TheCityUK

Refreshing the UK's trade and investment strategy:

What does the financial and related professional services industry want from a Trade and Investment White Paper?

Contents

Executive summary

Any strategy to drive growth and raise living standards depends on the UK's strengths in services generally, and financial and related professional services, in particular. The UK remains the world's largest financial services net exporter[1]. Financial services generated the largest trade surplus of any sector in the UK - £75.6bn in 2022. Nearly half of these exports originated outside London, with the South East, Scotland, the North West making the largest export contributions.[2]

Galvanising political momentum for a holistic strategic approach that harnesses the UK's services strengths would benefit the whole economy. For example, financial and related professional services businesses provide trade facilitation services which support UK exporters in all sectors, including manufacturing and agriculture.

Strategies to boost services investment and export performance look rather different from traditional strategies aimed primarily at growing goods sectors. The generation and export of innovative services requires people (skills), investment, and ideas. What happens behind the border, whether in the UK or a trade partner's jurisdiction, becomes just as relevant as what happens at the border. In the case of financial and related professional services, the domestic business environment and regulation takes on an international trade policy dimension.

Marrying trade and industrial policy to boost investment and exports

An enhanced trade and investment strategy must be underpinned by domestic policies that enable the UK to compete globally and generate exports. Equally, the success of the UK's industrial strategy is predicated on increasing levels of domestic and foreign investment across the country. This means:

- Articulating the strengths of the UK investment environment. Explaining to international investors the proactive steps being taken to enable the green transition and facilitate innovation in new technologies.
- Implementing a tax and regulatory environment that is supportive of business.
- Using R&D systems to incentivise innovation in services sectors, as well as manufacturing.
- Recognition of the importance of English law and UK legal services as an 'export commodity'.
- Promoting the UK's talent offer to businesses and how the UK is adapting to new trends, such as the demand for cross-border remote working.
- Demonstrating that the investment environment is being considered when drafting legislation e.g. by ensuring that draft bills, before they are laid before Parliament, will not unnecessarily deter investment due to unintended consequences.
- Ensuring foreign investment/national security screening and merger control regimes are effective and deliver high quality and reasonably predictable regulatory outcomes.

Broadening the trade policy toolkit to cater to UK strengths

The next phase of UK trade strategy will need to respond to a changing global environment. This should recognise that multilateral trade liberalisation at the WTO has stalled, and that free trade

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[1] See 'Financial and related professional services exports: a deeper dive into growth trends' (https://www.thecityuk.com/news/financial-and-related-professional-services-exports-a-deeper-dive-into-growth-trends/)

[2] TheCityUK, 'Exporting from across Britain: Financial and related professional services 2023', (November 2023); https://www.thecityuk.com/our-work/exporting-from-across-britain-2023/

agreements have produced relatively little for services compared to goods, and are becoming more difficult to conclude.

The UK should consider all the different trade policy tools that can be used with specific markets to boost exports and attract investment. In making assessments about prioritisation of markets and trade policy tools, the most relevant criteria should be:

1. Potential to deliver commercial value and/or markets access
2. Political capital and institutional resource required to deliver commercial benefits
3. Potential to impact on existing trade arrangements that deliver commercial value

Adopting a proactive stance on commercial diplomacy in regional growth corridors

As multilateralism has faltered, UK trade and commercial policy has predominantly been concerned with improving trading relationships with individual partners via free trade agreements and other economic partnerships. This is valuable and important work, but it cannot capture fully how the UK should respond to the trends that will increasingly shape trade and investment flows in the coming decades (including 'friend-shoring' and 'ally-shoring), or how multinational businesses operate in the global marketplace.

The UK should be more proactive on international trade policy issues that impact British businesses in the increasingly important centres of growth in India, East and South-East Asia, the Middle East, and Africa. This requires:

- Policymakers and the industry to think more creatively about how to market and provide UK-based capabilities to capitalise on the commercial opportunities arising in these 'growth corridors'.
- Understanding the nature of how multinational UK-based financial and related professional services businesses operate in the modern, digitally enabled economy. With trade and investment value chains spanning multiple markets, the UK may in many cases be an important enabler of trade and investment flows between other markets. This should encourage government to recognise that repatriated profits of overseas subsidiaries and digitally delivered services provide significant growth benefits to the UK economy and should be more actively supported through various trade promotion programmes and policies.
- Adapting to the growing regionalisation of supply chains for goods. Given that there are virtually no economic activities that do not require services to enable or deliver other products, trade strategy should consider how UK-based service providers participate and facilitate the cross-border integration of supply chains and investment in these high-growth regions.

A prerequisite for capitalising on such opportunities will be to equip UK staff at home and in overseas posts with the skillset to recognise when there is an opening for proactive intervention and to work with industry for maximum effectiveness for the UK's commercial diplomacy.

While global trade in goods has stalled, global trade in services looks set to continue growing. Global trade is projected to grow broadly in line with global GDP over the next 30 years, but demand for services will increase more rapidly in the coming years. The UK remains well placed to capitalise on this opportunity, particularly if government works with industry to trade on the UK's strengths.

1. Introduction

UK-based financial and related professional services businesses contribute 12% of the UK's total economic output and employ over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. The UK-based financial and related professional services industry generated a trade surplus of £95.6bn in 2022, based on the latest available data from the Office for National Statistics.[3] This was equivalent to 3.8% of GDP. Financial services generated the largest trade surplus of any sector in the UK - £75.6bn in 2022. The UK remains the world's largest financial services net exporter. Nearly half of these exports originated outside London, with the South East, Scotland, the North West making the largest export contributions.[4]

The global profile of the industry contributes to UK 'soft power' as well as economic and commercial success. This is not only through the longstanding prominence of the UK as a recognised international financial centre. It is also through the presence of senior industry personnel in business centres worldwide, and their representational role in their dealings with government and regulators in many capitals. UK contributions to economic theory, and the quality of UK economic and business journalism, which has achieved global readership, have also played a significant part. The industry also takes a lead in specific development projects (Ukraine is a case in point).

Ultimately, the success of the UK's financial and related professional services industry depends on securing and developing the UK's position as an international financial centre (IFC). While the UK remains an attractive place to do business, rival IFCs are also bolstering their offers. This increased competition means that the UK must take added steps to secure and maintain its international position.

TheCityUK's International Strategy[5] sets out how the UK can elevate its status as a leading IFC by:

- Securing the UK's financial and related professional services ecosystem by making it more internationally competitive
- Growing the UK's share of key global financial and related professional services markets in areas of current comparative strength
- Enabling innovation to build new global market capabilities and adapt to future global demand in areas such as data and technology, global ESG markets, channelling international investment and risk management.

[3] TheCityUK estimates based on the Office for National Statistics. See TheCityUK, 'Key facts about financial and related professional services 2024', (March 2024); https://www.thecityuk.com/media/kdwbete3/key-facts-about-uk-based-financial-and-related-professional-services-2024.pdf

[4] TheCityUK, 'Exporting from across Britain: Financial and related professional services 2023', (November 2023); https://www.thecityuk.com/our-work/exporting-from-across-britain-2023/

[5] TheCityUK, 'Making the UK the leading global financial centre: An international strategy for the UK-based financial and related professional services industry', (2021); https://www.thecityuk.com/media/q0mewp0i/making-the-uk-the-leading-global-financial-centre.pdf

1.1. Pivoting to a more services-orientated UK trade and investment strategy

Policy developments over the 2019-24 parliament marked the first phase of the UK's post-Brexit trade strategy, which required adaption to an independent trade policy after 45 years of EU membership. Much of the focus was on negotiating and implementing free trade agreements (FTAs). This included the terms of the UK-EU Trade and Cooperation Agreement, converting ("rolling over") existing trade agreements (from EU to UK) with several key partners, and negotiating some new agreements, most notably UK-Australia FTA and the UK's accession to the multiparty Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Policy during the current parliament must pivot to developing the next phase of UK trade strategy – one that reflects the need to reconcile business-as-usual with a rapidly changing global environment. This requires a holistic trade and investment strategy informed by a sober understanding of the UK's economic strengths and weaknesses in the global economy.

The UK's services sector is world class, and this is reflected in the UK's export profile. The UK is the second largest exporter of services by value behind the United States,[6] and services are more important to UK exports than any other major economy in the world, the more so as services play an enhanced role in the UK economy following withdrawal from the EU. In 2023, services comprised 54% of total UK exports (goods and services)[7], whereas comparable shares for the EU and the US each stand at approximately a third.[8] Deploying and enhancing this core feature of UK competitive advantage requires a clear understanding of how services – particularly highly regulated services such as financial and related professional services – are traded internationally, and the varieties of behind-the-border barriers to services trade. Here regulation, and the role of regulators in inhibiting or enabling trade, is of key importance, as exports of highly regulated services virtually always require some form of recognition or authorisation in the target market. It follows that, while market access is of key importance, regulatory cooperation between the UK and other countries is also essential.

The UK's post-Brexit trade performance marks a continuation of the trend of the last two decades, with services becoming increasingly important relative to goods. Services trade as a proportion of GDP rebounded quickly post-pandemic and surpassed pre-pandemic levels by the latter half of 2022. By contrast, whilst other advanced economies have seen a modest recovery in goods trade, the same has not happened in the UK.[9]

Services have been the source of most UK employment growth in recent decades, and this is likely to continue in the coming decades. While global trade in goods has stalled, global trade in services looks set to continue growing. Global trade is projected to grow broadly in line with

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[6] UNCTAD, 'Handbook of statistics 2023', (2023); https://hbs.unctad.org/total-trade-in-services/

[7] HMG, 'UK trade in numbers', (17 May 2024); https://www.gov.uk/government/statistics/uk-trade-in-numbers/uk-trade-in-numbers-web-version#export-statistics

[8] Eurostat data; https://ec.europa.eu/eurostat/statistics-explained/index.php?title=World_trade_in_services&oldid=452146 ;USTR data for 2022; https://ustr.gov/countries-regions#:~:text=The%20United%20States%20is%20the%202nd%20largest%20goods%20exporter%20in,(%24307.3%20billion)%20from%202021

[9] See UK in a Changing Europe, 'UK trade 2024', (2024); https://ukandeu.ac.uk/wp-content/uploads/2024/06/UKICE-Trade-Report.pdf; and Resolution Foundation, 'Britain needs to acknowledge rather than deny its weaknesses in goods trade, and leverage its strength in services', (13 May 2024); https://www.resolutionfoundation.org/comment/britain-needs-to-acknowledge-rather-than-deny-its-weaknesses-in-goods-trade-and-leverage-its-strength-in-services/

global GDP over the next 30 years, but demand for services will increase more rapidly in the coming years.[10]

1.2. What is good for services is good for manufacturing too

Galvanising political momentum for a holistic strategic approach that harnesses the UK's services strengths requires a significant shift in mindset and policy away from the traditional focus on goods. The generation and export of innovative services requires people (skills), investment, and ideas.

Trade in services is different to trade in goods for several reasons, and this requires a paradigm shift in thinking about trade. In a goods-orientated economy, "trade" was the flow of goods across the border, and "trade policy" was about managing the flows. The UK in this model famously championed free trade, allowing the flow of goods across the border untaxed.

In a globalising services and digitised economy, "trade" becomes extended to cover nearly all economic interaction between domestic and international businesses and customers. In turn, "trade policy" is about managing the extent of international participation in the global economy. What happens behind the border, whether in the UK or a trade partner's jurisdiction, becomes just as relevant as what happens at the border. In the case of financial and related professional services, the domestic business environment and regulation takes on an international trade policy dimension. Ultimately, businesses want a seamlessly integrated global business environment, so that services businesses can perform as well in foreign markets as at their home base and service their clients wherever they are located. To do so, they need to be able to take their talent, capital, and ideas wherever the customer requires.

An increased focus on services need not come at the expense of manufacturing and agriculture. Indeed, goods and services are increasingly intertwined. In 2015, value added analysis found that over 22% of the value of UK manufacturing exports was created in the UK service sectors.[11] The phenomenon of 'servicification'[12] (the growing embedding of services in goods) in international business has been increasingly recognised as a feature of global trade in general, and of the trade of advanced economies in particular. Manufacturing and agricultural businesses increasingly rely on a growing range of services, whether as inputs, as activities within firms or as output sold bundled with goods. This includes services such as embedded finance, after-sales services, accounting, consultancy, and engineering.

Financial and related professional services businesses provide trade facilitation services which support UK exporters, which range from access to finance to cross-border payment services, shipping services, and products such as marine insurance and trade credit insurance. Equally, financial and related professional services can help navigate the risks of trading internationally.

[10] Baldwin, R. (CEPR), 'The peak globalisation myth: Part 4 – Services trade did not peak', (3 September 2022); https://cepr.org/voxeu/columns/peak-globalisation-myth-part-4-services-trade-did-not-peak
[11] Department for International Trade, 'Research on Trade in Value Added', (14 May 2020); https://assets.publishing.service.gov.uk/media/5ebd3e80d3bf7f5d380b1213/Research-on-Trade-in-Value-Added.pdf
[12] The classic study is the Swedish National Board of Trade's 2010 publication "Servicification of Swedish Manufacturing" (https://www.kommerskollegium.se/globalassets/publikationer/rapporter/2016-och-aldre/report-2010-1-servicification-of-swedish-manufacturing.pdf)

For example, if a British exporter wants to sell to an emerging market, it will need to hedge currency risk and credit risk.[13]

Meanwhile, as global policymakers respond to the challenge of the net zero transition, trade and sustainability are increasingly overlapping policy areas. However, efforts at harnessing the power of trade in support of sustainability objectives have focused largely on trade in 'environmental goods'. This includes lowering tariff barriers for environmentally related products and attempts to expand definitions. Trade in environmental services – services which are in some way environmentally related – is less well understood, but the UK has major financial and related professional services strengths in this field. For example, a broad range of services – including, financial, consulting, design, and engineering – are critical to the trade in certain environmental goods (such as wind turbines).[14]

Relative to gross measures of trade, value-added measurement underlines the relative importance of services in international trade. This measure captures the value of services that are traded both directly, and indirectly (as inputs to other services or goods produced for exports). This underlines that the manufacturing and services sectors are interdependent, and policies focussing on either area (e.g. liberalisation of services trade) are likely to impact the other. In terms of domestic value added, services sector exports contribute far more to UK total gross exports than do exports in the primary products or manufactures sectors, as shown in the following WTO analysis for 2018[15]:

Domestic and foreign sectoral VA contribution to gross exports, 2018
(% share in industry total gross exports)

	Value added origin						
	Domestic			Foreign			Total
Export industry	Primary products	Manufactures	Services	Primary products	Manufactures	Services	
Total	**3.9**	**16.1**	**62.2**	**3.2**	**4.6**	**10.1**	**100.0**
Primary products	62.3	4.5	17.6	3.5	3.9	8.1	100.0
Manufactures	1.2	45.8	23.0	7.3	9.6	13.2	100.0
Services	0.2	2.5	85.3	1.1	2.2	8.7	100.0

Moreover, taking the UK's top three export industries -including financial services - in 2018, the same WTO analysis[16] shows the following:

Top export industries - Domestic and foreign VA content of exports, 2018

	(% share in industry total gross exports)			(% share in economy total gross exports)	
	Domestic VA	Foreign VA	Total	Domestic VA	Foreign VA
1. Financial services	87.2	12.8	100.0	13.0	1.9
2. Scientific/technical activities	89.9	10.1	100.0	10.2	1.2
3. Wholesale and retail trade	88.5	11.5	100.0	8.3	1.1

It follows that strategies to boost services export performance will be rather different from a strategy aimed primarily at growing goods exports. A refreshed UK trade and investment strategy must focus as much on the domestic priority of stimulating the accumulation of resident pools of globally competitive services expertise as on the international priority of addressing barriers to trading with and operating in target markets.

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[13] See City of London Corporation and EY, 'The City of London: an ecosystem enabling international trade', (2022); https://www.theglobalcity.uk/PositiveWebsite/media/Research-reports/An-ecosystem-enabling-international-trade_1.pdf
[14] See City of London Corporation and KPMG. 'The International Trade in Environmental Services Barriers to trade and recent approaches to liberalisation', (2021); https://www.cityoflondon.gov.uk/assets/Business/kpmg-colc-international-trade-in-environmental-services.pdf
[15] https://www.wto.org/english/res_e/statis_e/miwi_e/GB_e.pdf
[16] https://www.wto.org/english/res_e/statis_e/miwi_e/GB_e.pdf

2. Marrying trade and industrial policy to boost investment and exports

Ultimately, exporting begins at home. Therefore, industrial and trade strategies are two sides of the same coin, and must be delivered in tandem, in an explicitly coherent way. An enhanced trade and investment strategy must be underpinned by domestic policies that enable the UK to compete globally and generate exports. Equally, a successful industrial strategy is predicated on increasing levels of investment, domestic and foreign. For example, the Climate Change Committee has estimated that low carbon investment must scale up to £50 billion each year to deliver the UK's Net Zero ambitions.[17] Meanwhile, the growth of new technologies, such as AI, depend on significant investments in digital infrastructure and energy efficiency.[18] Policies that improve the business environment are essential to make the UK more attractive both for foreign and domestic investors.

A fundamental challenge in boosting UK growth and productivity is addressing chronically low levels of investment.[19] The latest OECD investment data for 2022, which is the most recent year for which a full G7 comparison is possible, shows that the UK still has the lowest business investment in the G7, ranking a lowly 28th among 31 OECD countries. Only Greece, Luxembourg, and Poland have lower levels than the UK.[20]

The UK has nonetheless maintained its position as a global services hub by capturing a large share of global services investment in recent decades. However, the UK's lead in capturing services sector investment is now under serious challenge. In financial services and technology, it has lost ground to New York and centres like Singapore in the Indo-Pacific region are growing fast. In Europe, France and Germany are rapidly catching up with the UK as Europe's second and third most popular financial services foreign direct investment (FDI) locations respectively.[21]

Whilst inward foreign investment is not a direct substitute for business investment, it helps to grow it by providing capital to finance new and existing industries across the UK. For example, in 2018, foreign-owned businesses spent more on R&D (£13.4 billion) than domestically owned businesses (£11.7 billion).[22] International investment also benefits the whole of the UK. While the activities of foreign multinationals are concentrated in London and the South East, they accounted for between 12% and 21% of local business employment in all twelve regions of the

[17] Climate Change Committee, 'The Sixth Carbon Budget: The UK's path to Net Zero', (December 2020); https://www.theccc.org.uk/wp-content/uploads/2020/12/The-Sixth-Carbon-Budget-The-UKs-path-to-Net-Zero.pdf

[18] Allianz Global Investors, 'Infrastructure and energy investment could make or break AI's growth', (6 May 2024); https://www.allianzgi.com/en/insights/two-minute-tech/infrastructure-and-energy-investment-make-or-break-ai-growth

[19] The Productivity Institute, 'Boosting productivity: why doesn't the UK invest enough?', (February 26th 2024); https://www.productivity.ac.uk/news/boosting-productivity-why-doesnt-the-uk-invest-enough/

[20] See the Institute for Public Policy Research, 'Rock Bottom: Low Investment in the UK Economy', (18 June 2024); https://ippr-org.files.svdcdn.com/production/Downloads/Rock_bottom_June24_2024-06-18-081624_arsv.pdf

[21] TheCityUK, 'Driving UK growth: capturing future international investment in a rapidly changing world', (April 2023); https://www.thecityuk.com/media/igdhcqov/driving-uk-growth-capturing-future-international-investment-in-a-rapidly-changing-world.pdf

[22] Office for National Statistics, 'Business enterprise research and development, UK: 2018'; https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/businessenterpriseresearchanddevelopment/2018#majority-of-uk-business-expenditure-by-foreign-owned-businesses

UK in 2018.[23] [24] International firms also increase competition and productivity. ONS analysis has found that firms which attract FDI are 72% more productive than domestically oriented firms without any FDI links. Moreover, the benefits of international investment are a two-way street. While companies with FDI links were more productive on average than UK companies without any links, those with both inward and outward links are the most productive of all.[25] By bringing in new businesses with connections in different markets, international investment provides additional export opportunities.

The core drivers of global investment decisions made by multinational businesses typically comprise:

- Location in jurisdictions where the rule of law and judicial independence are self-evident features, guaranteeing the security of an investment and an impartial approach to any dispute with host country authorities.
- Location in jurisdictions where regulators of all kinds (economic, fiscal, or prudential) are efficient and effective (the FCA's Secondary International Competitiveness and Growth Objective (SICGO) is a case in point).
- Location in clusters where they have ready access to customers and clients and highly skilled talent[26], whether domestic or international.
- Investment in destinations that have open trade and investment policies.
- Location in markets that offer competitive tax systems, avoiding costly complexity. Businesses assess the competitiveness and simplicity of countries' tax systems in holistic terms, looking not just at headline corporate tax rates but total tax burdens, long term tax stability, and the likely future trajectory of tax policy. Personal tax rates are taken into account insofar as they affect how attractive the location will be for the business' senior international talent.
- Proximity to sector-specific technology providers that can help them improve their offer to customers (e.g. financial institutions want to locate near FinTechs) with attractive policies which incentivise research and development in their industry.
- Investment in jurisdictions that provide high-quality infrastructure: high-quality nationwide broadband infrastructure is increasingly important together with resilient infrastructure linking it to major global markets and modern sustainable transport infrastructure (rail and flight connections). Education and health infrastructure (good quality schools, including international schools, universities, and technical colleges, and medical and hospital services) are also key, as is physical security.

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[23] Office for National Statistics, 'Foreign direct investment, experimental UK subnational estimates: October 2022'; https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/foreigndirectinvestmentexperimentaluksubnationalstatistics/october2022

[24] DIT, 'Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services', (2021); https://assets.publishing.service.gov.uk/media/604205b8d3bf7f021e25c0a3/Understanding-FDI-and-its-impact-in-the-United_Kingdom-for-DIT_s-investment-promotion-activities-and-services-phase-2-analytical-report.pdf

[25] Office for National Statistics, UK foreign direct investment, trends and analysis: August 2020; https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/ukforeigndirectinvestmenttrendsandanalysis/august2020

[26] https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/international-markets/deloitte-uk-power-up-report-Oct-17.pdf

2.1. Attracting investment amid geopolitical uncertainty

The global investment environment is becoming more competitive. For example, both the US and the EU have embarked on domestic industrial policy interventions designed to attract a higher share of global investment flows. Therefore, the UK cannot rely simply on its past strengths (language, location, rule of law, perceived institutional capacity and stability). It must evolve its proposition to meet the demands of an increasingly competitive global environment.

This requires:

- A demonstrably coherent approach across all of government.
- Articulating the strengths of the UK investment environment. Explaining to international investors the proactive steps being taken to enable the green transition and facilitate innovation in new technologies.
- Implementing a tax and regulatory environment that is supportive of business.
- Using R&D systems to incentivise innovation in services sectors, as well as manufacturing.
- Recognition of the importance of English law and UK legal services as an 'export commodity'.
- Promoting the UK's talent offer to businesses and how the UK is adapting to new trends, such as the demand for cross-border remote working.
- Demonstrating that the investment environment is being considered when drafting legislation e.g. by ensuring that draft bills, before they are laid before Parliament, will not unnecessarily deter investment due to unintended consequences.
- Ensuring foreign investment/national security screening and merger control regimes are effective and deliver high quality and reasonably predictable regulatory outcomes.

TheCityUK welcomed Lord Harrington's Review of Foreign Direct Investment (FDI) and believes the new government should implement its recommendations as the foundation of its investment strategy.[27] This means putting a world-class investment strategy at the heart of UK industrial and trade strategy, including developing the government's co-investment role in long-term strategic investments. FDI should be prioritised across central government, with clear accountability delivered through the system. This requires a fundamental shift in the current culture to transform the way the government operates from a fragmented response to a single window investment service, under the Office for Investment, with key account management for major international investors.

Providing an investment narrative and long-term policy direction

The government's Industrial Strategy Green Paper sets out the eight strategic sectors in which the government will seek to crowd in domestic and international investment.[28] The next step is to provide a detailed investment narrative. Central government should provide a detailed investment narrative, including how business will make a strategic input, and measures to ensure government accountability. This work should be led and coordinated by a senior cabinet

[27] Harrington Review of Foreign Direct Investment (November 2023); https://assets.publishing.service.gov.uk/media/655f62310c7ec8001195bd5f/231123_Harrington-Review-Report-FINAL-2__HH_Global_.pdf

[28] The government's industrial strategy green paper, Invest 2035 sets out: advanced manufacturing; clean energy industries; creative industries; defence; digital and technologies; financial services; life sciences; and professional and business services. 'Invest 2035: the UK's modern industrial strategy', (17 October 2024); https://www.gov.uk/government/consultations/invest-2035-the-uks-modern-industrial-strategy/invest-2035-the-uks-modern-industrial-strategy

committee and be guided by the priorities set out within the government's industrial strategy.[29] This senior cabinet committee should also be responsible for reviewing and proposing improvements to the UK's business environment, with respect to access to talent, tax, infrastructure, which supports further investment in the UK's services comparative advantage. In terms of this narrative, a wrong message was sent when the then Chancellor (Mr Kwarteng) announced on 23 September 2022 that the Office of Tax Simplification (OTS) would be abolished: it is regrettable that subsequent Chancellors have not reversed this decision.

Offering certainty and confidence that the UK's future regulatory environment will seek to drive competition, innovation and growth will encourage domestic investment, foreign firms to locate in the UK and trading partners to place trust in the UK's regulatory regime. For example, TheCityUK welcomes the FCA and PRA's efforts to embed the new secondary competitiveness and growth objective in their approach to policymaking. However, more work is needed to understand how the UK regulatory environment compares to other jurisdictions vying for international investment and business. Australia and Singapore are just two examples of the strength of international competition identified in 2024 by TheCityUK in a study 'Advancing international competitiveness and economic growth: how do financial regulators compare?'[30]

Offering a clear prospectus of government support for investors

The UK should develop and provide an identifiable prospectus for international investors, outlining the government support available, and identifying domestic (private and public sector) investment partners.

Adopting the Australian model of 'as is right' – a suite of incentives available to all investors, such as R&D tax incentives – and 'discretionary' or negotiable terms – such as terms on visas or levels of co-investment funding – would provide both certainty and flexibility to investors considering the UK as a location. Importantly, all UK government financing should have a mandate to crowd in investment, matching international players with local private funders and showing there is a local ecosystem and support for a variety of projects.

Meanwhile, a better R&D system, distinctively branded and targeted to UK needs, would provide further incentives for international services businesses to locate in the UK. An improved system would highlight the benefit for investors from ties to UK universities at national and regional level (where the devolved authorities have a clear interest) and leverage the UK's formidable strengths in cutting edge scientific and technological research. The UK's R&D system is still geared towards encouraging investment in manufacturing, despite the UK economy being overwhelmingly services focused – 80% of UK GDP is services and the UK is the world's second largest services exporter. Effective services-focused R&D regimes have been successful elsewhere. Norway's SkatteFUNN scheme allows Norway-based businesses to apply for support if they are developing new or improved services that will generate new knowledge, skills, and capabilities. Companies are rewarded for investing in innovation with a deduction from their corporate tax bill.[31]

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[29] For example, the previous government established a Ministerial Investment Group. See HMG response to Lord Harrington's Review: https://www.gov.uk/government/publications/the-harrington-review-of-foreign-direct-investment/hm-government-response-to-lord-harringtons-review-into-the-governments-approach-to-attracting-foreign-direct-investment

[30] See TheCityUK, 'Advancing international competitiveness and economic growth: how do financial regulators compare?', (April 2024); https://www.thecityuk.com/media/jlxk0uct/advancing-international-competitiveness-and-economic-growth-how-do-financial-regulators-compare.pdf

[31] https://www.forskningsradet.no/utlysninger/skattefunn-skattefradrag-forskning-utvikling-nyskapende-naringsliv/

Improving the coherence and efficiency of UK co-investment institutions

Government co-financing can play a key role in attracting inward investment, particularly by providing reassurance of the permanency of capital. However, the current UK landscape is fragmented across several development institutions and funds, which reduces efficiencies of scale and means individual public institutions' and funds' mandates are overlapping and confusing.

UK co-investment institutions	
Institution / Fund	**Mandate**
National Wealth Fund (formerly the UK Infrastructure Bank)	The UK Infrastructure Bank had £22bn available for infrastructure finance and partnering with the private sector and local government to finance green industrial revolution and drive growth across the country. £7.3bn of additional funding allocated via the National Wealth Fund to catalyse private investment in UK green and growth industries.
The British Business Bank (BBB)	The BBB is British Business Bank is a government-owned economic bank specialised in helping businesses in the UK access financial support. Its activities include **British Business Investments**, which works with various delivery partners to make finance available to smaller businesses more diverse, more plentiful more accessible.
GB Energy	Backed by a capitalisation of £8.3 billion over the 2024-29 Parliament, GB Energy will own, manage, and operate clean power projects.
The Development Bank of Wales	Funded by a mixture of private and public funding. Provide loans and currently manage ten investment funds totalling over £1 billion and can offer equity investment up to £5 million.
Scottish National Investment Bank	The Bank invests in businesses and projects connected to Scotland, or businesses seeking to move to Scotland. Typically, the Bank will invest in businesses and projects seeking more than £1m in investment support (debt or equity).
UK Levelling Up Fund	£4.8 billion to invest in infrastructure that improves everyday life across the UK, including regenerating town centres and high streets, upgrading local transport, and investing in cultural and heritage assets. Funds allocated on basis of a bidding process
UK Shared Prosperity Fund	£2.6 billion to invest in local regeneration. Funds allocated by formula.

The various UK development agencies should be streamlined to improve coherence and effectiveness. This would provide clearer points of contact, make effective use of top management, remove silos, and allow funding to be more flexibly prioritised and deployed across the various remits of the existing institutions. Responsibility for prioritisation and the coherence of the development finance landscape should be held by the senior cabinet committee with responsibility for investment strategy.

Effective coordination between national and regional government efforts to attract investment

Coordination needs to be stronger, to offer potential investors a more coherent picture of the UK offering. Central government should share expertise and support with Combined Authorities to help build their infrastructure for trade and investment promotion. However, certain regional centres and combined authorities already have strong investment attraction capacities and figureheads (e.g. Metro Mayors) resulting in some being more amenable than others to central government having a coordinating role. It is important that domestic and international investors are presented with a clear division of labour between various UK players, including between central and regional government. The UK authorities' architecture for investment attraction needs to acknowledge the differing levels of capacity at regional level. Central government and the Office for Investment should develop a model offering incentives to the major regional players to ensure that competition across regions bidding for investment is matched by the right degree of coordination to prevent wasteful rivalries. Incentives might include offering Metro Mayors, for example, a seat on the board of the UK's national investment facilitation bodies.

Access to world-class skills and talent

The UK must invest in its domestic talent pool. With some of the best universities in the world, this should, in theory, not be difficult. But it is imperative that the UK Government also focuses on improving secondary education, in particular in STEM subjects and financial literacy. The next generation of Britons must be at the forefront of technology – including green and digital technology – and finance to ensure that the UK is seen as the preeminent global talent hub for the world's most important businesses.

Equally, it is essential that the UK continues to attract the best global talent. The UK needs a world-class visa regime which encourages and enables highly-skilled people to locate here. This is not just a matter of ensuring that UK-based businesses can, over the long run, recruit their personnel from as wide a pool as possible. It is also a day-to-day competitive issue when supplying services requiring a designated project team of international talents. If the team can be assembled in the UK, the business will likely come to the UK. If visa restrictions prevent the team from being brought together in the UK, it may be assembled elsewhere (perhaps Luxembourg or Singapore), and the business will go there. The same applies to approaches by the UK authorities that fall short of outright restrictions: efforts to attract international talent will be frustrated if the Home Office or the FCA Senior Managers & Certification Regime (SM&CR) are clunky, bureaucratic, and unwelcoming. Services are not a commodity, to be supplied from existing stock. A service-supplier has to meet a customer's demand with a package of the right advice and the right team to deliver it, at the right time. Ability to source the necessary talent, quickly, is therefore critical.

Promoting and communicating the UK's offering globally

To continue to attract financial and professional services businesses to locate in the UK and expand their businesses here, the UK needs to effectively communicate its offering to major investors in key markets. The 2024 International Investment Summit demonstrated the UK's ability to effectively showcase its investment proposition to global investors.

There needs to be a consistent "Team UK" approach, with government, industry, and other key partners (e.g. universities) working together to deliver sophisticated investment messages to key investors in their markets. Government should communicate this offer to investors via a series of investor roundtables with UK Ministers and major global investors in key priority trade partner markets like the US, EU, Japan, and India. Industry could help support and curate such roundtables, and work with government to provide training to diplomats working on promoting the UK as a destination for financial and professional services businesses. This includes developing a series of sector specific commercial value propositions that explain exactly why banks, insurers, asset managers and other financial and professional services firms from around the world should locate in the UK.

The regional dimension is important. Not only can the UK's regions and nations benefit from inward investment: they also include economic centres and businesses which can themselves be instrumental in the UK's investment programme, both inward and outward. TheCityUK welcomes the government's recognition that, for the regions and nations to take full advantage of the opportunities, regional economic data needs to be further developed and improved. In the meantime, local and regional government and devolved authorities need to be engaged on investment attraction efforts and brought in at an early stage to pitch to international investors. The process of linking international investors with potential investments in the UK's nations and regions should be streamlined and coordinated by the UK's Office for Investment.

2.2. Proportionate and coherent national and economic security policies

In a more uncertain world, businesses recognise the legitimate interest of governments in scrutinising investments in critical UK assets. However, it is essential that the regulatory regimes in place are as effective or efficient as they can be. It is also vital that the UK government pays increased attention in investment promotion efforts to communicating to investors that the government is only using its screening powers to review investments deemed to pose a national security threat.

National Security and Investment Act

The breadth of the scope of the National Security and Investment (NSI) Act regime means a high volume of deals with no obvious national security implications are being captured, particularly in comparison to other competitor jurisdictions. This can act as a drag on investment and the UK's wider competitiveness.

The NSI Act Annual Report 2022-23 notes that 866 notifications were received in total.[32] Although this is lower than the number anticipated when the Act was being developed, just 65 (about 7.5%) of the notified acquisitions reviewed by the ISU were called in for further assessment. We would note that the 866 notifications under the UK regime is double the number received by the Committee on Foreign Investment in the United States, which received 440 filings[33], despite an economy approximately eight times smaller than the US economy. This disparity underlines the opportunity to make improvements to support further productive FDI.

Ninety three percent of NSI Act notifications in 2022/23 were cleared within 30 working days of the filing being accepted as complete. This may seem a limited burden on business. But by capturing many unproblematic transactions the parties involved in these transactions are not only shouldering an administrative burden. All parties involved in a transaction that is notified must factor in at least a couple of extra months to their deal timelines, to ensure compliance with the NSI Act's notification requirements, with risks to the success of what may be a time-limited business opportunity. This is not only a drag on the competitiveness of the UK as an

[32] https://www.gov.uk/government/publications/national-security-and-investment-act-2021-annual-report-2023/national-security-and-investment-act-2021-annual-report-2022-23-html

[33] US Congress Research Service, 'The Committee on Foreign Investment in the United States', (17 May 2024); https://crsreports.congress.gov/product/pdf/IF/IF10177

investment location, but it may also lead to investors choosing to pursue investment opportunities elsewhere.

The government should consider how it might develop a risk-based triaging process. Such a process should be able to filter for higher and lower risk acquisitions, with a fast-tracked review process to get lower risk deals processed through the system more quickly, for example by setting a new target of 10 working days for these acquisitions.[34]

Consulting with industry on the potential unintended consequences of national security policies

National security is the first duty of government. Industry understands the vital need to protect the UK's national security, particularly in the current geopolitical environment. However, approaches to security that unnecessarily inhibit prosperity will, ultimately, undermine security itself. Given that the government is rightly focused on growth, there needs to be thorough consideration of the economic consequences of UK national security policies, and how they are targeted, including the potential impact of retaliatory measures. In addition, the UK should seek to coordinate and calibrate its economic security policies not only with the major US and EU blocs, but also with those jurisdictions of a similar level of size and trade openness (i.e. Australia, Japan, and Singapore).

3. Broadening the trade policy toolkit to cater to UK strengths

The next phase of UK trade strategy will need to respond to a changing global environment. This should recognise that multilateral trade liberalisation at the WTO has stalled, and that FTAs have produced relatively little for services compared to goods, and are becoming more difficult to conclude. Meanwhile, economic protectionism is being normalised and trade policies globally are increasingly intertwined with industrial and economic/national security policy.

The traditional model has focused on the scope for the UK to conclude full-scale FTAs with key trade partners. Comprehensive and ambitious FTAs add value for services industries, even if they can be difficult to achieve. However, FTAs tend to be less fruitful for services because:

- They suffer from the same problems as the General Agreement on Trade in Services (GATS), namely that services, which involve domestic regulation, have proved not easily amenable to being included in FTAs to secure substantial new market-openness.
- Many of the issues that are important to financial and professional services are regulatory, and require regulatory cooperation.
- Technological advances in trade, particularly increasing reliance on data, mean that negotiations need to cater for data-flows and data-privacy.
- Changing technologies in financial and professional services business, including FinTech and LawTech, mean that wholly new business approaches need to be covered.

Examining and analysing the alternative trade and investment policy options and instruments will require a fresh approach to furthering the industry objectives of expanding markets access and reducing regulatory frictions. Alongside these industry-specific interests, an innovative approach will also need to cater for wider questions. In today's circumstances any incoming

[34] TheCityUK, 'TheCityUK response to the government's call for evidence on the operation of the National Security and Investment Act', (17 January 2024); https://www.thecityuk.com/our-work/thecityuk-response-to-the-government-s-call-for-evidence-on-the-operation-of-the-national-security-and-investment-act/

government is likely to have an increased focus on wider trade-related issues including economic resilience, national security, and sustainability, labour, and environmental standards.[35]

3.1. Understanding the trade policy toolkit

The UK should consider all the different tools that could be used in pursing relationships with specific markets. This includes calibrating key markets against potential choices of trade policy tools including:

- **Free Trade Agreements (FTAs):** Comprehensive FTAs are an opportunity to 'lock in' national treatment and market access frameworks, providing certainty for businesses engaging in trade, whether through a local presence or cross-border. FTAs can also be used to agree frameworks in other areas, such as regulatory cooperation and collaboration, mutual recognition of qualifications, freedom of data flows, and investment protection.

  For example, the UK-Australia FTA established a helpful precedent for the liberalisation of cross-border (re)insurance trade under GATS Mode 1. While Australia is not a major market for trade in financial services (and insurance), having this language included in a legally binding text was helpful as it set a precedent and sent a positive signal of the UK Government's intentions for future trade agreements. Meanwhile, CPTPP contained important provisions on financial services, such as on the performance of delegated back-office functions, avoiding restrictions on residency requirements, and measures that help liberalise cross-border trade including to protect the free flow of financial information. CPTPP also offers the prospect of future provisions on services liberalisation, which the UK, as a CPTPP member, will be able to influence.

  The UK has an ongoing programme of FTA negotiations. On 29 July the government announced its intention "to deliver the UK's Free Trade Agreement Negotiations Programme, starting with the Gulf Co-operation Council, India, Israel, Republic of Korea, Switzerland and Turkey".[36] These are all FTAs which in different ways have the potential to bring about, or improve, liberalisation of trade in financial and related professional services between the UK and key trading partners. For them to do so, however, they will need to break genuinely new ground in market access and national treatment, rather than simply confirming existing levels of market-openness applying between the two sides. They will also need to contain genuinely binding commitments, rather than (as suggested during recent FTA negotiations with India) provisions that might be readily reversible without compensation if the trade partner in question so chose. Given the effort that needs to go into negotiating FTAs covering substantially all trade, it is important that the resultant agreement should include binding commitments of genuine commercial value.

- **Digital Economy Agreements (DEAs):** DEAs are comprehensive "digital-only" agreements that establish trade rules and facilitate interoperability between two or more digital economies. Unlike traditional trade agreements, which sometimes include chapters on digital trade issues and typically focus more on market access, digital economy agreements encourage domestic regulatory reforms and cross-border collaboration on issues such as

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[35] See UK-Singapore Green Economy Framework: https://www.gov.uk/government/publications/green-economy-framework-memorandum-of-understanding/memorandum-of-understanding-on-the-green-economy-framework-between-the-government-of-the-united-kingdom-and-the-government-of-the-republic-of-singapor

[36] https://www.gov.uk/government/news/new-government-drives-forward-trade-talks-to-turbocharge-economic-growth

data innovation, digital identities, cybersecurity, consumer protection and digital inclusion. For example, the UK-Singapore DEA has three main goals: to facilitate a more secure digital environment; enable trusted data flows, and support end-to-end digital trade.

- **Data Bridges/Adequacy agreements:** UK '**data bridges**' are unilateral decisions by the UK to permit the flow of personal data from the UK to another country without the need for further safeguards. They symbolise the connection with destinations that is established by these decisions and encapsulate the UK's collaborative approach towards international partners. Data bridges are not reciprocal, and therefore do not allow the free flow of data from other countries to the UK. The UK-US Data Bridge (2023) is a case in point: it is a new way for UK businesses to transfer personal data compliantly to the US. As an extension to the EU-US Data Privacy Framework (DPF) adopted in July 2023, it enables organisations in the UK to transfer personal data to organisations in the US that have certified to the DPF, without having to put in place further safeguards, such as standard contractual clauses (SCCs), or to carry out a transfer risk assessment.

  '**Adequacy**' is the EU term to denote other countries, territories, sectors, or international organisations that it deems to provide an 'essentially equivalent' level of data protection to that existing in the EU. An adequacy decision is a formal EUI decision recognising another party (country, territory, sector, or international organisation) as providing an equivalent level of protection to that of the EU and allowing data movement, both ways, between the EU and that party. There are two such EU decisions of 28 June 2021 in respect of the UK, one covering data transfers under the EU GDPR and the other covering transfers under the Law Enforcement Directive (LED). Both are expected to last until 27 June 2025, unless extended for a further four-year period. It will be essential for industry that both are extended after 2025.

- **Mutual Recognition Agreements (MRAs):** MRAs or deference frameworks which codify recognition of, or deference to, the standards or supervisory actions of peer jurisdictions can be an important way of facilitating both imports and exports of financial services. A recent example includes the UK-Switzerland MRA (The Berne Financial Services Agreement). The UK-US Covered Agreement on insurance and reinsurance, is another sector-specific example of such an agreement, which could potentially be utilised for other markets.[37] Alongside this, the UK also operates a **regulatory equivalence**[38] regime, which is a form of unilateral deference that can provide market access to the UK for overseas market participants, and preferential treatment for UK firms accessing overseas markets.

- **Regulatory Cooperation/Regulatory Dialogues:** Channels of regulatory and supervisory cooperation, can be underpinned by formal agreements that create structured permanent dialogues, establish protocols for cooperation and provide a basis for data sharing and other forms of collaboration. These can have a particular value in areas of rapid technological change such as cybersecurity, AI, and financial technology. Examples include the UK-Switzerland Global Financial Partnership and the range of 'Fintech Bridges' the UK has established with key partners. The regulatory exchanges set up under these arrangements are still in their infancy, and it is not yet easy to point to specific achievements. However, at a time of increasing regulatory fragmentation globally, exchanges between regulators can only be valuable, particularly if the right markets are targeted. Much of their value will be enhanced if they can build trust, operate to a regular

[37] See Lloyds of London written evidence, (March 2020); https://committees.parliament.uk/writtenevidence/772/html/
[38] https://www.gov.uk/government/collections/hm-treasury-equivalence-and-exemption-determinations

timetable, and be forward-leaning in approach, anticipating likely regulatory problems and conflicts, and developing solutions in advance. The choice of target countries will need regular review.

- **FinTech bridges:** FinTech bridges are a form of bilateral agreement between two national governments and their respective relevant regulatory bodies under which enhanced cooperation between the two nations is encouraged with regard to furthering the development of fintech and its adoption.

- **Memoranda of Understanding (MoUs):** MoUs can be utilised by two countries or jurisdictions as a commitment to strengthening collaboration on particular issues, including regulatory dialogue on specific issues. The UK has recently signed MoUs with several individual States in the United States.

- **Investment Protection Agreements:** Investment treaties (commonly Bilateral Investment Treaties (BITs) or Investment Promotion and Protection Agreements (IPPAs)) can be an important component of the framework governing the conditions for foreign investment in many countries. They commonly include provisions which establish specific protections for investors (e.g. against expropriation of frustration of the purpose of an investment), and can provide mechanisms to resolve disputes between investors and host governments.

- **Tax treaties:** A key selling point for the UK has been that whilst UK funds are subject to tax, they can benefit from the UK double tax treaty network. Increasingly, the advantage that UK funds hold over funds domiciled offshore on tax treaty access is being eroded by overseas authorities who place technical or practical barriers that prevent treaty benefits from being obtained. In addition, tax treaties agreed between the UK and overseas tax authorities (for example US-UK tax treaty) are not conducive to a UK fund being marketed internationally because of limitation of benefits clause. This clause broadly requires over 50% UK ownership of a fund to access the tax treaty. It is important to renegotiate significant tax treaties and MoUs to recognise the international nature of funds and simplify treaty access procedure.

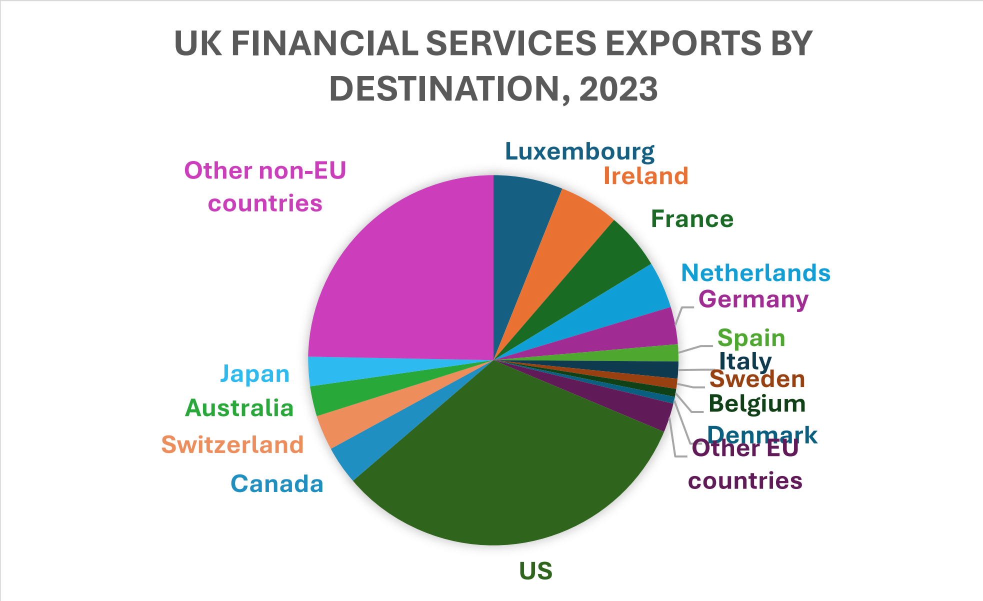
- **Mobility agreements covering movement of classes of business personnel:** Mobility agreements establish rules for temporary entry and presence of citizens of either party for business purposes, deployed to maximum effect if accompanied by arrangements for streamlining visas and authorisation processes (e.g. the FCA SM&CR) with selected partner jurisdictions.

3.2. Prioritising markets and tools

UK trade strategy must prioritise efforts where it will deploy resources and negotiating capital to best support growth in export markets. In making assessments about prioritisation, the most relevant criteria should be:

1. Potential to deliver commercial value and/or markets access
2. Political capital and institutional resource required to deliver commercial benefits
3. Potential to impact on existing trade arrangements that deliver commercial value

Over 2016-23, total UK financial and related professional services export growth was 56%. The following countries made the largest contributions to this growth: the US (26.3 percentage points); the EU (13.9 percentage points); Switzerland (2.4 percentage points); and Singapore (1.3 percentage points). Between 2016 and 2023, the fastest growth of UK financial and related professional services exports came from: Singapore (102%); Hong Kong (97%); Saudi Arabia (91%); and the US. In the case of Saudi Arabia, this was growth from a small base of £630m in 2016.



UK Financial Services Exports by Destination, 2023[39]		
Destination	**Value (£m)**	**Percentage**
US	34,747	32.4%
Other non-EU countries	26,482	24.7%
Luxembourg	6,507	6.1%
Ireland	5,609	5.2%
France	5,322	5.0%
Netherlands	4,373	4.1%
Canada	3,597	3.4%
Germany	3,487	3.3%
Switzerland	3,259	3.0%
Australia	2,822	2.6%
Japan	2,752	2.6%
Other EU countries	2,731	2.5%
Spain	1,603	1.5%
Italy	1,589	1.5%
Sweden	961	0.9%
Belgium	759	0.7%
Denmark	619	0.6%
Total	107,219	100.0%

In terms of sub-sectors, management consultancy services and Financial Intermediation Services Indirectly Measured (FISIM) were the ones that contributed most to the total financial and related professional services growth of 56%.

TheCityUK's International Strategy[40] distinguishes between Tier 1 developed markets which have significant economic opportunities such as the US, EU, Japan, Switzerland, Hong Kong and

[39] This table and the preceding pie-chart are based on TheCityUK calculations based on ONS data
[40] https://www.thecityuk.com/media/q0mewp0i/making-the-uk-the-leading-global-financial-centre.pdf

Singapore, and smaller Tier 2 developed markets such as Canada, Australia, and New Zealand. Similarly, the industry distinguishes between Tier 1 developing markets, which provide the most commercial promise, including China, India, Indonesia, and Saudi Arabia, and Tier 2 developing markets which offer fewer overall commercial opportunities such as Malaysia, Brazil, Kenya, Vietnam, Qatar, Bahrain, UAE, Kuwait, Ukraine, South Africa, Nigeria, and Kazakhstan.

A wide range of TheCityUK members have interests in Tier 1 developing markets; there is far more variation among members as to their level of engagement in Tier 2 developing markets. As economies grow and trading patterns shift, it is, however, highly likely that some Tier 2 markets will become Tier 1 markets. Equally, it is likely that a wider range of developing countries will, over time, become Tier 2 markets.

Priority financial and related professional services markets		
Category	**Tier**	**Markets**
Developed	Tier 1	US, EU, Japan, Switzerland, Hong Kong, Singapore
Developing	Tier 1	China, India, Indonesia, Saudi Arabia
Developed	Tier 2	Canada, Australia, New Zealand
Developing	Tier 2	Malaysia, Brazil, Kenya, Vietnam, Qatar, Bahrain, UAE, Kuwait, Ukraine, South Africa, Nigeria, Kazakhstan

The United States

The change in the US administration and Congressional elections offers a renewed chance to re-engage strategically with the UK's largest bilateral trading partner. For the financial and related professional services industry, there are strong reasons for doing so: it is a fact that at present there is no high-level forum in which the UK-US relationship in financial and related professional services – the world's most successful such relationship – is examined strategically. The UK-US Financial Regulatory Working Group should be repurposed to do so, as part of the revitalisation of the series of transatlantic business dialogues initiated in Baltimore in March 2022, aimed at deepening trade and investment ties.[41] There will otherwise be a risk of complacency, lack of direction, and loss of ambition. This would be at odds with the distinct depth and breadth of the UK-US FRSP relationship: as the world's two leading IFCs, strategic cooperation between the UK and US is crucial for shaping future financial markets. A revitalised approach should also find ways of better addressing the need for increased private sector input and for a heightened focus on pressing bilateral and multilateral regulatory issues.

Resuming negotiations on an FTA with the US will likely depend on the priorities set by the new Administration. Nevertheless, there remains ample scope for practical bilateral cooperation through Federal and State-level Memorandums of Understanding, reflecting the extent to which US restrictions on trade in many services operate at State, rather than Federal, level.

At the Federal level, TheCityUK leads the British American Finance Alliance in advocating for progress on expanding the US-UK Data bridge to encompass financial services, fostering closer regulatory alignment on broader technological advancements (including AI, digital assets, and cybersecurity), and aligning UK pension reforms to attract US investment in productive and financial assets. The US has forged one Digital Economy Agreement with Japan, which could serve as a model for the UK. Initially, discussions should explore MOUs for AI and trade, digital payments, and digital assets.

[41] https://ustr.gov/about-us/policy-offices/press-office/press-releases/2022/march/united-states-and-united-kingdom-host-usuk-dialogues-future-atlantic-trade-baltimore-maryland

At the State level, we are ready to support existing MOUs and welcome language on financial services and MRPQs in forthcoming MoUs with Illinois, California, and New York. On the multilateral front, we urge the UK to continue to support such initiatives as the WTO E-Commerce Joint Statement Initiative, while seeking ways of helping to pave the way for the US to join at the earliest feasible opportunity.

The EU

The reset in UK-EU relations provides an opportunity to consider how to apply the existing mechanisms in and alongside the Trade and Cooperation Agreement to enhance trade and investment for the financial and related professional services industry.

The government should use the EU-UK Financial Regulatory Forum to ensure that the issues of greatest importance and consequence to the UK financial and related professional services industry continue to be discussed and that the Forum focusses on forward-looking issues. The government must also continue to underline that the industry is an essential enabler of a wider public policy agenda shared by both the UK and the EU, namely providing capital, skills, and expertise to finance the energy, technology, and demographic transitions. The Financial Regulatory Forum should also be used to further develop UK-EU cooperation on sustainable finance and ensure interoperable disclosure frameworks that align with the global benchmark set by the International Sustainability Standards Board (ISSB).

Switzerland

The industry supports the negotiation of a modern and comprehensive UK-Swiss Free Trade Agreement, which is complementary to the Berne Financial Services Agreement, with the inclusion of key provisions on data, innovation, mobility, and MRPQs. The Berne Financial Services Agreement sets a new benchmark in regulatory cooperation with financial services at its core. The process has been a notable example of industry and government working in unison and continuing this collaboration will be essential to the agreement's ongoing success. The Agreement offers a greatly improved bilateral framework that will be able to address the latest policy issues as it includes a dynamic review process to ensure its ongoing relevance. This approach will enable continuous recalibration of the relationship and provide the flexibility necessary for further developing bilateral integration in the future. The government now needs to work with industry to increase awareness and utilisation of the Berne Agreement.

ASEAN

As a new dialogue partner to ASEAN, the government should establish a clearer understanding of how the UK’s offer differentiates it from that of ASEAN’s other dialogue partners, such as the EU and Japan, that have a long-established presence as ASEAN dialogue partners. The industry welcomes the endorsement of the ASEAN-UK Financial Services Collaboration Package and the announcement of the ASEAN Economic Integration Programme, and looks forward to providing further support. The UK government should push for more ambitious, legally binding rules as the bloc negotiates the world’s first regional digital economy agreement and seek partnerships on areas of common interest such as cross-border data transfers.

Singapore

The UK-Singapore FTA, Digital Economy Agreement (DEA) and FinTech Bridge reflect the high degree of trust and goodwill established. The government should collaborate with the industry to elevate discussions beyond regulatory irritants. The focus should instead be on the future trajectory of regulation in areas such as digital trade finance, artificial intelligence, tokenisation, and sustainable finance, with a collective endeavour from both sides to set best global standards. The FinTech Bridge should also be operationalised to facilitate two-way trade and investment, as well as being leveraged to provide a safe testing environment and feedback loop for further refining the DEA.

Hong Kong

The industry strongly supports the resumption of the UK-Hong Kong Financial Dialogue to enhance financial cooperation between the two regions, particularly in critical areas such as fintech, asset management, capital markets, and green finance. Continued close collaboration with the industry would help to deliver the shared ambition for the UK and Hong Kong to collaborate on the development and regulation of digital assets.

Japan

The Japanese market is advanced and relatively open. However, the industry would welcome greater regulatory cooperation in areas of know your customer (KYC) requirements, information control, and taxonomies, as well as transition finance. The UK-Japan CEPA contains welcome commitments to business mobility, providing more flexibility for Japanese and British firms to move talent into each country. Building on this, the government should work towards the mutual recognition of professional qualifications that would help to further support the mobility of key staff.

The Gulf Cooperation Council (GCC)

In addition to specific objectives in areas such as equity caps, nationality restrictions, mutual recognition of professional qualifications, regulatory alignment, and tax, the government should seek digital trade chapters or other forms of agreed provisions under the free trade agreement negotiations with the GCC, to allow cross-border data flows, prevent data localisation measures, protect digital intellectual property, and recognise the international validity of e-signatures and electronic contracts.

The government should use regulatory dialogues in the region to:

- facilitate bilateral cooperation with the UAE and Saudi Arabia to align with or adopt a global baseline for sustainability related disclosures to ensure it is aligned with the UK and other international markets.
- help shape the UAE's green strategy and transition plan to ensure it is aligned with the UK and other international markets.

India

In the ongoing FTA negotiations with India, and taking a lead within the India-UK Financial Partnership (IUKFP), TheCityUK has pressed for clear commitments meeting the need for robust investor protection measures, for the inclusion of a strong data governance framework that prevents restrictive data localisation requirements, and for provisions that enhance labour mobility. Securing market access for UK legal services would be transformative in the medium to long-term given India's economic growth trajectory. Market access should be backed in Indian legislation, not just through professional body rules.

The industry recognises the importance of platforms such as the UK-India Financial Market Dialogue and the Economic and Financial Dialogue. These forums play a crucial role in helping the industry to address regulatory challenges, such as improving market access, removing barriers to business operations, and promoting smoother trade and investment flows. They also enable the two partners to learn from each other (e.g. Indian progress on payments systems). Furthermore, these dialogues are key for fostering bilateral cooperation on emerging priorities, such as the adoption of a global baseline for sustainability-related financial disclosures.

China

It is key that the government continues to engage with China and utilises mechanisms such as the Economic Financial Dialogue, UK-China Financial Services Summits, and the joint economic and trade commission (JETCO), to facilitate greater cooperation and address issues and challenges the industry faces in China. The government should prioritise:

- Encouraging UK and Chinese regulators to consider interoperable approaches to green and sustainable finance.
- Collaborating on key emerging regulatory issues in new financial services, including fintech, cybersecurity, and the development of AI.
- Strengthening UK-China bond market connectivity, allowing two-way flows between debt markets.

Indonesia

The government should leverage Indonesia's aspiration to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Organisation for Economic Co-operation and Development (OECD), along with Indonesia's desire to take a regional lead on Digital Economy Framework Agreement (DEFA) negotiations, to advocate for a more liberalised approach in the services, data, and digital trade sectors. The industry would also benefit from greater interoperability of sustainability standards between the UK and Indonesia where feasible. Moreover, the development of Nusantara as the new capital city, contingent upon the political commitment of the incoming Indonesian administration, presents considerable potential for strong export opportunities and a venue to influence regulatory and policy standards in services and trade.

Brazil

Brazil is becoming an increasingly important market for UK (re)insurers. The government should use the UK-Brazil Economic and Financial Dialogue to explore how the UK can support Brazil's ambitions to become a regional reinsurance hub.

Africa

The government should ensure greater coordination between its development and trade workstreams to support economic development. Working with the financial and related professional services industry to support the development of international/regional financial centres and removing barriers to cross-border trade will strengthen the capacity of African nations' capital markets and financial services ecosystems.

Government priorities should include:

- Building a stronger financial partnership between the UK and Kenyan financial and related professional services industries through the Nairobi International Financial Centre in areas such as capital markets, green finance, fintech, corporate governance and disputes resolution.
- Supporting the development of the Lagos IFC project and enable greater two-way trade and investment with Nigeria.

Eurasia

The government should use the UK-Turkey FTA negotiations to focus on increased cooperation on services, data, and the digital sector.

Meanwhile, developing the domestic and international financial centres of Uzbekistan, Azerbaijan, Turkmenistan, and Kazakhstan through UK government funded technical assistance projects would help grow trade in services between the UK and these markets. This includes strengthening bilateral relations with policymakers, regulators, and private sector across key markets in the region and sharing best practices on emerging regulatory issues such as governance, FinTech, AML and sanctions, sustainable finance, and carbon markets.

Ukraine

Ukraine is an example of the UK financial and related professional services industry taking a lead in a specific development project. The City-Ukraine Hub Programme includes workstreams supporting Ukraine's regulators with FinTech/RegTech/SupTech and AI solutions which will play a key role in the further development of the National Bank of Ukraine Sandbox[42].

3.3. Maintaining a leadership role in multilateral trade and intergovernmental trade arrangements

Since Brexit, the UK has been able to assume a more clearly identified individual role in multilateral trade negotiations, particularly in the WTO framework, in fields such as Services Domestic Regulation, the WTO E-Commerce Joint Statement Initiative, the WTO Moratorium on customs duties on electronic transmissions, and the scope for new services negotiations. Inter-governmentally, there has also been greater scope for UK influence to be deployed in policy issues of key importance for services trade, such as investment scrutiny, digital trade, and data transfers. Such work is being taken forward in various plurilateral formats, including the WTO, the OECD, the G7 and the G20.[43]

There is widespread tacit acceptance that "true multilateralism" at the WTO (i.e. all 166 WTO members agreeing at the outset to pursue a course of action) is an unrealistic concept, and that most initiatives in the WTO will need to start (as in practice they always have) from a plurilateral approach. Despite being regarded as a compromise that is less than perfect, the WTO E-Commerce Agreement "stabilised" text is widely held to be the best way ahead towards the first-ever agreed rulebook on digital trade. Equally, the WTO Investment Facilitation for Development Agreement is supported by some 120 WTO members, many of them developing. Incorporating these agreements into the WTO's legal architecture would provide meaningful commercial benefits and demonstrate the continuing value of the WTO framework to enhancing global trade.

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[42] https://www.thecityuk.com/news/uk-and-ukraine-forge-closer-ties-to-revitalise-economy-and-investment-attraction-through-new-financial-initiative/

[43] For example, see OECD, G& & G20 work on Data Free Flow with Trust; https://www.oecd.org/en/about/programmes/data-free-flow-with-trust.html#:~:text=Digital%20technologies%20create%2C%20capture%2C%20copy,security%2C%20and%20intellectual%20property%20rights.

3.4. Adopting a proactive stance on commercial diplomacy in regional growth corridors

As multilateralism has faltered and in the immediate Brexit aftermath, UK trade and commercial policy has predominantly been concerned with improving trading relationships with individual partners via free trade agreements and other economic partnerships. In some cases, these new partnerships have been plurilateral, as in the case with the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which now has 12 members. However, in most cases these arrangements take the form of bilateral agreements.

The 'hub-and-spoke' logic, where the UK sits at the heart of a web of trade and economic relationships, has emerged as the dominant model. UK trade and commercial diplomacy therefore increasingly tends to be designed to nurture these bilateral relationships. This is valuable and important work, but it cannot capture fully how the UK should respond to the trends that will increasingly shape trade and investment flows in the coming decades, or how multinational businesses operate in the global marketplace.

The UK should be more proactive on international trade policy issues that impact British businesses but where the UK has no direct bilateral link or pre-existing vantage-point from which to act. As the world economy becomes more regional, such cases are likely to arise when groups of third countries establish new trade links or new approaches to regional arrangements in a particular field. A topical example is the ASEAN Digital Economy Framework Agreement, where the US has taken an early role in shaping digital trading rules for the ten-member bloc[44], and where the UK could also be active.

A proactive UK approach would:

- Reflect how shifts in the global centres of growth to Asia, Africa, and the Middle East, is driving goods, services, and capital flows through new 'Growth Corridors'. Policymakers and the industry will need to think more creatively about how to market and provide UK-based capabilities to capitalise on the commercial opportunities arising in these Growth Corridors. This might require a reconfiguration of the overseas trade and investment network, a new approach to promoting UK expertise and shifts how the industry sets itself up to capture future growth.

- Understand the nature of how multinational UK-based financial and related professional services businesses operate in the modern, digitally enabled economy. With trade and investment value chains spanning multiple markets, the UK may not be at the start or the end of the chain, in many cases it may be an important enabler of trade and investment flows between other markets. This should encourage the government to recognise that repatriated profits of overseas subsidiaries and digitally delivered services provide significant growth benefits to the UK economy and should be more actively supported through various trade promotion programmes and policies.

- Adapt to the growing regionalisation of supply chains for goods. Given that there are virtually no economic activities that do not require services to enable or deliver other

[44] US Department of State, 'The United States-ASEAN Relationship: Factsheet', (26 July 2024); https://www.state.gov/the-united-states-asean-relationship-3/#:~:text=In%20addition%20to%20U.S.%20companies,%2C%20workshops%2C%20and%20stakeholder%20engagement.

products, how can UK-based service providers participate and facilitate the cross-border integration of supply chains and investment in these high-growth regions.

A prerequisite for capitalising on such opportunities will be to equip UK staff at home and in overseas posts to recognise when there is an opening for proactive intervention and to work with industry for maximum effectiveness for the UK's commercial diplomacy. Promoting trade in financial and related professional services, and addressing regulatory issues that affect it, requires a specific skillset. So, it is critical that diplomatic staff in priority markets and in regional hubs round the world can understand the key drivers of financial and related professional services growth, support the UK government's agenda, and secure the best outcomes for the UK economy at the bilateral, plurilateral, and multilateral level.

4. Conclusion

The views in this paper are deliberately ambitious in scope. They have sought to cover the need for the UK to pivot, in international trade policy terms, to a more services-orientated UK trade and investment strategy, bearing in mind that what is good for services is good for manufacturing too. Any external UK policy must reflect the dynamics and realities of UK domestic polices: a revitalised approach will therefore require both marrying trade and industrial policy to boost investment and exports, and devising new ways, coordinated coherently across government departments and other agencies, nationally and regionally, of attracting investment amid geopolitical uncertainties. Industry understands that such uncertainties will give rise to policies to safeguard national and economic security; but these policies need to be implemented proportionately and coherently if they are not to inhibit growth. Mapped across all these approaches there will need to be a conscious effort to broaden the trade policy toolkit to cater to UK strengths, prioritising markets, and new regional trade corridors, and using the tools appropriate to them. At the same time, the government must maintain a leadership role in multilateral trade and inter-governmental trade arrangements, informed by a proactive and interdepartmentally coordinated approach to economic diplomacy as a whole. This may be ambitious. Industry is however in no doubt that it is achievable, and will play its part in delivering it.

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ANNEX: Existing UK deployment of trade policy tools for financial and related professional services (FRPS)

Tier	Market	FTA	Digital Economy Agreement	Mutual Recognition Agreement	Regulatory Dialogues	Data Bridge	Fintech Bridge	MoUs	Investment protection	Mobility
		Tier 1 Priority Markets / Trade Policy Instrument								
Developed Tier 1	EU	Yes (TCA), to be reviewed in 2026	No, but in principle desirable	No, but MRPQ desirable if meaningful improvement of the regime to align with EEA/EFTA deal achievable	Yes, under UK-EU MoU	UK has an EU data adequacy decision, which sunsets in June 2025 unless renewed. A more robust arrangement without a sunset clause is desirable.	No, but in principle desirable	Yes. MoU on Financial Services signed alongside TCA creating regulatory Forum.	No, and perhaps not relevant, given that all EU members are in OECD	No, but improvement desirable
Developed Tier 1	Hong Kong	No, and no FRPS pressure for an FTA	No, but in principle desirable	Yes, but limited to Mutual Recognition of Funds to allow for streamlined x-border distribution of mutual funds.	Yes. First UK-HK financial dialogue in 2019.	No, but in principle desirable	Yes, UK-HK Fintech bridge	No, but could be useful if suitable subjects identified	Yes: BIT signed in 1998	Yes: HK is a part of the Youth Mobility Scheme

				A wider MRPQ agreement would be desirable						
	Japan	Yes, UK-Japan CEPA	Yes: in form of UK-Japan Digital Partnership	Yes: MRAs included in CEPA	Yes: UK-Japan Financial Dialogue and Financial Regulatory Forum	Yes	No, but desirable in principle	No, but could be useful if suitable subjects identified	Yes, under CEPA	Yes: Japan is a part of Youth Mobility Scheme
	Singapore	Yes	Yes	No, but MRPQ desirable if achievable	Yes: annual UK-Singapore Financial Dialogue	Yes. MoU on data co-op between UK DSIT and Singapore MCI	Yes	Yes: multiple MoUs	No, but talks on new and modern BIT launched in 2023	No, and may not be needed
	Switzerland	Yes, but currently under re-negotiation	No, but in principle desirable if not adequately covered in FTA.	Yes: Berne Financial Services Agreement enables deference for wholesale FS	Yes: - UK-Switzerland Financial Dialogue	No, but in principle desirable if not adequately covered in FTA	No, but in principle desirable if not adequately covered in FTA	Yes - Citizens' Rights Agreement, Services Mobility Agreement (SMA); RPQ agreement. New FTA will supersede these	No, and perhaps not relevant, given that Switzerland is in OECD	Yes -Services Mobility Agreement (SMA).

	United States	No, but desirable. Biden Admin will not negotiate FTAs; uncertain whether Trump would	No, but desirable. Digital is beset with political in-fighting at federal level - unlikely to change.	Not for FRPS	FRWG is held twice a year. FIP once a year.	Yes	No, given the structure of US regulation we would need to explore an alternativ e tool	Yes: eight State-level MoUs, with more likely, incl. NY. MRPQ a possible longer-term win	No, but could be desirable if negotiable	Limited progress, mostly inward to UK
Developing Tier 1	China	No, and no pressure from FRPS for this	No, but in principle desirable	No, but MRPQ desirable if achievable	Yes: UK-China Economic Financial Dialogue	No	No	Yes, MoU on regulatory co-op in financial services	Yes: UK-China BIT 1986	No, and may not be needed
	India	Ongoing negotiations	No, but desirable		Yes. UK-India Economic & Financial Dialogue and Financial Market Dialogue	No	No		No, but desirable. Currently negotiating alongside FTA.	UK-India young professional scheme
	Indonesia	No, but the two countries had started exploring FTA via JETCO	No, but digital econ. identified as a key collab. area in UK-Indonesia Partnership roadmap	No	No. But regular WG meeting between HMT and MoF has been set up.	No	No	Yes: UK-Indonesia Investmen t MoU 2023	No, but a three-year bilateral project on business licensing reform and improving investment ecosystem in	No

									Indonesia (2023)	
	Saudi Arabia	No, but incoming UK govt. has stated intention to pursue a UK-GCC agreement	Yes	No	No, but would be valuable in context of the FS MOU co-operation agreement, when priorities have been decided	No, but would be valuable as Saudi has strict data restrictio ns	No	Yes: general MOU on FS co-operation signed in 2022. Ongoing work on how to advise UK govt.	No, but has been cited as a priority for internat. investors & to agree a dispute settlement procedure	No
	Türkiye	Yes (1990s), but a new UK-Turkey agreement is under negotiation	No, but in principle desirable	No, but in principle desirable	No, but in principle desirable	No, but in principle desirable	No, but in principle desirable	No, but could be useful if issues identified	Yes, and unaffected by new UK-Turkey negotiation	

Tier 2 Priority Markets / Trade Policy Instrument										
Tier	Market	FTA	DEA	MRAs	Regulatory Dialogues	Data Bridge	Fintech Bridge	MoUs	Investment protection	Mobility
Developed Tier 2	Australia	Yes, including FS and digital trade chapters	No	MRPQ route for audit	Yes, Joint Financial Regulatory Forum, under the FTA	Yes, under the FTA	Yes	No	Yes, under the FTA	Yes, under the FTA
	Canada	Yes. UK-Canada TCA. But further negotiation blocked on agriculture.	No	No	No	No	No	No	No	No
	New Zealand	Yes, including FS and digital trade chapters	No	MRPQ route for audit	Yes, Financial Services Working Group, under the FTA	Yes, under FTA	No	No	Yes, under FTA	Yes, under FTA
Developing Tier 2	Brazil	No	No	No	Yes, there was a financial markets dialogue in 2021.	No	No	No	No	No
	Bahrain	No, but incoming UK govt. has stated intention to pursue a GCC agreement	No	No	No	No	No	No	No, but desirable under proposed GCC agreement	No
	Kazakhstan	No	No	No	Strategic Partnership and	No	No	No	No	No

					Cooperation Agreement					
	Kenya	Yes, but Kenya is in breach after putting up extra tariffs on goods	No	No	No	No	No	Yes: MoU on financial services with TheCityUK but no progress under new Kenyan administration	Yes, but needs to be renewed/ refreshed	No
	Kuwait	No, but incoming UK govt. has stated intention to pursue a GCC agreement	No	No	No	No	No		Yes- general cooperation agreement including trade.	No
	Malaysia	Not yet. But through CPTPP, UK will now have free trade with Malaysia	Yes. UK-Malaysia Digital Economy Corporation (MDEC) on digital economy collab.	No	No	No. But CPTPP will offer greater opportunities on cross-border data flows		Yes. Various MoUs, incl (2024) between MIFC and UKIFC on Islamic Finance Co-op.	Yes. Via CPTPP	Yes, Malaysia is part of the Youth Mobility scheme
	Nigeria	No	No	No	No	No	No	Yes: Enhanced Trade and Economic Part'ship, in which TheCityUK is part of the	Yes: - UK-Nigeria BIT 1990	No

							finance work-stream		
Qatar	No, but incoming UK govt. has stated intention to pursue a GCC agreement								
South Africa	No	No	No	No	No	No	No	Yes: UK-SA IPPA 1994	No
UAE	No, but incoming UK govt. has stated intention to pursue a GCC agreement	No	No	Yes: but progress stalled due to a diplomatic incident at the UN in May 2024	No	Yes: DCMS-DIFC 'data bridge'. But status uncertain and impact needs assessment	No	No	No
Ukraine	No. But UK-Ukraine Agreement (2020) on Political Co-op, Free Trade and Strategic Partnership, extended 2020-22 to end all tariffs/ quotas on mutual trade	Yes. UK-Ukraine Digital Trade Agreement 2023 (not yet in force)	No. But to be covered in proposed UK-Ukraine "100 Years Partnership Agreement."	No	Yes. The UK-Ukraine TechBridge strategic partnership includes FinTech as a key priority.		Yes. Econ Min of Ukraine MoU with LSEG and TheCityUK (2024)	No. Ukraine favours internat. Court.	