Brexit Britain: The Future of Industry

Making the most of what we have
GREG CLARK

The UK’s limited options
MIRIAM GONZALEZ

Globalisation must work for people, not vice-versa
FRANCES O’GRADY
State intervention is back

Industrial strategy needs more than just innovation
Saskia Abdoh

Britain has an industrial strategy. State intervention is back. Incentivising R&D and skills training have always been accepted as part of the government’s remit. On the other hand, government support of specific sectors—typified by Labour’s failed industrial strategies of the 1970s—has fallen out of favour. However, if we are to hold the state accountable for its failures, we should also recognise its successes. For example, without substantial government support, it is highly unlikely that successful UK industries, such as pharmaceuticals, would have grown to their current scale.

Last year’s creation of the Department for Business, Energy and Industrial Strategy is an open acknowledgement that the state not only has a role to play in monitoring and co-ordinating economic activity but indeed has a responsibility to do so.

Perhaps the biggest departure from industrial strategies of the recent past is the government’s continued emphasis on “inclusive” growth. The government’s Industrial Strategy white paper, released in November, cited the notion of “place” as one of the five foundations of productivity growth and also stressed the importance of addressing the challenges of Britain’s ageing society in its “Four Grand Challenges.” Indeed, there is an implicit acknowledgement throughout the document that an industrial strategy can only succeed if it is developed in tandem with wider government policy.

However, just as previous industrial strategies have made the mistake of “picking winners,” are we in danger of falling victim to “innovation blinkers”? In effect, it is the white paper’s focus on innovative sectors made at the expense of the wider economy? While innovation has the potential to deliver tremendous economic growth, it is impossible to bridge the gap between R&D and production without a strong manufacturing base and skilled workforce. Also, a lack of access to international markets, whether due to international regulation or lack of trade agreements, runs the risk of placing the UK in an economic chokehold where productivity is increased but barriers to exporting remain insurmountable.

Britain’s upcoming exit from the European Union has created a new urgency around policies to help homegrown industries compete on the global stage. Despite the ongoing negotiations and the current lack of clarity over our future relationship with our largest trading partner, the recently-unveiled white paper nevertheless remains a welcome and necessary first step towards determining the future of British industry.

Saskia Abdoh is Head of Research and Engagement at Prospect.

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F or a long time, industrial strategy was something that belonged in the 1970s, along with British Leyland and cars with square steering wheels. But after the decade of stagnation that followed the 2008 financial crisis, the idea that our economy might need some strategic direction no longer seems far fetched.

The post-crisis governments led by Gordon Brown and David Cameron experimented with industrial policy. But it is Brexit, like it or not, that has reinvigorated the drive to make Britain more productive. Upon becoming prime minister, Theresa May (who backed Vince Cable’s attempt to revive industrial policy in the coalition era) made the formation of an industrial strategy one of the key pillars of her economic programme. But leaving the EU does not make industrial strategy any easier, and those who suggest that state aid rules prohibit the UK from doing industrial policy are wrong. In fact, we will need to recreate the EU’s state aid regime domestically if we are to protect industrial strategy from capture by powerful private interests. And while the immediate impact of leaving the single market will be felt in the City, it will also jeopardise the ability of firms and industries in all parts of the country to participate in transnational production networks. Thinking only of the finished goods that Britain exports to the continent overlooks the reality of modern industrial development.

Nevertheless, it should be acknowledged that EU membership allowed the UK economy to develop a growth model based on its structural advantages in consumer markets. The Brexit vote was, in part, a form of voice for those left behind by this growth model. Brexit makes indigestible economic success, while creating opportunities for the private sector.

The government’s industrial strategy white paper begins to move UK policy in this direction, and the four challenges—artificial intelligence and data, future mobility, clean growth and the aging society—are well chosen. These will give focus to the commendable aspiration to raise the R&D intensity of the UK economy from its current low levels to something closer to OECD average. Since the larger part of R&D is carried out by the private sector, this needs to be supported by financing mechanisms that are developed alongside the government’s new industrial strategy.

The emphasis on infrastructure is welcome, too, and it is good to see the commitment to an improved method of assessing infrastructure investments that takes more account of the potential to make qualitative changes to the productivity of regions. But we need to go further, as such, the Commission suggests the adoption of “universal basic infrastructure” for all citizens in all places. While strategic imperatives will differ from place to place, all parts of the UK should expect to have the physical infrastructure they need to grow sustainably. This would include transport, energy, and digital infrastructure, as well as high quality “soft” infrastructure, such as health and education services.

Crucially, however, this agenda must be underpinned by institutional reform. Supporting innovation and generating long-term finance requires more durable and strategic institutions in these areas. We also need to move beyond a focus on the supply side, and think about how government can do more to create an environment in which innovation can flourish, term, providing a medium of certainty for investors, producers, entrepreneurs, workers and research institutions.

The goals would be: ensuring adequate investment in infrastructure, decarbonisation of the energy economy, developing a sustainable health and social care system, unlocking long-term investment, supporting high-value industries and building export capacity, and enabling growth in all parts of the UK.

We also need to move beyond a focus on the supply side, and think about how government can do more to create an environment in which innovation can flourish. This helps to explain the Commission’s interest in our energy system and health and social care provision. Government should use its enormous purchasing power and regulatory influence to assist the development of innovative ideas in a much more purposeful way than has been done up to now. Done right, an industrial strategy will generate solutions to major societal challenges, while creating opportunities for the private sector.

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An independent body, with regional representatives, would monitor the government’s success in meeting its long-term strategic objectives and, importantly, it would develop new measures of how best to assess industrial success. The white paper’s proposed Industrial Strategy Council is a good start, but it should also become an institutional hub for the co-ordination of all policies connected to the strategy across government.

Whatever it does, it can do it better by understanding the relationship between state and market, so that those charged with implementing an industrial strategy may have the courage of their convictions. Government has unique powers of coordination and convening, and an ability to pool risk, create markets and provide public goods. Public authorities need to have the confidence to pursue long-term strategic goals. Since the financial crisis, nearly a decade ago, we have seen a mismatch between rhetoric and action in many areas of government. There is a danger of the industrial strategy agenda going the same way, with lofty ambitions not matched by purposeful policy action. And the danger is greater than one of simply being disappointed by government. Political programmes such as rebalancing and austerity promised radical reform, while at the same time undermining the legitimacy and capacity of the state to deliver it. The Brexit vote was a direct consequence, as political disenchantment swept away all in its path. This leaves us in uncertain political times. But the current administration, while it lasts, can still do some good. It can establish and embed a new understanding of the state’s role in managing the economy, even if it is not willing or able to provide the resources to ensure that its own immediate plans are realisable. A comprehensive, and transformative industrial strategy will only succeed if there is a lasting national consensus supporting it.

We should conclude by reiterating that an industrial strategy is not necessarily about more intervention; the government already intervenes quite broadly in the economy, supporting all kinds of economic activity. It is however often too weak in the face of short-term private interests, and vulnerable to regulatory and resource capture. Government should do more in some ways, but perhaps less in others. Whatever it does, it can do it better by thinking more strategically. Nuance like this probably won’t work on the side of a bus, but it is what taking back control really looks like.

Craig Berry is Deputy Director of the Sheffield Political Economy Research Institute, and Richard Jones is Professor of Physics, at the University of Sheffield. They are both members of the Industrial Strategy Commission.
The price of exports

The government can help exporters—directly from their banks. With these new partnerships, even SMEs can access government-backed financial support more quickly and easily.

In devising our export strategy, the Department for International Trade will also recognise the enormous contribution of domestic suppliers to the UK’s export performance. Large exporters, particularly in the manufacturing sector, have hundreds, and often thousands, of companies in their supply chains, on which the quality of the finished product relies. The benefit of this to small companies is not just economic but reputational, as supplying to a large exporter is a way for them to gain a global reach for their products.

Companies in the UK supply chain have always benefited from UK Export Finance’s support for exporters, but now we are going a step further. For the first time, UK Export Finance has made trade finance support available to any company that is supplying directly to an exporter. As a result, thousands more businesses will be able to benefit directly from government-backed finance. As an economic department operating internationally, our role in the Department for International Trade is to help businesses meet global demand.

The advantages of exporting are shared across the UK economy, through the creation of jobs from supply to distribution, as well as the broadening of revenue streams. With UK Export Finance’s competitive financing, the government is helping to support companies that aim to realise these benefits, and building an improved foundation for supplying UK goods and services to markets around the world.

Rona Fairhead is Minister for Trade and Export Promotion

Exports can rebalance the economy

The UK’s decision to leave the European Union is a historic moment for the country. While some have been quick to interpret the result as a rejection of globalisation and free trade, others point to the opportunities that such a rupture presents. Government should see this break from the status quo as an unique chance to address the major imbalances in the UK economy, both regionally and in terms of the balance of trade.

Despite a proud history of international trade, in recent times the UK has fallen behind other major economies. In 2016 the UK ranked ninth as an exporter of goods, just ahead of Belgium and behind China, the US, Germany, Japan and the Netherlands. On the other hand, the UK had the fourth largest share of imports. As a result the UK’s balance of trade in goods ran at a deficit of £163bn. This is in part a function of the diminished role of manufacturing in the UK economy, accounting for just 10 per cent of GDP compared to 23 per cent in Germany. Fundamentally, the UK no longer makes enough exports which, of the rest of the world wants to buy. A bold industrial strategy with a focus on boosting manufacturing and exports can help to address this, and the nation’s ports have a key role to play.

The UK’s ports form part of the complex supply chains that stretch from the globe, connecting British businesses and manufacturers to international markets. Ports handle 95 per cent of the UK’s trade in goods by volume and in doing so support jobs and economic growth across the country. It is therefore crucial that this trade can continue to flow and grow. The quality of road and rail links to ports is important part to play in encouraging trade, both by enabling access to markets and by improving the relative competitiveness of the UK’s manufacturing sector. The government’s approach to transport infrastructure investment should take into account the economic benefits of increased trade and deficit reduction and make this a strategic priority.

The potential for ports to increase international trade is not limited to ensuring the efficient movements of goods. Many of the UK’s ports, including Hull and Port Talbot, offer large areas of development land with excellent landside and marine access. These ports are ideal locations for the import of components or raw materials and the export of finished products. This represents a major opportunity to attract investment in new export-led manufacturing which can help rebalance the economy. A policy to establish Free Ports, or Free Trade Zones, could help to realise this opportunity by attracting investment and encouraging domestic growth. This has the potential to further enhance the ability of ports to drive increased trade and economic growth.

Given that major UK ports are located across the country, these policies can also promote regional economic growth and support efforts to tackle the regional imbalances in the economy. A clear contribution factor to the referendum result was the sense that many communities across Britain felt left behind by the process of globalisation. This pattern is particularly apparent in communities around the nation’s ports, with 17 of the UK’s 30 largest ports currently in the bottom quartile of local authorities when ranked by the ONS’s Index of Multiple Deprivation. Policies designed to bolster trade and drive investment in ports therefore offer major benefits to areas of relative economic deprivation.

Rebalancing the economy will require close collaboration between government and industry. To succeed, this approach will also need to stretch across departments and policy areas, from transport and infrastructure to energy and environment. An overarching Trade First Review of wider policy with the objective of increasing trade and encouraging exports would help to guide future policy decisions. This would also provide a framework for identifying which pieces of European legislation the UK should retain, improve or remove after the EU Withdrawal Bill is enacted. The role of new technology such as autonomous vessels and ships should also be taken into account when considering how to improve efficiency in the supply chain and connectivity to international markets.

An industrial strategy focused on trade has the potential to stimulate economic growth and prosperity across the UK. As facilitators of trade and hubs for wider economic activity, the nation’s ports have an important role to play in achieving this ambition.

David Leighton is Group Head of Corporate Affairs at Associated British Ports.

Photo: © PHIL WILLS / ALAMY STOCK PHOTO

The government will use the export strategy to support UK companies of all sizes and sectors in developing the capacity and connections to export, enabling them to seize the multitude of opportunities abroad. One of the most powerful tools at our disposal in approaching this task is UK Export Finance (UKEF), the UK’s export credit agency, which has £50bn in capacity to support UK export projects. UKEF is designed to ensure that the UK’s goods and export services have access to finance. With trade finance, exporters can offer credit terms to their customers, secure capital for growth, and protect themselves from the risk of non-payment by overseas buyers. But a company starting to export—and even experienced exporters—might not know how the right finance and insurance can make it more competitive, and help to grow its sales overseas.

Research from the British Business Bank shows that four out of five UK companies are unsure how to access the specialist loans, insurance and guarantees that enhance international business—and 22 per cent of known companies report using credit cards to finance their international business—and 22 per cent of reported business risk, achieve economies of scale, and help to grow its sales overseas.

The Department of International Trade for International Trade is to help businesses meet global demand. The advantages of exporting are shared across the UK economy, through the creation of jobs from supply to distribution, as well as the broadening of revenue streams. With UK Export Finance’s competitive financing, the government is helping to support companies that aim to realise these benefits, and building an improved foundation for supplying UK goods and services to markets around the world.

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The ties that bind

Michael Gasiorek

The UK government seeks a deal with the EU that makes trade as “frictionless as possible” via a “new customs partnership” or through “highly-streamlined customs arrangements” involving simplified requirements and smart use of technology. While the aim of ensuring “business as usual” is possible, it is clear that Brexit will result in reduced market access for both the UK and the EU. What is unclear is what will be agreed, and therefore to what degree and over what time period. Nevertheless, neither a new customs partnership nor a highly streamlined customs arrangement is likely to come close to replicating existing levels of market access. Additionally, the EU has free trade agreements with 67 countries and Britain means the UK will no longer be a party to these arrangements.

The lack of clarity complicates the ability to judge the effect of Brexit on different industries. This will depend firstly on what is agreed with the EU and existing FTA partners, and secondly on the structure of UK industries and how their businesses extend into EU and non-EU economies. The UK’s high degree of market access into the EU derives from there being: no tariffs on UK trade with the EU, or with countries with which the EU has an agreement; no restrictions on the amount of foreign added value that can be included in goods traded with the EU; low or non-tariff barriers arising from access to the single market for goods; and access to the single market for services.

Any impact will therefore depend on changes to these elements. Setting aside the non-negotiable issue of transition, there are four possibilities: some form of customs union, a free trade area, a managed no-deal outcome, where Britain adopts “most favoured nation” terms, or crashing out of the EU with scant preparation. The second two outcomes will result in tariffs between the UK and the EU. In the case of a customs union or FTA, the government has ruled out single market membership, so negotiations will also need to deal with non-tariff measures such as regulations. For example, in addition to tariffs, trade in fresh vegetables depends on ports functioning properly, meat on standards inspections, pharmaceuticals on regulatory approvals, cars on standards conformity…

The overall importance of the EU for UK trade is well documented—in 2016 the EU accounted for over 47 per cent of UK exports and 53 per cent of imports. These aggregate figures mask important sectoral differences.

“The most exposed industries range from food products, textiles and clothing, to vehicles, ships and boats”

We have calculated how important the EU is for the imports and exports of 5,200 different products. Figure 1, below, groups these products into percentage share bands. The chart shows, for example, that for nearly 1,700 products more than 75 per cent of their exports go to the EU. Notably, this trading relationship goes both ways: for more than 1,700 products over 75 per cent of imports come from the EU. The products that fall within the over 75 per cent share band account for nearly 30 per cent of the UK’s exports and 54 per cent of UK imports with the EU. Of these imports, over 1,300 products are subsequently used in other firms’ production processes either as intermediaries or capital goods. A related point to consider is that the most exposed industries are very diverse and range from food products and textiles to vehicles and ships. Table 1 identifies the 15 most exposed industries for both imports and exports. The industries in blue account for 16 per cent of total UK imports, and 22 per cent of total UK exports.

Tariff and non-tariff barriers: Table 1 also gives the tariff which could arise in the event of a no-deal scenario. Industries in blue are those most exposed with regard to exports, those in red are most exposed with regard to imports, and those in black most exposed with regard to both exports and imports. Both EU and EU-FTA tariffs could be substantial, so in addition to being highly dependent on the EU market, these industries are vulnerable with regard to tariffs.

Taking all 5,200 products traded, there are nearly 600 where EU tariffs are greater than 10 per cent, accounting for 22 per cent of UK imports from the EU, 10 per cent from the EU-FTA countries, and 5 per cent of UK exports to the EU. There are over 1,600 products where the average tariff levied by EU-FTA partners is greater than 10 per cent, accounting for more than 20 per cent of UK exports to these countries.

This does not even take into account the impact of non-tariff barriers, or of the implications for logistics and customs controls. Most evidence suggests that the “tariff equivalent” of such barriers may be higher than the tariffs. Academic studies suggest that the tariff equivalents may be as high as 48 per cent in food processing, and around 20 per cent for chemicals, motor vehicles and electrical machinery. Though note that if, for example, a firm cannot show proof of conformity this would result in no exports, so the barrier could be even higher for some firms.

There has been much discussion of customs and logistics. Clearly smart technology can help—a bit—but this will not for several years and in the meantime the UK’s physical and institutional infrastructure is seriously under-prepared. Equally there is much evidence that the level of preparation by many firms is highly inadequate.

In many industries, the UK is deeply integrated into EU supply chains made possible by single market access. Hence more than 55 per cent of the UK’s EU exports, and more than 57 per cent of its EU imports, are either capital goods or intermediate goods. The link to EU supply chains, however, is not just between the UK and the EU. It depends also on being able to source intermediates from third countries. Within the automotive sector, alone, over 38 per cent of UK imports from the FTA countries, and 50 per cent of imports from the rest of the world are intermediates or capital goods. Even a customs union will not give UK firms the same freedom to source inputs from non-EU countries. It is possible that the grandfathering of the existing free trade agreements may be continued without a deal. Finally, Brexit will impact on jobs and workers. The special nature of value chain integration with the EU can be seen by considering export jobs. There are around

<table>
<thead>
<tr>
<th>Description</th>
<th>Share in total of UK Exports</th>
<th>Share in total of UK Imports</th>
<th>Share in total of UK Exports</th>
<th>Share in total of UK Imports</th>
<th>UK shares</th>
<th>EU-FTA shares</th>
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<tbody>
<tr>
<td>Live animals</td>
<td>0.1% 98.8% 0.2% 78.7% 8.8 1.3</td>
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<tr>
<td>Meat</td>
<td>0.9% 95.8% 0.5% 84.3% 15.7 4.4</td>
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<td>Dairy produce</td>
<td>0.6% 99.1% 0.4% 98.4% 1.6 1.6</td>
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<tr>
<td>Of animal origin</td>
<td>0.0% 85.0% 0.0% 83.7% 3.5 0.1</td>
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<tr>
<td>Live trees &amp; plants</td>
<td>0.3% 85.4% 0.0% 83.6% 19.7 8.2</td>
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<tr>
<td>Edible vegetables</td>
<td>0.7% 83.5% 0.1% 79.8% 15.3 8.7</td>
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<tr>
<td>Edible fruit &amp; nuts</td>
<td>1.0% 29.5% 0.1% 96.9% 9.2 7.7</td>
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<tr>
<td>Milling products</td>
<td>0.1% 94.3% 0.0% 75.4% 9.2 12.0</td>
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<tr>
<td>Oil seeds &amp; oleaginous fruits</td>
<td>0.1% 67.8% 0.0% 84.5% 5.8 1.1</td>
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<tr>
<td>Vegetable planting materials</td>
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<tr>
<td>Animal or vegetable-fat</td>
<td>0.3% 67.9% 0.2% 85.7% 8.3 10.5</td>
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<tr>
<td>Provisions of meat &amp; fish</td>
<td>0.7% 54.6% 0.0% 58.4% 15.1 38.1</td>
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<tr>
<td>Sugar &amp; confectionery</td>
<td>0.2% 95.4% 0.1% 46.8% 14.6 11.6</td>
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<tr>
<td>Cocoa</td>
<td>0.4% 92.0% 0.2% 23.1% 11.1 6.1</td>
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<tr>
<td>Cereal products</td>
<td>0.6% 95.0% 0.5% 47.7% 15.6 10.7</td>
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<td>Tobacco</td>
<td>0.1% 95.4% 0.1% 26.4 64.7 5.5</td>
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<tr>
<td>Oils and fats</td>
<td>0.4% 88.7% 0.8% 28.5% 5.4 5.7</td>
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<td>Pharmaceuticals/medicinal products</td>
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<tr>
<td>Text</td>
<td>0.3% 99.5% 0.0% 78.4% 9.2 10.5</td>
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<tr>
<td>Apparel &amp; Clothing Accessories</td>
<td>1.9% 3.7% 1.1% 78.1% 20.0 11.3</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Footwear</td>
<td>1.1% 20.4% 0.5% 85.7 15.6 11.1</td>
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The UK hasn’t got the resources to create a new model of trade agreement
Miriam Gonzalez

According to popular belief, the Brexit negotiations are not going well. Eight months after the prime minister called for the official process of leaving the European Union to begin, no meaningful progress has been made. While exchanges of bad-humoured comments on the timing of the negotiations and the Brexit Bill make for entertaining media commentary, the UK government has still not defined what sort of trade relationship it seeks with the EU. The government’s plans, if they exist, have not been scrutinised. British companies, citizens and even MPs have been kept, so far, in the dark. It is unclear whether there would be a transition period of a maximum of two years, a shorter transition period or none at all. The only thing we know is what the UK-EU relationship will “not be” as the official negotiations and the Brexit Bill make progress. While the UK and the EU have driven a hard bargain on the other parts of the negotiations, the Brexit Bill focuses on the UK’s membership of the single market and the customs union, if an agreement is reached with the EU, it will be worse than the one the EU has with Norway, Iceland or Turkey. And if the UK does not manage to secure an agreement at all, it will have a worse relationship with the EU than South Korea, Algeria or Azerbaijan.

As a result, the only option available to the UK is to rush to negotiate a network of trade and investment agreements with non-EU countries that could compensate for the trade and investment that will be lost with the EU. The task is monumental and highly unrealistic—one, an geographical proximity is a crucial factor in trade. As the government knows, even if the UK manages to double its current trade with the United States, Canada, New Zealand, India and Australia, it will still trade less with all those countries combined than it currently trades with the EU.

The government is in such a panic about this that it has asked all sorts of countries (big and small) for trade meetings over the coming months, in the hope it can convince them to sign agreements with the UK. Faced with a shortage of negotiating resources and skills, what there is is asking from most countries is “copy and paste” the agreements that they currently have with the EU and to sign on the dotted line. As a result, the UK may end up just copying treaties that were made by and for the EU as a whole, instead of negotiating treaties that suit the needs of the UK economy.

Rumour also has it that the government may have engaged in bilateral trade “discussions” with the US. Those “discussions” are said to be led by officials at the very top of government. But while this is taking place, the trade relationship with the US is under strain: the US has imposed 219 per cent tariffs on Bombardier products from Northern Ireland and is threatening further action. It is also opposing the UK in its attempts to redraw agricultural quotas in the World Trade Organisation (WTO).

All these bilateral discussions are happening while the UK is still a member of the EU. Since the EU treaties prevent the UK from negotiating bilateral agreements on its own, the UK government is coming dangerously close to breach of trust with its European counterparts on this. Unfortunately, despite all these efforts, the UK’s future relationship with Europe is still uncertain. To find what it desperately seeks: a predictable, open and unredraumatic regulatory environment for its trade with Europe and the other 27 European countries. Indeed, the whole game in trade nowadays is not tariffs, duties or the liberalisation of services, but regulatory barriers and rules.

The WTO model hardly deals with regulatory barriers. I was myself an EU negotiator for the first WTO services agreement that contained regulatory provisions. The 1997 Agreement on Telecommunications, but attempts in the 1990s to extend the remit of the WTO to regulatory matters more widely, failed. Likewise, trying to cover regulation in bilateral agreements will face two hurdles: government (especially those from big economies such as the US and the EU) are not willing to relinquish their regulatory powers, and it is difficult to agree on regulatory cooperation without a neutral referee to interpret those rules.

In practice, what all this means is that in order to tackle regulatory barriers, the UK will have to invent a new sophisticated model of trade agreement, one that currently does not exist. The current option for the government would be to allow for the European Court of Justice to keep an overarching role over any regulatory commitments negotiated with the EU. In fact, the UK government left open the possibility for this (on a limited basis) in their Dispute Settlement paper.

Given the political climate in the UK, it is uncertain whether the government may find it difficult to allow the European Court of Justice to continue playing a role. But regardless of whether there’s political appetite for this or not, it is worth exploring this option further, because it is a sensible option. Much unlike Brexit, the government is currently doing: unrealistically dreaming of revolutionising the world of trade without the necessary resources or even skills for it. Miriam Gonzalez is International Trade Partner at the law firm Dechert.

The economies of the far east will become crucial for British trade
Richard Graham

In November, the heads of government of the 10 countries that make up the Association of South East Asia Nations (Asean) gathered in the Philippines for its 50th anniversary summit. The journey for Asean out of wars, colonialism and poverty has been a critical one for Asia. Its success as a regional bloc, and as an alternative to the European Union, we must focus on how to deepen our relationship with Asean.

Their host’s choice of venue, Clark International Airport, which is north of Manila, is symbolic both of the changes in southeast Asia and the opportunities ahead. When I was general manager of Cathay Pacific in the Philippines over 30 years ago, Clark was a US Air Force Base winding down from its role in the Vietnam War. Recently I went back to host a Smart City event, and visited a British aviation company that trains both Filipino and Vietnamese pilots on Airbus A320 simulators.

The airport meanwhile now welcomes increasing numbers of foreign airlines and tourists and Clark is considering expansion plans that may draw on underlying British investment, as the UK government has doubled UK Export Finance (UKEF) cover available to £4.5bn. These are just examples of the widening UK contribution in southeast Asia. Today there are five British universities in Malaysia, a new GlaxoSmithKline factory in Indonesia and tens of thousands of covered by Prudential insurance products in Singapore. Jardine Matheson is investing in toll roads, National Air Traffic Services is working with the Thai authorities on aviation development and both BT and BAE are helping to improve cyber protection. All sorts of UK technology businesses are now involved in Asean, not specially in Singapore. Overall Asean is the third largest non-EU export market to the UK.

We build on a long history of involvement with Asean member states, and especially the three members of the Commonwealth. And because southeast Asia thrives on relationships, so David Cameron’s creativity in Trade Envoy, from all parties and both Houses of Parliament has been particularly relevant in this region.

Add to that the new Department of International Trade’s commitment to Asean—more ministerial visits, trade missions (including the largest ever to the Asian Development Bank recently), UK Export Credit cover—and more investment both ways.

But as we increase our bilateral involvement in sectors as diverse as infrastructure, energy, education, maritime and defence, so we now need to think strategically about our future relationship with Asean.

The UK’s G20 partners who live in the region would benefit from greater mutual recognition of professional standards and qualifications, not least in professional services—and this is an area where the UK has a lot to offer.

The UK’s strength in international education will also help Asean look outwards and increase its footprint in the world, using London as a global showcase. Our openness to foreign investment has already seen a southeast Asian business transform Whyte & Mackay whisky, create the world’s first digital auditions in the UK and successfully complete phase one of the largest single urban regeneration project in Europe—the former Battersea Power Station.

And at a time when austerity is on the increase, there is a role for the UK to stand up for values that help the long term success of Asean countries. An independent judiciary, freedom of expression and democratic elections—all play a part in breaking down trade barriers too.

When the UK leaves the EU we will no longer be a formal “Dialogue Partner” with Asean.

As a result, the UK’s future relationship with Asean will be different, possibly better. Asean’s 50th anniversary summit, The Asean region is the world’s fifth-largest trading entity. When Singapore is the Asean chair in 2018, we should both research, engage and then decide what future relationship will be most productive for our future relationship with Asean. Leading think tanks should be involved, but I’m keen for business to have its input, and the UK Asean Business Council (ABC) will shortly start work on their research, reaching out to British and southeast Asian businesses.

As the UK brings back in house our global trading relationships, there are many friends to engage with and opportunities to pursue. The Asean region, now already the world’s fifth-largest trading entity, is going to be an increasingly important area of global growth. We must and we will make sure that we continue to grow our relationships, business and investment together—and 2018 is the year to take this forward strategically.

Richard Graham MP is Trade Envoy to the Asean Economic Community, Indonesia, Malaysia and the Philippines and member of the committee on exiting the European Union.
Trade—the numbers

The UK’s trade gap is large and represents a huge challenge. As the figures below make clear, the EU is Britain’s largest trading partner—that relationship is set to change.

**UK imports from top 5 countries, September 2017**

- Others EU 29% £13.3bn
- Germany 13% £6.2bn
- China 9% £4.6bn
- USA 8% £3.5bn
- Netherlands 7% £3.4bn

**UK exports from top 5 countries, September 2017**

- Others EU 28% £13bn
- Germany 11% £6.2bn
- Netherlands 7% £3.4bn
- Switzerland 6% £2.9bn
- France 8% £2.4bn

**Value of imports and exports, EU and Non-EU**

- Total imports
- Total exports
- Trade gap

**UK imports and exports by region, year to June 2017**

- Imports, Year to June 2017
- Exports, Year to June 2017
An industrial strategy needs clear objectives

Adam Marshall

It’s all about place

Control of infrastructure projects needs to reside locally

Bridget Rosewell

Power to the people
The housing and construction markets have long-standing skills shortages.

The construction workforce—175,000 workers—is from the EU. Losing access to them could be a serious setback. The government must ensure that EU workers are aware they can attain settled status. Long-term and professional standards give investors confidence. Rics has been leading on the development of international standards and is well known and trusted in the construction sector. The construction sector is chronic—its productivity is too low. The UK government intends to build 300,000 homes per year, but this is not well understood.

The uncertainty surrounding future relations with the EU will impact on the construction sector. As one of the largest sectors in the UK, the construction sector is a major employer, particularly in the north of England. The UK government must ensure that EU workers continue to be able to work in the UK, and that new skills are developed to fill the gaps left by departing workers.

The adoption of international standards will attract investment and ensure the UK’s continued excellence in construction

European Investment Bank and European Structural and Investment Funds. Between 2012 and 2016 the UK benefited from €31 billion of investment, €6 billion of EU structural funds investments in 2016 alone, the fifth largest for the UK in the EU. The UK government will need to ensure that these funds are spent effectively and that the economic benefits are realised.

Geoff White

In this time of political and economic uncertainty, that investment is needed now more than ever. Strong ethical and professional standards give investors confidence. The government’s industrial strategy is short on details to promote careers in construction, especially in the north of England. The construction sector is chronic—its productivity is too low.

The region has about 60 per cent of its economy based in the northeast of England, which advances the case for the sector to be a high priority for the government. The government must ensure that EU workers are able to work in the UK, and that new skills are developed to fill the gaps left by departing workers.

The impact of “creating an economy for everybody” is likely to be transformational. And transformation is the clearest manifestation yet of what modern democracy has such a centralised state, and no other high performing economic powerhouse.

Iain Wright

1. Michael Heseltine pursued a ‘vision thing’ in the 1980s: That’s untrue. In the 1980s, Michael Heseltine pursued an interminable project to be the Thatcherite economic vision. Since the financial crisis of 2008, successive governments have tried to address these issues, but the launch of the government’s industrial strategy is short on details to promote careers in construction, especially in the north of England. The construction sector is chronic—its productivity is too low.

There are two issues that we must confront, and poor productivity. In each of these areas the government must ensure that EU workers are able to work in the UK, and that new skills are developed to fill the gaps left by departing workers.

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There is no greater illustration of this policy dilemma than infrastructure. The current system for assessing projects is clearly at odds with spending economic development in the north. The rules and guidelines on evaluating transport capital spending are complex and confusing. The government has been honest in recognising that the industrial strategy has to do. The government intervenes in the economy to address low productivity—but the paper gives little insight into how well trade-offs and priorities will be managed.

At this stage, industrial strategy can still be seen to be everything to everybody. Addressing low productivity? Industrial strategy. Regional imbalances? Industrial strategy. Addressing low pay and precarious employment? Industrial strategy. This tendency to use it as a magic wand cannot last. The government will have to make choices. The question is, whether, without a parliamentary majority and stripped of authority, and beset with uncertainty over Brexit, the government can make big decisions and embed industrial strategy for the long-term.

There is a growing acknowledgement that industrial policy, a framework in which government intervenes in the economy in a strategic and co-ordinated fashion, can help to raise living standards across the entire country. The white paper is the clearest manifestation yet of what can be achieved, building on the work of successive governments over the past decade. It will make some progress. But for all of its welcome rhetoric and clear purpose, it is unlikely to be transformational. And transformation is what we need to address Britain’s long-standing economic weaknesses and take full advantage of the opportunities in the 21st century.

Iain Wright is Chief Executive of NEPIC, and former chair of the Business, Energy and Industrial Strategy Committee.
The patchwork economy

Globalisation should work for people, not vice versa
Frances O'Grady

For decades, Britain has been crying out for an industrial strategy. Our infrastructure is poor, our workforce lacks the skills we need, inequality has soared, and wages have stagnated for a decade. Regional inequalities are not inevitable, but the result of an economy that has over-centralised power, and deprived communities of investment. Many towns simply do not have the power and cash to create good quality jobs close to home. Now that an industrial strategy is finally on the table, its aim must be to encourage quality jobs close to home. But it also has ideal coastal geology for carbon footprints per capita in the UK. There should be a role for workers’ voices. Government, business and unions must work together—nationally and locally—to formulate shared plans that work for people and businesses. Working people must be given a bigger say in the decisions that affect their lives. This means transferring power away from Whitehall. It’s good for business too—all the evidence is that, where workers’ voices are heard, workplace productivity goes up.

The three studies looked at what was distinctive about each area. We listened closely to what workers, employers, and local government politicians and officials had to say. And with their help we identified the unique opportunities in each place for creating and sustaining jobs.

Local energy-intensive industries by making them a sustainable part of the low carbon economy Britain needs. Norfolk and Suffolk have great potential for offshore wind plants, and to play a part in the highly-lucrative business of decommissioning old gas and oil infrastructure from the North Sea. But to take advantage of these opportunities, the region must invest in a specialist deep water dock, train more engineers, and it must improve regional transport connections. As with Tees Valley, Liverpool City Region has recently secured a devolution deal. It has a new combined authority and metro mayor, with greater control of the funds and decisions that can lead to job creation. The powers and funds could be used to target the visitor economy, which the study identified as ripe for expansion. And the world-renowned University of Liverpool could deepen its relationships with the local community through high employment standards, and by buying from local businesses. These are just a few of the examples from the studies. We found plenty of evidence to convince us that this kind of place-based approach could unlock tremendous potential throughout Britain—and create good jobs.

Low wages, insecure work, low productivity and pockets of stubborn deprivation are common to all. They face further cuts to local government and public services. And the impact of Brexit—especially a hard Brexit—could harm their economies too, by damaging local exporters, disrupting supply chains, and restricting access to skilled workers. But they each have unique features too. Norfolk and Suffolk have a strong maritime history and coastal economy, and a high concentration of food manufacturers. Tees Valley has a history of heavy industry and a major port (Teesport) with potential for expansion. And Liverpool City Region has a growing visitor economy, a productive manufacturing centre, and Liverpool University.

Those distinctive strengths offer real opportunities. For example, heavy industry in Tees Valley gives it one of the largest carbon footprints per capita in the UK. But it also has ideal coastal geology for a pioneering carbon capture and storage plant. The plant itself would create lots of high-skilled, well-paid jobs. And it would protect many other high-skilled jobs in

The UK lags well behind the OECD average for public investment in infrastructure. Only central government can put that right. And central government needs to close the gap with our EU competitors on funding for training.

The overall vision is of an economy that provides well-paid, fulfilling jobs in environmentally sustainable industries

“Brexit—a special and therefore its aim must be to encourage quality jobs close to home. But the result of an economy that has over-centralised power, and deprived communities of investment. Many towns simply do not have the power and cash to create good quality jobs close to home. Now that an industrial strategy is finally on the table, its aim must be to encourage quality jobs close to home.

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It is also central government’s job to create a framework that allows local government and mayors greater decision-making powers and control over funding. Without it, a place-based strategy is impossible.

Industrial strategy should be like a patchwork quilt. It must work as a single piece—with overall vision, and drawn together by strong strands that run throughout. But when you look closer, it is full of distinctive local designs.

The overall vision is of an economy that provides well-paid, fulfilling jobs in industries that are environmentally sustainable. It must look decades ahead, and put long-term national prosperity ahead of short-term private profits. And it must reach every part of the UK.

There should be a role for workers’ voices. Government, business and unions must work together—nationally and locally—to formulate shared plans that work for people and businesses. Working people must be given a bigger say in the decisions that affect their lives. This means transferring power away from Whitehall. It’s good for business too—all the evidence is that, where workers’ voices are heard, workplace productivity goes up.

Another strand is long-term investment. It’s needed in infrastructure like transport links, clean energy and broadband. It’s needed in science and innovation. It’s needed to replace EU funds. And it’s needed to assist workers, to improve pay and the quality of work. This must include smart procurement policies from local government to reward decent employers and those whose business model relies on low paid, insecure jobs. And it should include new regional industrial bodies, to bring together sectoral groups of employers and trade unions to strategise, improve pay and productivity, and to spread take-up of the real Living Wage and collective bargaining.

Getting there from here will require a fundamental change to the way the economy works. It demands a bold industrial strategy. Let’s give Britain the ambition to create great jobs for everyone, everywhere.

Frances O’Grady is General Secretary of the TUC.

Red skies over Redcar: the Tees Valley has a history of heavy industry.
Investing in people

An industrial strategy needs the right people
Neil Carmichael

As Brexit looms large and the need to boost global exports becomes a top priority, policymakers must also confront the interlinked problems of low economic productivity and social immobility. The failure over some 40 years to tackle these now well-defined characteristics of the UK economy means the challenge to upgrade and modernise the manufacturing sector is urgent. The causes of low productivity are many, but there is one fundamental requirement for a competitive economy—skilled, innovative and efficient human resources. Education and training are crucial in the effort to create and sustain such a workforce. But any strategy must also include measures to improve the chances of people in communities where economic aspiration and social connectivity are in short supply.

With the increasing interest in artificial intelligence, robotics and new materials, it is easy to be lulled into a sense of complacency about where new employment opportunities will emerge. The real questions are about the future of work itself and how people are prepared for it. The impact of new technologies is difficult to predict, but economic history strongly suggests a pattern of adjustment and then growth, especially in manufacturing.

Many of the skills required now are rooted in science, technology, engineering and mathematics—the so-called Stem subjects. This is exemplified by the chronic shortage of engineers, in broad terms the UK economy requires over 80,000 more in addition to the 100,000 terms the UK economy requires over 80,000 more in addition to the 100,000 produced annually. Worse still, employees with certain types of expertise, including electronic engineers, are almost impossible to find. In response to this, university technical colleges are making an impact, and the most successful are usually those with strong business involvement and clear routes to future employment.

Now is the time to make the most of what we have.

Greg Clark

We are at one of the most important, exciting and challenging times in the history of global enterprise. Powered by new technologies, the way we live our lives as workers, citizens and consumers is being transformed, both here in Britain and across the world. Britain is well-placed to benefit from this new industrial revolution. Ours is an open economy, built on innovation and competition. Our universities and research institutions are among the best in the world. We have many world-leading companies and the world-renowned companies and the weaknesses. For all the excellence of our country fit for the future.

A serious strategy must address our

The way we live our lives as workers, citizens and consumers is being transformed, both here in Britain and across the world.”

In our industrial strategy white paper, published in November, we set out how we plan to capitalise on the opportunities before us.

A serious strategy must address our weaknesses. For all the excellence of our world-renowned companies and the

culture of our workforce, productivity is well below what can be achieved. By improving productivity while keeping employment high, we can earn more and improve the quality of life for all our citizens. So our Industrial Strategy deliberately strengthens the five foundations of productivity: innovation, people, infrastructure, places and the business environment.

Our industrial strategy also sets out four areas where Britain can lead the global technological revolution. These four grand challenges are: artificial intelligence and big data, clean growth, the future of mobility, and meeting the needs of an ageing society. They will be supported by investment from the Industrial Strategy Challenge Fund and matched by commercial investment.

Over 2,000 organisations from all parts of the UK have helped to shape this strategy. That partnership with inventors, job creators, local leaders, the devoted administrations, workers and consumers will continue as we work together to make our country fit for the future.

Greg Clark is Secretary of State for Business, Energy and Industrial Strategy.

Ten steps to promote trade and increase exports:

1. Establish a UK Ports and Logistics Brexit Task Force: comprising representatives from Government and industry to develop (or enhance) arrangements to help minimise the impact of potential intermittent or ongoing disruption at certain ports resulting from the UK’s exit from the EU.

2. Review the strategic and public benefits of reducing the UK’s dependency on the Port of Dover for the movement of UK-EU trade in goods over the long term.

3. Amend the Government’s approach to transport investment appraisal by: (a) including explicit recognition that encouraging trade and exports is a strategic priority; and (b) capturing the full economic benefits of increased trade and deficit reduction. An approach which should also be adopted by Government-funded bodies such as Network Rail and Highways England.

4. Establish an overarching “Trade First Review” to align wider Government policy with the aim of encouraging trade and increasing exports.

5. Use the ‘Trade First Review’ to provide a framework for determining which pieces of EU law it would be desirable to retain, amend or remove following the enactment of the European Union (Withdrawal) Bill.

6. Introduce or reinforce mechanisms to make sure future policies and decisions remain aligned with the aim of encouraging trade and increasing exports.

7. Remove the EU Port Services Regulation from UK law at the earliest opportunity.

8. Work with the sector to make sure UK ports and logistics lead the world in maximising the efficient use of transport infrastructure and optimising global supply chains.

9. Develop a Free Port policy to strengthen the UK’s ability to attract investment in new manufacturing as part of the Government’s Industrial Strategy and to combine Free Ports with Enterprise Zones to create Super Enterprise Zones at or near UK ports where appropriate.

10. Work proactively to market development sites at or near UK ports to potential inward investors overseas.
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RICS professionals have contributed extraordinary projects to society and now it’s time to celebrate them.

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