BFPG British Foreign Policy Group

UK Trade Priorities in 2023 and Beyond:

Opportunities to Accelerate Trade Growth

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Summary

Trade is one of the key policy levers for the government to create a growth-oriented economy. Trade has been growing steadily since May 2020 in value terms and exporters appear to be faring well despite the obvious headwinds that have blown up since the start of the Russia-Ukraine crisis. The current weakness of Sterling, while putting pressure on import costs, provides an opportunity to promote exports. But challenges – from supply chain disruption to the impact of sanctions – are real and there is no place for complacency. Trade is a key contributor to national security in the broadest sense and accelerating trade growth should be a key consideration for the updating of the Integrated Review. This paper suggests a number of ways the UK can accelerate export growth without significant additional expenditure, by focusing on the exporter journey itself, a greater use of technology and the addressing the sources of the practical challenges that exporters face.

Key Analysis

Access to finance is not seen as a major barrier by exporting firms, suggesting that the impact of measures through UK Export Finance, such as the General Export Facility[1] (GEF), a guarantee to banks providing export finance to riskier groups such as SMEs, are achieving their objectives[2].

Even so, there is more that can be done to enable access to trade finance. In particular, the International Chamber of Commerce noted in 2021 that legal reform to boost trade through paperless trade and digitised transferrable instruments[3] could create an additional £24bn in export-led growth within a five-year period.

A perceived drop in the number of exporters, and commensurately their revenues, is as likely to be caused by shifts in operational structures with increasing use of overseas subsidiaries to circumvent increased documentary requirements associated with the UK's trade with Europe. Moves to support greater paperless trade, including the Ecosystem of Trust pilots[4], will demonstrate how trade can be streamlined, and may have potential in the future to encourage more exporting, if not to encourage larger businesses back to their UK base.

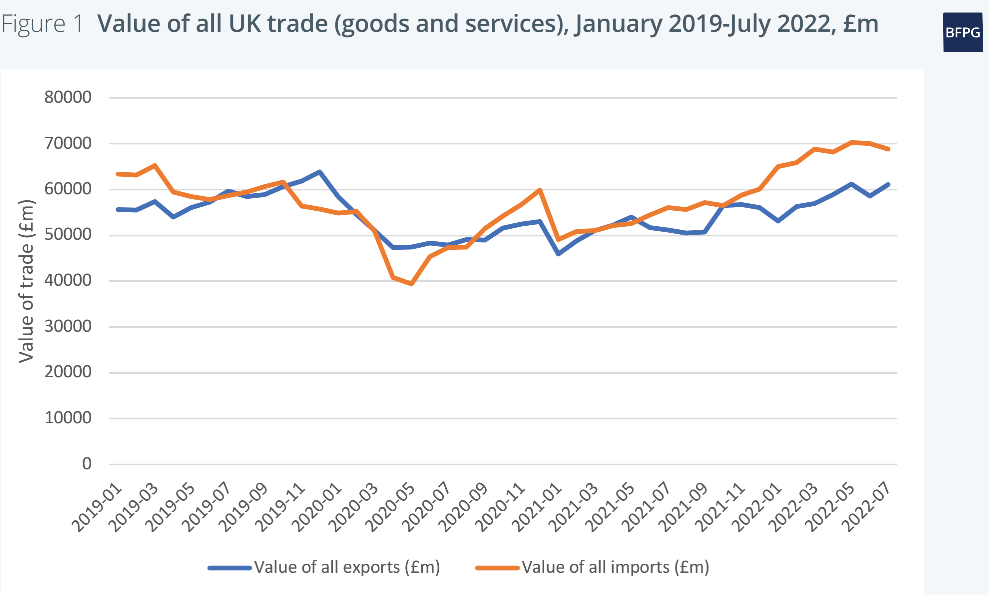
The uncertainties from the current global macroeconomic and geopolitical climate are evident in the rising costs of imports versus the volume of shipments. This is a result of the Russia-Ukraine crisis and the impact on fuel costs, persistent supply chain shortages from the continued lockdown of China's economy, and the current weakness of sterling. With the exception of the weakness of sterling, these are pressures which fall outside of the remit of orthodox monetary or fiscal policy. They therefore need to be addressed through measures to streamline costs and information barriers in trade including easier access to information around sanctions and export controls in overseas markets, information about the regulations and tariff regimes in other countries, and measures to develop the Department of International Trade's role to support the Integrated Review.

1 https://www.gov.uk/guidance/general-export-facility
2 https://www.santandercb.co.uk/business-insights/trade-barometer
3 International Chamber of Commerce, UK, *Creating a modern digital trade ecosystem: the economic case to reform UK law and align to the UNCITRAL Model Law on Electronic Transferrable Records (MLETR)*
4 https://www.gov.uk/government/news/transformational-border-pilots-to-create-an-ecosystem-of-trust

Data overview

The value of goods and services trade has been ticking up since May 2020 as Covid restrictions began to loosen. In spite of changes following Brexit and supply chain shortages that have potentially had an impact on the rate of trade recovery, nominal export values are now nearly 5% higher and import values over 25% higher than they were in January 2020 *(Figure 1)*.

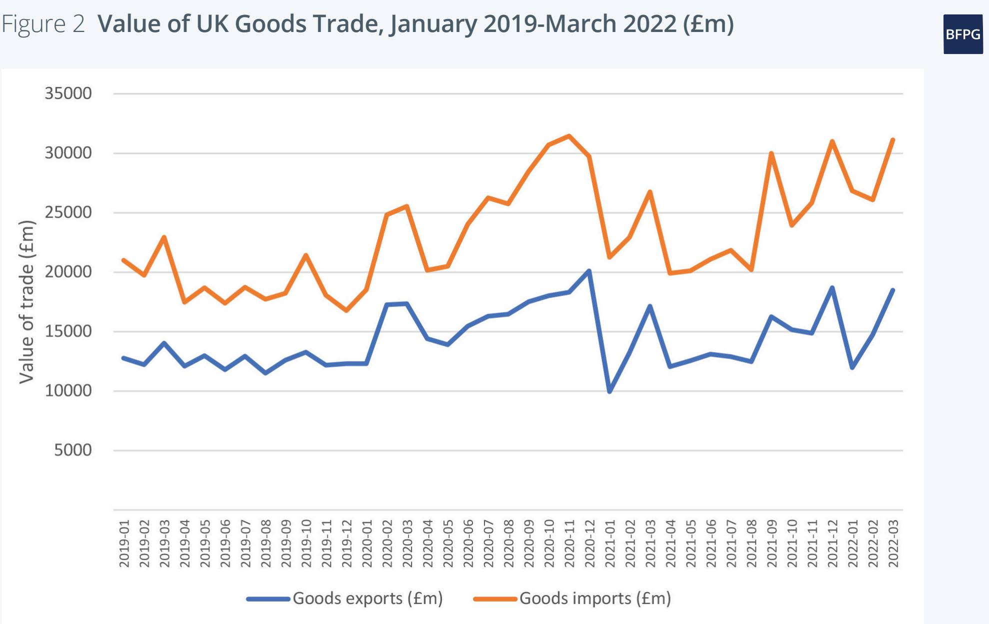
Figure 1 **Value of all UK trade (goods and services), January 2019-July 2022, £m**



Source: Office of National Statistics

The picture for goods trade only is slightly more volatile and arguably reflects more accurately the uncertainties associated with supply chain shortages in the past two years *(Figure 2)*.

Figure 2 **Value of UK Goods Trade, January 2019-March 2022 (£m)**



Source: Coriolis Technologies/UN Comtrade

Data overview

Goods trade has taken longer to recover in value terms and although now higher than the end of 2019, is still not back at the levels it saw pre-Covid. One important point should be made here: between February and March alone, import prices grew by 25% and export prices by nearly 20%. This is a feature across the world, and arguably reflects the immediate price movements as a result of the Russia-Ukraine crisis when seasonal effect are removed *(Figure 3)* as follows:

1. The UK's import value increases were in line with Germany's and lower than the US at the onset of the Russia-Ukraine Crisis
2. The negative value of trade in Russia reflects the immediate impact of sanctions and the cessation of exports from Allied countries to Russia.
3. The higher rate of increase in China is part of a bigger upward trend in values of 145% for imports and 119% in exports since January.

This suggests that inflationary pressures from trade are potentially emanating from China to a greater extent than they are from other trade partners.

Figure 3 **Value of trade increase between February 2022 and March 2022 for selected countries (%)**

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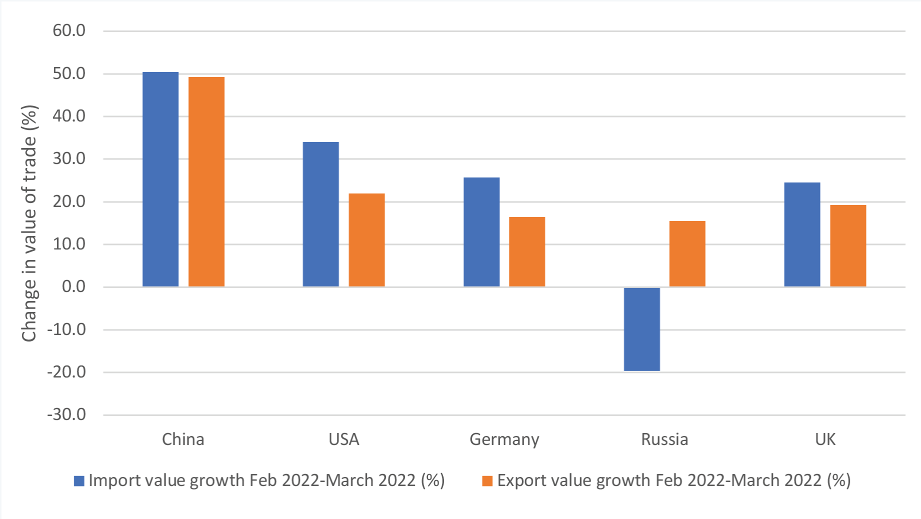
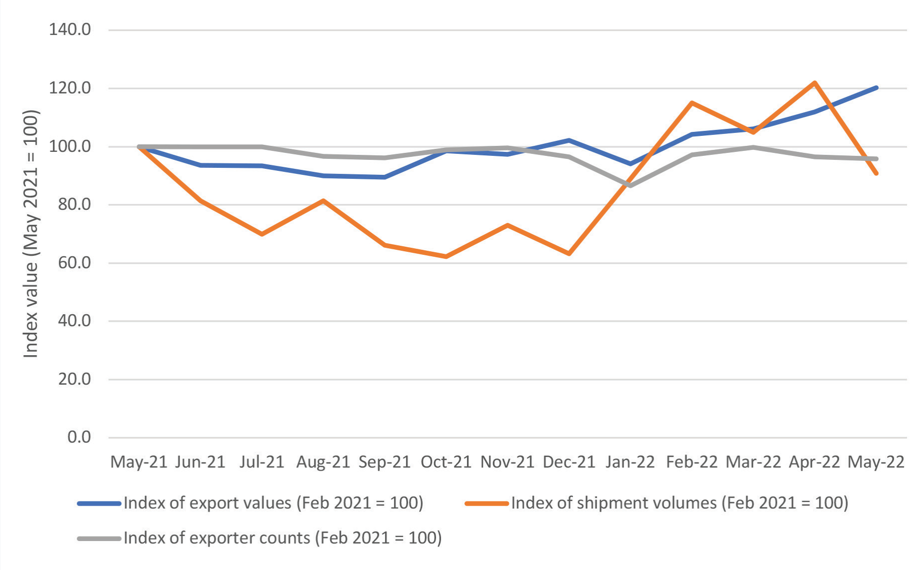


Source: Coriolis Technologies

Since the start of 2022 there has been clear upward pressure on import prices: the cost of imports has increased by nearly 36% compared to May 2021 despite the volume of shipments to UK ports being 3% lower than they were a year ago. The data shows that fewer UK companies are exporting, and even fewer goods have been exported but at higher prices over the past six months, while the 25% increase in March alone in import prices has pushed the costs of production upwards. *(Figure 4)*.

Figure 4 **Index of changes in key indicators, May 2021-May 2022**



Source: Coriolis Technologies, Office of National Statistics, Institute of Exporters, Exporter Monitor July 2022 [5]

[5] https://www.export.org.uk/news/611579/Cost-of-living-crisis-hitting-UK-exporters-Quarterly-UK-Exporter-Monitor-Q2-2022.htm

Concluding remarks and policy suggestions

Care should be taken in interpreting the reduction in the number of exporters, since the Office of National Statistics has changed the methodology by which these statistics are compiled since Brexit. However, the trend over the past 2-3 years is at best flat and at worst downwards; this may suggest that while there has been no catastrophic or obvious effects on trade from Brexit, the pandemic or supply chain shortages, there are no grounds for complacency.

To address this, the UK needs to recognise that trade is now a matter of national security: energy security, food security and the basic fulfilment of consumer demand in an open economy like ours are all driven through the trade system. Trade is as vulnerable to macroeconomic pressures but, in a high-end economy like the UK, any improvements in trade because of currency fluctuations are often transitory, simply because many of our exports are not that sensitive to changes in price.

The most recent Santander Trade Barometer suggested that businesses are particularly concerned about rising inflation, shipping costs, access to skills and bureaucratic barriers to trade[6]. Price and costs pressures are global ones, as shown above, and there is little outside of monetary and fiscal policy that can be done about this.

However, the infrastructures and bureaucratic costs of trade can be addressed by government measures outside of the fiscal system. These could include:

1. **The updating of the Integrated Review should explicitly recognise the contribution of trade to national security.** DIT should be an integral part of the process and priority should be given to practical measures including those identified here.
2. **The government should renew its focus on trade digitisation and efforts to reform the law to enable digital transactions:** there are obvious financial gains here – banks surveyed by the ICC suggested that closing the market failure that is the Small and Medium Sized enterprise trade finance gap would generate 16% more revenue annually for them[7] while businesses surveyed suggested that their turnovers would increase by a commensurate 14%. Legal reform to enable the greater use of digital transferrable instruments (such as letters of credit or bills of lading) is a way in which the UK could lead the world. Much of global trade law is based in UK law, and this would be a means of both promoting the role of the UK in the world's trade structures while supporting UK trade finance providers and SMEs in the process.
3. **The government deepens the Ecosystem of Trust pilots to enable trade to be conducted through them:** these pilots are at the heart of the shift to greater digital trade via single windows. At present, however, they have costs associated with them that are borne by the participants. A relatively small injection of cash into each would enable the actors to run transactions through them creating a streamlined infrastructure and financing system from the origin of the good to its final destination. This would help reduce the bureaucracy and costs of international trade, widen access for SMEs and make international trade easier for exporters and importers alike.
4. **The government provides immediate practical support to exporters by providing easy to access information on sanctions, export controls, and regulations and tariffs associated with international trade:** currently this information is spread over a number of departments and functions, but it is a known challenge for exporters in the current climate. This would help address the uncertainties that SMEs in particular face by provision of streamlined information and recognise that the global climate for trade has become significantly worse over the last few months.

[6] https://www.santandercb.co.uk/sites/default/files/documents/trade_barometer_spring_2022.pdf
[7] International Chamber of Commerce, UK, *Creating a modern digital trade ecosystem: the economic case to reform UK law and align to the UNCITRAL Model Law on Electronic Transferrable Records (MLETR)*

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