, G20 and OECD, the UK has additional opportunities to influence, but always with a view to supporting the Commission's work on our behalf. **Ministers and officials will attach high priority to our EU relationships and to ensuring that the UK's influence is strong**.

The EU Single Market

3.58 The EU Commission has reacted to the economic crisis by proposing a clear strategy for Europe to become more competitive (EU 2020). A central part of this is seeking to entrench and deepen the European single market. The Commission are consulting on a draft new "Single Market Act", published last autumn. The Government will publish its formal response shortly. The Act has many welcome measures which we can support, especially its focus on small business, the enforcement of existing single market measures, implementation of the Services Directive and new opportunities for a single market in digital services and in low carbon products.

3.59 The Government sees four priority areas to boost the single market:

- **Better enforcement of the existing framework**. The existing single market legislative framework must be robustly enforced across all Member States. Informal problem-solving networks, such as SOLVIT, which are designed to help citizens and businesses who feel their single market rights have been breached without resorting to the courts, should be strengthened and made more accessible.
- **Building on the implementation of the Services Directive through further sectoral liberalisation of business to business services**. The Commission and Member States should accelerate the implementation of the Services Directive. The estimated total benefit is £4 – 6 billion per year. Despite the liberalising intentions of the Services Directive, Member States have retained nearly 3000 regulatory requirements for professional and business services, including many barriers to entry in areas such as accounting, architects, or surveyors where UK firms have strong expertise. A recent McKinsey Global Institute report showed a productivity gap of 43% in 2009 between the US and EU in business services. These barriers to entry certainly account for part of that gap. The Commission should consider how to tackle such restrictive practices, if necessary through additional legislation (such as liberalising restrictions on company form and capital requirements, restricting geographical exclusivity and deregulating some professions).
- **An intense and sustained focus on the export opportunities for SMEs within the EU could deliver the biggest long term benefits for the EU economy, not least as firms who gain experience from trading within the EU may then seek opportunities more globally**. We believe the Commission must use its review of the "Small Business Act" to strengthen Europe's commitment to its 20 million SMEs and make a reality of the "Think Small First" principle in EU decision making. Proposals in the draft "Single Market Act" that deliver on this vision should be given priority. We will encourage EU institutions to pursue an aggressive and radical approach to improving the regulatory environment for SMEs including exempting SMEs from unnecessary EU regulation.
- **The single market needs to be developed in new areas of economic activity**. Priority actions are to establish a digital single market, reach

agreement on an EU patent, develop an EU cross-border copyright licensing framework, improve the regime for so-called orphan works (content where copyright ownership is not known) and a review of the e-commerce Directive. The urgent need to act on climate change means that the single market must work in a way that supports the transition to a low-carbon economy. At the very least, this must mean an effective single market for energy and a more efficient process for establishing standards for emerging technologies. In the energy sector, an effective single market is essential for energy security and the low carbon agenda. Implementation of the Third Package of electricity and gas market liberalisation measures will provide the necessary incentive for the substantial private sector investment in energy infrastructure needed in the UK and rest of the EU over the next 20 years to meet EU energy and climate change objectives and, in particular, the move to a low-carbon economy

3.60 **The Government is determined to work hard with our European partners to realise these goals**. A deeper, more competitive single European market fosters growth in the EU, can equip European firms for the global challenge, and help Europe set the standards for the technologies of the future.

The EU as a Global Trade and Investment Actor

3.61 The EU Commission has shown itself ready to champion the case for open markets globally. We welcome the recently published Commission Communication 'Trade, Growth and World Affairs' (November 2010). This situates trade policy clearly within the EU 2020 framework and provides a strong basis from which the EU can continue to drive liberalisation and openness around the world.

3.62 **One area of the Communication, however, where the Government is highly doubtful is the concept of "reciprocity" in trade policy and procurement.** Although this can sound superficially reasonable, it can in fact open the door to protectionism. It is certainly true that, if third countries become more open, we should open our markets likewise, but the Government does not think that the EU should close its own markets if others' markets are not opened. This could weaken competitive forces, drive up costs and (in procurement) reduce value for money for the EU taxpayer.

3.63 A central part of the EU's strategy on global trade is to negotiate ambitious and comprehensive Free Trade Agreements between the EU and key trading partners (many of which are discussed in Chapter 2). The Government strongly supports this. These trade agreements bring real benefits to UK business, help to lock in liberalisation which has already taken place, and are a good way of raising the profile of the debate on the benefits of trade liberalisation generally. It is true that there can be tensions between an ambitious FTA strategy and pursuing a conclusion to the Doha multilateral trade round. For example, new FTAs can add to the complexity faced by businesses trading around the world, and divert political and administrative effort from completing the Doha talks. But in practice, through a combination of prioritising completion of the Doha talks, ensuring that the EU negotiates high-quality FTAs itself, and strengthening the ability of the WTO to uphold FTA standards more widely, it is possible to pursue both FTAs and the DDA.

3.64 In working with business to identify the UK's priorities for such trade negotiations, **we will seek to maximise the opportunities for UK businesses to expand into high-growth markets**. The UK is the world's second largest exporter of services and so would particularly benefit from greater market access for our services. At the moment, services represent 70% of world output but only about one-fifth of world trade and remaining trade barriers in services are generally far more significant that those in manufacturing. **The Growth Review will continue to consider new ways in which the UK can encourage the EU to negotiate greater liberalisation of trade in services**.

3.65 The Lisbon Treaty gives the EU competence in the area of Foreign Direct Investment as part of the EU's Common Commercial Policy. The Government considers that the EU should prioritise countries with the greatest market potential as it begins to negotiate EU investment treaties. **We will work to ensure that current levels of investor protection are maintained, both through a clear and certain legal regime for the existing Bilateral Investment Treaties and through new EU agreements which build consistent levels of investor protection across the Union**.

3.66 **We will press for genuine and ambitious reform of the Common Agricultural Policy (CAP) and Common Fisheries Policy**, including reform of trade-distorting elements of the CAP, particularly with respect to subsidies – for example, cotton – which are damaging to Least Developed Countries and undermine EU objectives during trade negotiations.

3.67 The EU has a range of trade defence instruments (i.e. anti-dumping, anti-subsidy and safeguard measures). The UK is generally sceptical of the value of frequent use of such instruments. Even though the EU trade defence regime is in some ways among the most forward-looking globally, it needs to keep pace with the realities of the global economy. This means taking full account of global supply chains, weighing the impact of measures on all economic interests (not just producers but also industrial users, traders, retailers, consumers and employees) and ensuring transparency of operation. **The Government will work to ensure that trade defence measures are more clearly targeted on cases of genuinely distorted trade. We will assess each case on its merits and ensure decisions to determine the UK position are based on a fact-based economic analysis together with a consideration of representations from affected interests**.

3.68 Finally, trade and investment lead to significant benefits overall, but they inherently create winners and losers by the way in which benefits and costs are distributed. The European Globalisation Adjustment Fund (EGF) is an EU contingency fund of up to €500 million annually. It is designed to provide support for workers made redundant as a result of major structural changes in world trade patterns due to globalisation, in situations where these redundancies have a significant adverse impact on the regional or local economy. **The Government will work closely with the European Commission in the forthcoming review of the EGF**.

Practical benefits for business from the EU

3.69 We will **press the EU to focus more on the regulatory barriers to trade and investment** that businesses encounter outside the Union, especially in markets where tariff barriers have been largely removed. These barriers may arise as a result of direct conflicts in regulatory requirements, or sometimes from simple differences that nevertheless impose additional compliance costs. The Government will work to raise ambition and achievement in the EU's regulatory and economic dialogues.

3.70 **We will continue to enhance the practical help we offer to individual UK firms facing legal and regulatory barriers when operating abroad**. The Government will expand its work to ensure that existing market access commitments made inside and outside the EU are respected in practice, including in sectors such as construction, pharmaceuticals, retail and professional services. And we will continue to raise UK businesses' market access concerns with the European Commission and to encourage the Commission and the EU External Action Service to pursue such barriers vigorously with third country governments under the EU's Market Access Strategy.

Strengthening the multilateral trading system

3.71 The Government will work to strengthen the multilateral trading system, its institutions, rules and policies, so that the system works for all its members in the 21st Century. This is central to growth. Resilient, liberal, fair and respected multilateral rules provide the stable and open framework within which businesses can operate and developing countries can develop.

Doha Development Agenda (DDA)

3.72 **Concluding the DDA is the overarching trade priority for the UK Government and 2011 is the make or break year**. The deal on the table represents the most ambitious multilateral trade deal yet, covering agriculture, industrial goods, services, intellectual property and trade facilitation. The Government will work hard to enable a conclusion to the Round in 2011.

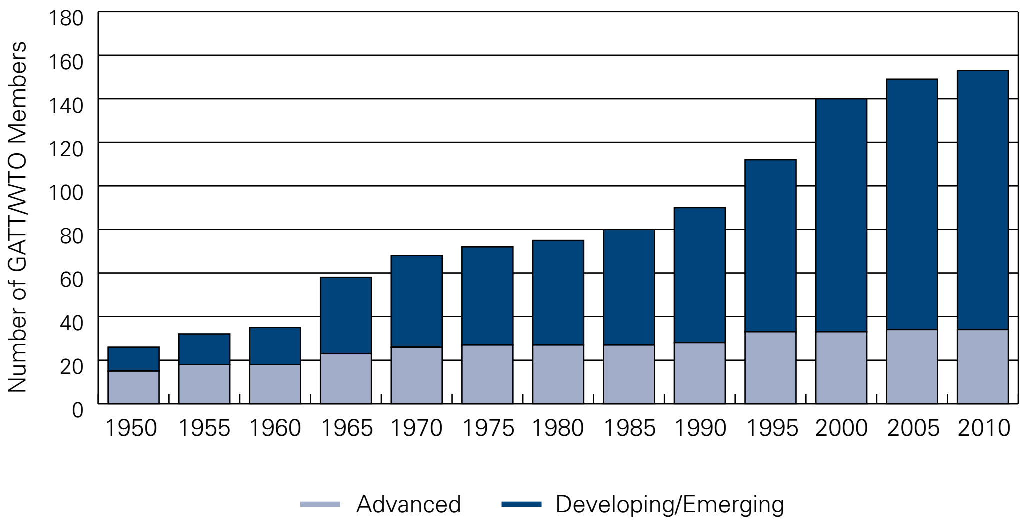
3.73 Completing the DDA would boost the global economy by £110 billion annually by creating significant new and improved market access for all countries, through increased export opportunities, cheaper inputs, a reduction in non-tariff barriers and reducing trade bureaucracy. The DDA would also lock in the large amount of unilateral liberalisation which has occurred since the end of the Uruguay Round in 1994, guarding against potential protectionism costing up to £390 billion annually. It would amount to the biggest global stimulus governments could provide. As such, the UK economy stands to benefit directly. Moreover, completing the Round will also underpin and reinforce the multilateral, rules-based system as a whole, thus providing a secure trading environment in which British companies can expand and prosper.

3.74 The DDA will deliver particular benefits to low income and Least Developed Countries (LDCs) and with them we will champion a deal that delivers on these. Concluding the DDA will lead to reductions in agricultural trade barriers averaging at least 54%, and reduce trade-distorting subsidies, which currently cost developing countries about $20 billion per year in agricultural income alone; ambitious reform of cotton subsidies will be an important part of this. It will reduce the maximum industrial tariffs in the developed world to well below 8% and reduce tariff peaks, reducing US tariffs on some clothing products from 32% to around 6%. On top of this, LDCs will benefit from Duty Free Quota Free Access (DFQF) to developed countries. The benefits of the DDA will be expanded through the removal of bureaucratic impediments to developing country trade, which could reduce trade costs by up to 8%.

Government Procurement Agreement (GPA)

3.75 The on-going review of the WTO's plurilateral agreement on government procurement is also reaching its final stages. A text which, in particular, assists developing countries to accede to the GPA has been agreed, but the issue of coverage has still to be agreed. **The Government sees it as important that key countries increase their coverage and that the review is concluded in 2011**.

World Trade Organisation (WTO)



3.76 Since its creation in 1995 the WTO has proved itself to be a bulwark against protectionism and an effective forum for resolving trade disputes before they escalate. However, a growing membership and the growing economic importance of the emerging economies, the increasing focus on non-tariff barriers, and the rise of new issues, have all contributed greater complexity to negotiations which now take longer to conclude. Over the same period of time there has been a rapid increase in the number of FTAs agreed between sub-sets of WTO members, increasing the complexity and distortions in the global trading system, to the disadvantage of developing countries in particular. There is also an increased need for effective WTO monitoring and reporting of trade barriers.

3.77 To prevent any undermining of the multilateral system, or a reversion to protectionism and to help equip the WTO for the future, **the Government will work with the WTO, European Commission and other interested countries to develop ideas for strengthening the WTO**.

3.78 **The Government will explore with partners options** including:

- Greater use of "plurilateral" negotiations, broad coalitions of the willing who reach agreements amongst themselves on a non-discriminatory basis. Such plurilateral agreements could speed negotiations and enable greater progress in newer areas such as environmental goods and services, widening pharmaceutical agreements, investment and competition.
- The WTO could play a larger role in quality assuring or even policing FTAs. There is also scope for investigating using FTAs as the basis of wider multilateral agreements. Other more ambitious ideas include simplifying and harmonising rules of origin; 'sunset clauses' in FTAs (which mean that all concessions must automatically be extended on a non-discriminatory basis to all WTO Members after a period of time); or 'docking mechanisms' (which allow FTAs to more easily link together).
- WTO discipline on export restrictions. Although import restrictions are extensively disciplined by the WTO, export restrictions are not, even though they also damage the global economy.
- Enhanced transparency mechanisms, to spread awareness of the introduction of new trade practices and adherence to commitments.
- Enhancing the Dispute Settlement Mechanism (DSM). All countries have a collective interest in ensuring that the DSM works to enforce compliance with WTO commitments. To date, the DSM has functioned relatively well, but developing countries struggle to make full use of it. Even when countries bring and win a case, it is often difficult in practice for them to secure compliance. Negotiations to rectify this situation have stalled. New impetus must now be injected into these negotiations.
- Finally, the WTO accession process has become increasingly slow and onerous. This is a particular problem for the remaining LDC non-Members that are being asked to make commitments beyond those asked of previously acceding LDCs. Accession procedures should be simplified and streamlined in accordance with the Guidelines for the Accession of LDCs.

3.79 Beyond the WTO, other international institutions and bodies also help shape the multilateral framework for trade and investment. The OECD and UNCTAD have played important roles in developing standards and good practice in the treatment of foreign investment. The World Bank has been a thought leader, advocate and enabler of trade leading to development. More recently, the G20 has provided leadership in helping to reinvigorate the DDA talks, deter protectionism and promote access to trade finance in poorer countries and we will work with it on reducing food price volatility and its impacts.

The Government will use its membership of these bodies to urge better cooperation between them on trade and investment-related issues.

3.80 The Government will also continue to push for a legally binding deal to tackle climate change. This will help provide investors with greater certainty on international climate change regulation, in turn building their confidence to make long-term and capital intensive investments in low carbon activities in emerging and developing countries and reduce the risk of carbon leakage.

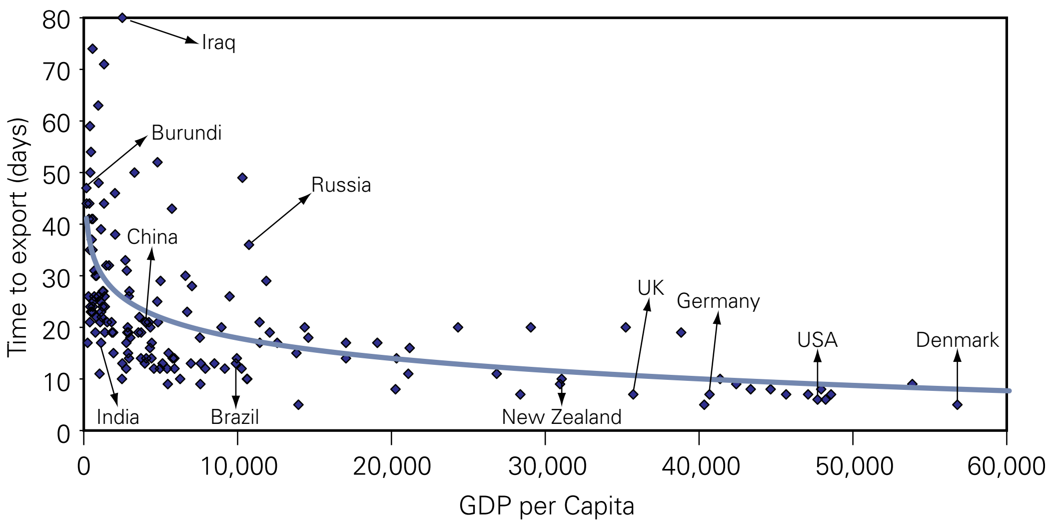
Working with the Developing World

3.81 As outlined in Chapter 2, ensuring that lower income countries are fully integrated into the global market is central to the Government's policy of driving growth and poverty reduction.

3.82 A strong conclusion of the Doha Round and a strong multilateral system remain the most effective way of ensuring sustained and fair market access of developing countries to global markets. That is why **we will continue to assist the group of Least Developed Countries at the WTO to develop their negotiating mandates and to advocate to their agenda**.

3.83 Production, institutional and structural challenges can also prevent developing countries from making the most of trade opportunities. That is also why **the UK will honour our G20 commitment to maintain Aid for Trade spending at or above its current level** and ensure that support delivers concrete change for developing countries. Trade facilitation is a particular constraint. We will therefore **focus the attention of the G20 and multilateral banks on trade facilitation, delivering a collective "call to action" for the Global Aid for Trade Review in July 2011**. We will also scale up bilateral support for trade facilitation, with a focus on critical transport corridors across Asia and Africa.

Trade facilitation can reduce time to export, leading to increased trade and growth



Sources: World Bank Doing Business indicators 2010; IMF World Economic Outlook, GDP per capital current US$ 2010

3.84 **We will develop innovative approaches to working with the private sector including through a revitalised CDC (the UK's development finance institution) and the International Climate Fund (ICF), and new scaled-up carbon market instruments**. We will lever private sector finance, analysis and know-how to address specific constraints to export from developing countries. **We will seek to ensure that businesses in developing countries have access to appropriate levels of trade finance**. We will work directly with private sector banks through the G20 and with multilateral donors to monitor and address market failures.

3.85 We will work with multinational and developing-country companies to support responsible and ethical and sustainable trade. We will tackle poor working conditions through our **support both to the Ethical Trading Initiative representing 9.4 million workers in global supply chains and to the RAGS Challenge Fund, driving better working conditions for women and vulnerable workers in garment production**. Through our support for fair trade we will help farmers and workers in poor countries to get a fair deal in exchange for their products and to invest in social, economic and environmental projects in local communities.

Supporting developing countries' capacity to negotiate – a step change in approach

3.86 The increasingly interconnected world, the wide-ranging and complex discussions on trade globally and multilaterally, and the proliferation of Free Trade Agreements places an increasing burden on developing countries' negotiating capacity. It is not always easy for them to promote their interests.

3.87 To address this **we will establish an Advocacy Fund** for the least developed and low-income countries. This will boost their capacity to develop negotiating strategies and to promote their interests in trade disputes and reforms to the policy-making architecture. Inward investment also contributes significantly to growth in developing countries, and the Advocacy Fund will support developing countries in building their capacity to negotiate investment frameworks and treaties that serve their interests and lead to sustainable development. For the first time, developing countries will have access to a coherent, flexible programme of support dedicated to negotiations. This represents a step change in focus and approach.

A new, differentiated approach to the developing countries in our trade and investment policy

3.88 The rise of the emerging economies presents both opportunities and challenges for developing countries. There is increasing differentiation among the wide group of developing countries and our approach needs to reflect this. In particular, it needs to ensure there is appropriate treatment for the least developed. Accordingly:

- **We will push for all members of the G20, including the emerging powers, to agree to 100% Duty-Free Quota-Free Access for Least Developed Countries**. If the G20 countries were to do this, it could increase LDC exports by over 40%.
- **We will also champion the Commission's new moves to extend duty free quota free access to Palestine for agricultural products**, in accordance with the agreement initialled between the EU and Palestine in 2010. We will continue to provide appropriate technical advice to importers and retailers who feel that their customers may wish to have further information on whether produce imported into the UK from the West Bank is of Palestinian or Israeli settlement origin.
- In the WTO, **we will encourage the EU to advocate an extension to the current deadline of 2013 for Least Developed Countries to meet the requirements of the Agreement on Trade Related Aspects of Intellectual Property**. We will also champion calls for the WTO to agree a waiver that allows developed countries to offer preferential access for LDCs to their services markets.
- **We will press for EU preference schemes and trade agreements to further enhance trading opportunities and poverty reduction** in lower income countries.
- In the review that is currently under way, **we will push to increase the product coverage of the EU's Generalised System of Preferences (GSP) and to extend GSP+ to vulnerable countries** such as Pakistan. We will also examine the case for removing preferences from sectors that have become globally competitive. We will seek to ensure that the review is not used as an excuse for protectionism and does not lead to any net reduction in market access for developing countries to the EU market.
- **We will work to ensure that Europe's Free Trade Agreements take into account the different stages of development of countries signing**, and that we deal effectively with the consequences of any resulting reductions in preferences for low income countries. In particular, we will continue to argue for a flexible approach to provisions on intellectual property rights. To ensure any potential impacts on poverty are fully taken into account, **we will press for timely Sustainability Impact Assessments for EU trade agreements and greater transparency in EU policy development**.

Re-energised approach to regional integration

3.89 As production becomes increasingly fragmented across borders, intra-regional trade barriers become increasingly significant. This requires a new and re-energised approach to regional integration. We will ensure our trade policy is consistent with and actively supports this new approach, as outlined in Chapter 2. We will focus particularly on the UK's Africa free trade initiative, responding to African ambitions to join up and integrate their markets more effectively.

3.90 **With regards to Economic Partnership Agreements (EPAs) with African, Caribbean and Pacific countries, we will focus on assisting countries to**

implement those agreements already signed. We are committed to flexibility in the remaining negotiations and will ensure that tariff schedules are coherent with regional integration commitments. We particularly welcome the recent improvements in the Rules of Origin which the EU applies to both EPAs and the GSP scheme. These should help develop supply chains and promote regional integration. **We will press for the new Rules to be promptly included in all ratified EPAs**. We will work with the EU to ensure that support is provided for LDCs to make the most of the opportunities these improvements offer.

Addressing wider challenges

3.91 Trade can be a powerful tool to address global challenges with a particular impact on developing countries. We will ensure our trade policy creates opportunities for developing countries to improve health outcomes, address climate change, and rebuild fragile economies.

3.92 On health, **we will work with developing countries and international partners to support the removal of taxes and tariffs on essential health commodities**, such as pharmaceuticals and insecticide-treated nets to prevent malaria. We will seek to **ensure that provisions on intellectual property rights in EU FTAs do not have negative impacts on the ability of the poorest to access low cost medicines**.

3.93 Greater access to climate-friendly technologies and goods can help developing countries to grow sustainably. **We will support the liberalisation of trade in climate-friendly goods** through the DDA Environmental Goods and Services negotiations and through EU FTAs. Private investment flows are important for a successful transition to a low-carbon and climate-resilient future. **We will use the Capital Markets Climate Initiative and the International Climate Fund** to mobilise private capital for low carbon investments in emerging and developing economies.

3.94 **We will continue to assist developing countries comply with sanitary and phytosanitary (SPS) measures**, since compliance with these internationally agreed norms is a pre-requisite for access to any international food markets. Similarly, private sector standards such as certification, labelling and licensing controls are increasingly important for developing country exporters. We will work to increase the involvement of developing countries in the formulation of these standards and the ability of developing country producers to meet them.

3.95 Finally, we will actively seek areas where trade policy can be used as a lever to **support rebuilding fragile economies** in order to provide a long-term and sustainable pathway to growth, as we have sought to do for Pakistan.

3.96 In short, trade is central to growth and poverty reduction around the world, but a shifting global environment necessitates a new approach. We will support the poorest countries both to negotiate trade agreements that reflect their interest and to shape the global trade rules to meet their needs. Trade will become a central theme across our bilateral aid programme, promoting regional integration and building the necessary infrastructure and institutions to strengthen trade.

Conclusion

3.97 Boosting the UK's trade and investment capacity is a central task for this Government. It will be pursued vigorously but there is no quick fix. This is a marathon, not a sprint. But the Government believes that the actions defined in this Chapter will make a significant difference to the UK's trade and investment performance and hence to the UK's growth, prosperity and wealth, as well as to growth in developing countries and to poverty reduction around the world.

Chapter 4: The Trade and Investment Challenge

4.1 The Trade and Investment White Paper marks the beginning of an important process for this Government. It sets a framework for ensuring that trade and investment can contribute to rebuilding and rebalancing growth, for addressing challenges to open markets, and for ensuring that developing countries can benefit too.

4.2 The Trade and Investment Challenge will be a priority for this Government. We will pursue with businesses, international partners, consumers, development stakeholders and academics. We have already started the next stage with an in-depth Growth Review of trade and investment policy, looking in particular at proposals for attracting inward investment and for further improving practical support to business.

The Trade and Investment Framework for Action – First Steps

4.3 This Trade and Investment White Paper has set out a number of new policies, actions and positions which need to be taken forward to enhance the framework for trade and investment in the UK. The Framework for Action below sets out the first steps in that Trade and Investment Challenge. **These actions will be implemented by Departments working collaboratively, in accordance with the Whole of Government approach**, under the oversight of the new sub-Committee of Cabinet under the chairmanship of the Minister for Trade & Investment.

Country-specific actions

1. Support UK businesses in securing significant US contracts in Public Private Partnerships, High Speed Rail Transit and Low Carbon Energy (2.22)

2. Reinvigorate the EU-US Transatlantic Economic Council (2.23)

3. Launch negotiations on a comprehensive and ambitious EU-Japan Free Trade Agreement (2.30)

4. Complete EU-Canada Comprehensive Economic and Trade Agreement during 2011 (2.32)

5. Encourage a stronger partnership between British and Israeli companies in innovation, high technology, and science (2.33)

6. Work closely with Australia, New Zealand, Singapore, and Switzerland, on the range of trade and investment issues (2.34)

7. Give practical support to businesses on intellectual property issues (2.39)

8. Support the delivery of agreed bilateral trade targets, including with China (2.40), with India (2.46) South Africa (2.64) and Turkey (2.61)

9. Work across the full range of UK contacts with China, to raise market access issues and encourage greater Chinese investment in the UK. Encourage a more systematic EU approach to China, including urging China to join the Global Procurement Agreement (2.42)

10. Conclude an ambitious EU-India Free Trade Agreement in 2011 (2.46)

11. Build on the opportunities of the London and Rio Olympic and Paralympic Games in 2012 and 2016. Capitalise on UK-Brazil scientific co-operation and collaboration (2.49wSupport completion of an ambitious and comprehensive EU- Mercosur Free Trade Agreement (2.50)

12. Support Russian accession to the WTO, by working with Russia to help harmonise international standards for goods and services, eliminate WTO-inconsistent investment measures and improve protection of intellectual property rights (2.53 – 2.54)

13. Develop UK-Gulf trade and investment. Addressing burdensome regulatory requirements, ownership and licensing restrictions, and visa problems. Work towards agreement on the EU-Gulf Cooperation Council Free Trade Agreement (2.58)

14. Support UK business in exploiting the opportunities of the EU – South Korea Free Trade Agreement (2.60)

15. Agree ambitious FTAs with ASEAN countries (2.62)

16. Elevate our bilateral political and trading relationship with Mexico (2.63)

17. Supporting ambitious Aid for Trade programmes, both bilaterally and through major multilateral partners, to help increase trade and regional integration in the Africa, Asia, the Caribbean and Conflict-affected and fragile states (2.72)

18. Use the African Free Trade initiative to support the development of free trade areas in Africa, facilitate trade, and support the Tripartite Framework of COMESA, EAC, and SADC (2.77 – 2.79)

Whole of Government approach

19. Trade and Investment Cabinet Sub-Committee to provide leadership across the Government on Trade. Senior officials' preparation to ensure its decisions are fully implemented (3.14). Ensure impact on Devolved Administrations is fully taken into account (3.15). The FCO will work to improve the global economic environment and support British business, through the Commercial Diplomacy Initiative (3.16).

A domestic environment that supports trade and investment

20. Strengthen our support for UK global low carbon and environmental goods and services exports (3.21)

21. Establish a clearer picture of barriers to the overseas expansion of fast-growing SME exporters (3.25)

22. Review the UK's strategy and mechanisms to encourage and support inward investors (3.29)

23. Consider introducing a "trade single window" at UK ports (3.33)

24. Consult on providing new guidance to UK domestic regulators so they have regard to the effect of their actions on trade and investment (3.34)

25. In UKTI's Strategy, set out plans to: (3.40)

    a. Strengthen relationships with major exporters and investors.

    b. Provide a more supportive environment for SMEs that are innovative and high-growth and ready to export.

       Launch a new prize for companies that are ready to export, but need encouragement to take the next step,

       Launch a new on-line peer-to-peer trade service

    c. Increase UKTI focus on emerging markets

    d. Strengthen the link between UKTI and the FCO in commercial diplomacy

26. Promote London as the world's leading financial centre, including through economic and financial dialogues with key emerging economies (3.41)

27. Increase the trade finance support available for exporters through a range of new products from ECGD and BIS (3.44 – 3.47). ECGD, BIS, and UKTI are to be co-located (3.49)

28. The Intellectual Property Office will advocate a clear framework for intellectual property internationally, and support UK business in commercialising their IP investment (3.52 – 3.53)

29. Promote, worldwide, an approach to the licensing of military and hi-tech exports based on intelligent risk management. Influence the development of the EU Dual Use Goods regime and intra-EU transfer of defence goods. Engage with our key international partners to improve the interoperability of our export control regimes (3.54)

30. Ensure appropriate practical advice to UK business on the Bribery Act. Press other signatories to the OECD Bribery Convention to enforce their own legislation (3.55 – 3.56)

31. Ensure the UK's influence is strong on the EU in trade and single market issues (3.57)

32. Press for a deeper, more competitive, and more effective EU Single Market (3.59 – 3.60)

33. Question the concept of "reciprocity" in international trade policy (3.62)

34. Maximise the opportunities for UK business in Free Trade Agreements as they are negotiated. Press the EU to negotiate greater liberalisation on services (3.63 – 3.64)
35. Ensure a clear regime for investors as part of the Lisbon Treaty's transition to EU competence in foreign direct investment (3.65)
36. Press for genuine and ambitious reform of the Common Agricultural Policy (CAP) and Common Fisheries Policy (3.66)
37. Work to ensure that trade defence measures are more clearly targeted on cases of genuinely distorted trade (3.67)
38. Work closely with the European Commission on the forthcoming review of the European Globalisation Adjustment Fund (EGF) (3.68)
39. Press the EU to focus more on the regulatory barriers to trade and investment (3.69)
40. Enhance the practical help we offer to individual UK firms facing legal and regulatory barriers when operating abroad, within the EU and beyond (3.70)

Strengthening the multilateral system

41. Work to secure a conclusion to the Doha Development Round of trade talks in 2011 (3.72)
42. Encourage key countries to increase their coverage on the Government Procurement Agreement and conclude the review in 2011 (3.75)
43. Work with the WTO, European Commission and other interested countries to develop ideas for strengthening the WTO (3.77)
44. Use its membership of OECD, UNCTAD, World Bank and G20 to progressively improve cooperation between them on trade and investment-related issues (3.77 – 3.78)

Working with the developing world

45. Support the group of Least Developed Countries in advocating their interests at the WTO (3.82)
46. Honour our G20 commitment to maintain Aid for Trade spending at or above its current level. Urge G20 action and scale up bilateral support on trade facilitation (3.83)
47. Work with private sector banks, through the G20 and with multilateral donors to ensure appropriate levels of trade finance in developing countries (3.83)
48. Develop innovative approaches to working with the private sector to address specific constraints to export from developing countries, including through a revitalised CDC, the UK's development finance institution and the International Climate Fund (ICF) (3.84)
49. Support responsible and ethical trade through the Ethical Trading Initiative and the RAGS Challenge Fund (3.85)

50. Establish an Advocacy Fund for the least developed and low-income countries (3.87)
51. Push for all members of the G20, including the emerging powers, to agree to 100% Duty-Free Quota-Free access for Least Developed Countries (3.88)
52. Support Duty-Free Quota-Free access to Palestine for agricultural products, (3.88)
53. Encourage the EU to advocate an extension to the current deadline of 2013 for Least Developed Countries to meet the requirements of the Agreement on Trade Related Aspects of Intellectual Property (3.88)
54. Press for EU preference schemes and trade agreements to enhance trading opportunities and poverty reduction in lower income countries (3.88)
55. Push to increase the product coverage of the EU's Generalised System of Preferences (GSP) and to extend GSP+ to vulnerable countries (3.88)
56. Ensure that Europe's Free Trade Agreements take into account the differential stages of development of countries signing (3.88)
57. Press for timely Sustainability Impact Assessments for EU trade agreements and greater transparency in EU policy development (3.88)
58. Assist countries to implement Economic Partnership Agreements (EPAs) already signed. Press for new rules of origin to be included in all EPAs (3.90)
59. Support the removal of taxes and tariffs on essential health commodities. Ensure that provisions on intellectual property rights in EU FTAs do not have negative impacts on the ability of the poorest to access low cost medicines (3.92)
60. Support the liberalisation of trade in climate-friendly goods. Mobilise private capital for low carbon investments in emerging and developing economies. (3.93)
61. Continue to assist developing countries comply with sanitary and phytosanitary (SPS) measures (3.94)
62. Seek areas where trade policy can be used as a lever to support rebuilding fragile economies (3.95)

Conclusion

4.4 This Framework for Action will guide the Government's actions across the whole range of our work on trade and investment. We will implement it vigorously and actively, and continuously review implementation to ensure that we remain on course. We urge British business to seize the opportunities it will present, so that we all benefit from open trading system and a competitive British economy, driving growth jobs and wealth for all.

Analytical Papers

The Trade and Investment White Paper is supported by statistics and analysis drawn from the reference material included in the Bibliography and from further analysis being developed for the Trade and Investment Challenge. A suite of analytical papers will be published on the BIS website between February and July 2011 and will cover the following topics:

1. Global context – How has world trade and investment developed, what's next?
2. UK trade performance over recent years
3. The UK and the Single Market
4. Economic Openness and economic prosperity
5. Sources of Growth
6. Protectionism
7. Regulatory Co-operation
8. Trade Promotion
9. Trade Finance
10. Trade Facilitation
11. Bilaterals, Plurilaterals – how can we make them better
12. Trade and the Environment
13. Investment, including the impact of Foreign ownership
14. Trade Defence Policy
15. Trade and Regional Integration in Africa
16. Food Security
17. Comparative advantage of the UK
18. Asia

Acronyms

ASEAN	Association of South East Asian Nations
BIS	Department for Business, Innovation and Skills
CETA	EU-Canada Free Trade Agreement
COMESA	Common Market for Eastern and Southern Africa
DDA	Doha Development Agenda
DFID	Department for International Development
EAC	East African Community
ECGD	Export Credits Guarantee Department
EFTA	European Free Trade Association
EPA	Economic Partnership Agreement
EU	European Union
FCO	Foreign and Commonwealth Office
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
G8	Group of 8, an assembly of world leaders (from 8 Nations) who meet annually to discuss and attempt to reconcile global issues and create global policies
G20	The Group of Twenty (G-20) Finance Ministers and Central Bank Governors, promotes open and constructive discussion between industrial and emerging-market countries on key issues related to global economic stability
G33	Group of 33 Forum for developing countries (currently 46 nations) which coordinate on trade and economic issues with a particular focus on agriculture.
GDP	Gross Domestic Product
GPA	Government Procurement Agreement

IMF	International Monetary Fund
IPRs	Intellectual Property Rights
LICs	Low Income Countries
NAFTA	North America Free Trade Agreement
NAMA	Non Agricultural Market Access
OECD	Organisation for Economic Co-operation and Development
REC	Regional Economic Community
R&D	Research and Development
SADC	South African Development Community
SME	Small and Medium Enterprises
TEC	Transatlantic Economic Council
UKTI	UK Trade & Investment
UN	United Nations
WTO	World Trade Organisation

Bibliography

Chapter 1

BIS Economics Paper number 5, (2010), Internationalisation of Innovative and High Growth SMEs

BIS Economics Paper number 8, (2010), UK Trade Performance: Patterns in Global Trade Growth

Bhagwati, J. and Sutherland, P. (Eds.) (2011), *The Doha Round: Setting a deadline defining final deal*, High Level Trade Experts Group. Available online at www.weforum.org

British Chambers of Commerce, "Exporting Britain: June 2009"

Calderon, C., Loayza, N., Schmidt-Hebbel, K. (2005) "Does openness imply greater exposure?" World Bank Policy Research Working Papers 3733. Washington DC, World Bank

CEPII (2009), *Economic Impact of Potential Outcome of the DDA*, Centre D'Etudes Prospectives et D'Information Internationale.

Chen, N, J. Imbs and A. Scott (2004) "Competition, Globalization and the Decline of Inflation", CEPR Discussion Paper Series No. 4695, 2004.

Ding J. and Chee-Wah, C (2006), *Government preferential procurement policy: Catalyst for or inhibitor of innovation?*

Erixon F and Sally R Trade (February 2010), "Globalisation and Emerging Protectionism Since the Crisis" ECIPE Working Paper.

Ethier (2003). "Political Externalities, Non-discrimination and a Multilateral World", *Review of International Economics*, Vol. 12, No. 3.

European Commission (2009) *Metrics for Knowledge Transfer from Public Research Organisations in Europe.*

European Commission (2010) "Trade as a Driver of prosperity, Staff Working Document"

European Commission (2010) "Seventh Report on potentially trade restrictive measures identified in the context of the economic crisis" May 2010 – September 2010, for the Trade Policy Committee

Fairtrade Foundation (2011), "Facts and figures on Fairtrade." Available online at: www.fairtrade.org.uk

Global Trade Alert; Reports 1 to 8. Edited by Simon Evernett

Harris, R. (2009), "The Effect of Foreign Mergers and Acquisitions on UK Productivity and Employment", submitted to UKTI

Harris, R and Li, Q (2007) "Firm level empirical study of the contribution of exporting to UK productivity growth," submitted to UKTI

Harris, R., Li, Q. (2010) Study of the Relationship between Innovation, Exporting and the Use of ECommerce. Report submitted to UKTI June 2010

Hossain, N., Fillaili R, Lubaale G, Mulumbi M, Rachid M and Tadros M. (2010). "The Social Impacts of Crisis." Institute of Development Studies, University of Sussex

IMF (2010) "An Overview of Fiscal & Debt Positions in LICs and the IMF's Role in the Crisis and Recovery." Washington DC, IMF

IMF (2010) World Economic Outlook (WEO) – "Recovery, Risk and Rebalancing, October 2010"

IMF (2010). World Economic Outlook Update. "A Policy Driven, Multispeed Recovery." Washington DC, IMF

IMF (2010). Berg A, Papageorgiou C., Pattillo C., Spatafora N. The End of an Era? The Medium and Long-term Effects of the Global Crisis on Growth in Low-Income Countries. Washington DC, IMF

Leverhulme Centre for Research on Globalisation, (2010), Offshoring and the UK Economy

OECD, ILO, World Bank and WTO final report "Seizing the benefits of trade for employment and growth", Prepared for submission to the G-20 Summit meeting Seoul (Korea), 11 – 12 November 2010

OECD. 2003. *The Sources of Growth in OECD Countries*, Paris

Office for National Statistics, Pink Book 2010

Office for National Statistics Balance of Payments

Office for National Statistics National Accounts

Ravallion, M. (2009) "The Crisis and the World's Poorest." Development Outreach, World Bank, Washington, DC.

Sutherland, P., Bhagwati, J., Botchwey, K., Fitzgerald, N., Hamada, K., Jackson, J. Lafer, C. and de Montbrial, T. (2004), *The Future of the WTO: Addressing Institutional Challenges in the New Millennium*, Geneva: WTO Secretariat.

UKTI (2010) "UK inward Investment Report 2009 – 2010"

UKTI (2010), "International Business Strategies, Barriers and Awareness Survey April 2010" commissioned by UKTI

UKTI 2008 "International Business Strategies, Barriers and Awareness Survey 2008" commissioned by UKTI

UNCTAD: *World Investment Report 2010*

World Bank (2009) "Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession," Background paper prepared for the G-20 Leaders' Meeting, Pittsburgh, PA, Sept 24–25, 2009.

World Bank (2010) "Crisis, finance and growth: Global Economic Prospects 2010." Washington DC, World Bank.

World Bank (2011), *Doing Business 2011: Making a difference for entrepreneurs*

WTO, OECD UNCTAD, Various (2009), "Report on G20, Trade and Investment Measures."

Chapter 2

Aggarwal, A. (2008) "Regional Economic Integration and FDI in South Asia: Prospects and Problems." ICRIER Working Paper 218. Delhi: Indian Council for Research on International Economic Relations.

Arvis J-F., Raballand G., Marteau J-F. (2010). "The Cost of Being Landlocked. Washington DC, World Bank."

Aussilloux, V., Boumellassa, H., Emlinger, C. Fontagne, L. (2010) "The economic consequences for the UK and the EU of completing the Single Market", BIS Economic Paper to be published in February 2010

FAO (2010) "The State of Food Insecurity in the World". Online.

Foster V., Briceno-Garmendia C. (2009). "Africa's Infrastructure : A Time for Transformation." Washington DC, World Bank.

Freund C. and Rocha N. (2010). What Constrains Africa's Exports? WPS 5184. Washington DC, World Bank.

Freyrer, J. 2009. "Trade and income: exploiting time series in geography." *NBER Working Paper Series.* No. 14910

Hoekman B., Nicita A., (2008) "Trade Policy, Trade Costs and Developing Country Trade." WPS 4797. Washington DC, World Bank.

McCulloch, N., Winters, A., Cierra, X. (2001) "Trade Liberalisation and Poverty: A Handbook." Centre for Economic Policy Research.

M Helble, M., Mann C., Wilson J.,. (2009). Aid for Trade Facilitation. WPS 5064. Washington DC, World Bank.

OECD. (2001). "Multi-functionality: towards an analytical framework" OECD booklet.

OECD (2005) "The benefits of liberalising product markets and reducing barriers to international trade and investment: The case of the United States and the European Union", OECD Economics Department Working Paper No. 432, May 2005

Portugal-Perez A., and Wilson J.,(2008). "Trade Costs in Africa : Barriers and Opportunities for Reform. WPS 4619," Washington DC, World Bank.

Ravallion, M., (2006) "Looking beyond averages in the trade and poverty debate", *World Development* 34:8, 1374 – 1392

UNECA (2010). "Assessing Regional Integration in Africa IV."

Winters, A. L., (1999) "Trade and poverty: Is there a connection?" in "Trade, Income Disparity and Poverty," *World Trade Organization Special Studies* 5, World Trade Organization, Geneva.

Winters, A. L. and Masters A. (2010) "Openess and Growth: Still an Open Questions?"

World Bank (2007). "South Asia – Growth and Regional Trade," Washington DC, World Bank

World Bank (2008). "Trade & Transport Facilitation in South Asia," Washington DC, World Bank

World Bank (2009), "Winners without Borders: Integrating poor countries with World markets", *World Development Report 2009: Reshaping economic geography*, Chapter 9, pp. 260 – 287, World Bank, Washington, DC

World Bank (2010) "Connecting to Compete" (Logistics Performance Index).

World Bank (2010) "Performance Logistics Index 2010," Washington DC, World Bank

Chapter 3

Bianchi, A. and Lorenzo, G. (2008), "Developing Countries, Countermeasures and WTO Law: Reinterpreting the DSU against the Background of International Law", *ICTSD Dispute Settlement and Legal Aspects of International Trade Issue Paper*, No. 5.

Borot de Battisti, A. Macgregor, A and Graffham, A. (ed) (2009). "Standard Bearers – Horticultural Exports and Private Standards In Africa." IIED, London

Bruno, Randolph and Nauro Campos (2010), "The Growth Effect of Foreign Direct Investment in Low-Income Countries: A Meta-Regression Analysis of the Firm-Level Evidence," London, DFID Systematic Review Programme Report No. 1.

Committee on Sanitary and Phytosanitary Measures (May 2009) "Review of the Operation and Implementation of the SPS Agreement," G/SPS/W/237, Draft Report of the Committee, 8 May 2009, WTO, Geneva.

Jaffee, S. (2006) "Sanitary and Phytosanitary Regulation: Overcoming Constraints, in: Trade, Doha, and Development – A Window into the Issues) (Richard Newfarmer, editor), The World Bank, Washington.

Cali M., Ellis K., te Velde D., (2008). The Contribution of Services to Development and the Role of Trade Liberalisation and Regulation. ODI, London

Chang, W. and Winters, A. (2002), "How Regional Blocs Affect Excluded Countries: The Price Effects of Mercosur", *American Economic Review*, Vol. 92, No.4, pp. 889-

Ellis K., Keane J., (2008). "A review of ethical standards and labels." ODI, London

ETI Annual Review 2010 "Ethical Trading Initiative Jan 2011"

Gasiorek M., (2009) Mid-term Evaluation of the EU's Generalised System of Preferences. CARIS, University of Sussex. European Commission, Brussels

Impactt Annual Report (2008). "Getting Smarter: Ethical Trade in the Downturn*."*

Freund, C. and Ornelas, E. (2010). "Regional Trade Agreements", *World Bank Policy Research Working Paper*, No. 5314.904.

Hassan E., Yaqub O., Diepeveen S., (2009). Intellectual Property and Developing Countries, a Review of the Literature. Rand

Hoekman, B. and Nicita A., (2010) "Assessing the Doha Round: Market access, transactions costs and aid for trade facilitation, *The Journal of International Trade & Economic Development,* 19(1): 65 – 80

Lawrence, R. (2006), "Rulemaking Amidst Growing Diversity: A Club-of-Clubs Approach to WTO Reform and New Issue Selection," Journal of International Economic

Lissaman C., (2009). "Mapping Ethical Fashion Initiatives, Projects and Programmes – Clare Lissaman."

Low, P (2009), "WTO Decision-Making for the Future', Paper presented at the Conference of Thinking Ahead on International Trade (TAIT)." Available online at: http://www.wto.org/english/res_e/statis_e/tait_sept09_e/tait_sept09_e.htm; and

Low, P. and Baldwin, R. (eds.) (2009), *Multilateralising Regionalism: Challenges for the Global Trading System*, Cambridge, Cambridge University Press.

MacMillan, E. (2010), "Doha Decision-Making: Implications of the Consensus and Single-Undertaking Principles for Developing Countries", *Commonwealth Secretariat Trade Hot Topics*, Issue 71.

Portugal-Perez, A and Wilson, J. (2009) "Why Trade Facilitation Matters to Africa," *World Trade Review* 8:3 379 – 416.

Portugal-Perez, A and Wilson J. 2010. "Export Performance and Trade Facilitation Reform: Hard and Soft Infrastructure," World Bank Policy Research Working Paper 5261

Report of the Commission on Intellectual Property Rights (2002), "Integrating Intellectual Property Rights and Development Policy", London

Rollo, J. (2009), "Helping Developing Countries Negotiate Bilateral Agreements: a proposal for an Advisory Centre on RTA."

Strategic Fairtrade Funding Programme Annual Report 2009" Fairtrade Labelling Organisations April 2010

Warwick Commission (2007), *The Multilateral Trade Regime: Which Way Forward?*, Report of the first Warwick Commission, University of Warwick.

Woods, N. and Deere Birkbeck, C. (2009), *Manoeuvring at the Margins: Constraints Faced by Small States in International Trade Negotiations*, London: Commonwealth Secretariat;

TSO
information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, telephone, fax and email
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/general enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/general enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http://www.bookshop.parliament.uk

TSO@Blackwell and other accredited agents

Customers can also order publications from:
TSO Ireland
16 Arthur Street, Belfast BT1 4GD
Telephone orders/general enquiries: 028 9023 8451
Fax orders: 028 9023 5401

ISBN 978-0-10-180152-2
9 780101 801522