



Wilton Park



Conference report

**Opportunities for growth:**

**UK business perspectives of emerging markets**

Wednesday 3 July 2013 | WP1250

In association with:

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Simmons & Simmons



## Conference report

# Opportunities for growth: UK business perspectives of emerging markets

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### Overview

This report, the output of an off-the-record dinner debate between a small group of UK business leaders and senior representatives from the Foreign & Commonwealth Office, sets out the perceptions of both HMG and UK businesses on the UK's place in the 'global race'; as well as offering perspectives of what HMG is doing – and could do – both at home and overseas to ensure that the UK remains a global economic leader.

### Context

- HMG recognises that for UK businesses to reach their full potential they must enter new and emerging markets. In fact there are such huge opportunities for UK businesses in new markets that the challenge may be how to prioritise. Around £19 million per year is being spent on programmes to encourage British business in growing markets such as China.
- HMG wants a direct client relationship with business. The value that HMG places on its relationships with the private sector is reflected in the fact that the 150 biggest investors in the UK are allocated a lead civil servant and a Ministerial contact.
- The recent G8 Summit at Lough Erne resulted in some positive achievements for business in the key areas of global tax transparency, promotion of rules based economic systems, anti corruption and transparency of beneficial ownership of companies.
- The UK has some unique assets which should be acknowledged and promoted: it is a convenient platform for accessing the rest of Europe; it is relatively easy to raise finance on the UK capital markets; London is a highly desirable place to live; sustained global influence of the English language; extensive know-how and a prized education system which creates a loyal alumni base. On the other hand there is no room to be complacent in the global race for jobs and investment, in particular because of the ease with which profits can be moved around (also noted at the G8 Summit).
- There is growing recognition of the role that prosperity can play in preventing conflicts, human trafficking and corruption. 'Pro-Grow' strategies are not new, but they are being given more energy and attention. The Foreign and Commonwealth Archives have been re-established to help ensure that lessons are learnt from history.
- The UK's welfare state is dependent on the business sector. When the private sector creaks, the welfare state becomes vulnerable. Pension investments are particularly affected.
- For business, the size of the opportunities potentially available is matched by political complexity and risk - which must be taken into consideration. However, the global system won't be defined by the OECD forever; therefore it is necessary to look outward.
- The current coalition government took the largest ever UK trade delegation to India. Even now the colonial history between India and the UK influences the Indian business

“ It is only when you do business elsewhere that you appreciate doing business in the UK”

“The global system won't be defined by the OECD forever”

environment - which can be highly politicised at a regional level. For example, the success of British Gas in supplying gas from Tanzania to Gujarat required commercial diplomacy by the Foreign and Commonwealth Office. Despite these challenges the UK exports a great deal of know-how to India, including military know-how.

- Although China's growth has slowed recently it is still a very attractive emerging market. In fact the UK is China's second largest trading partner, and trade between the UK and China has never been better. HMG has given signals to the Chinese government that it would welcome their inward investment. This bilateral relationship is thriving despite issues arising from the Dalai Lama's visits to the UK.
- Latin American countries should also be targeted by UK business with the support of HMG. However the Serious and Organised Crime Agency's attempt to build capacity in tackling the war on drugs in countries like Colombia has not yielded the hoped-for results. Better air links from the UK to key countries in the region might assist in strengthening the success of projects and bring in the private sector more effectively.
- Legislation in Japan means that the population has limited access to certain pharmaceutical products. If this changes, an important new market will be opened up for pharmaceutical companies.

## Reflections from the Discussions

“The popularity of the English legal system is an untold success story”

### UK Exports

1. It is relatively easy to sell professional services, including legal services, to other countries. In fact the popularity of the English legal system is an untold success story. English law is often chosen to govern contracts which have an Indian or Chinese connection. Professional services are underpinned by a world-leading education system in these areas.
2. Although all Commonwealth countries have common law legal systems, which helps facilitate intra-Commonwealth business, the Commonwealth can never replace the European Union. The large volume of EU regulations creates work for lawyers as their corporate clients need to be advised on how to comply, but EU regulations can also hamper financial practices.
3. The UK has good know-how which it should be possible to export, but some markets are only accessible through joint ventures. The formation and success of these ventures often depends upon knowing who to trust. This environment can be intimidating for medium sized UK businesses, even though medium sized German businesses are thriving in the same markets. The difference may be that German businesses are forced to have a relationship with a Business Council. There are currently 20 British Chambers of Commerce overseas, and there is an intention to increase this number which would allow UK Trade & Investment to take a more strategic role. The Foreign and Commonwealth Office network is also increasingly mirroring geographical areas of greatest commercial activity, for example extra resources being expended in relation to China and India.

### UK inward investment

4. The UK is a prime location between the US and Asia, but there is a serious capacity problem. HMG's good performance as regards travel infrastructure on the ground and below ground needs to be replicated in the skies. Being in government means planning for the future.
5. There are no growth opportunities for aviation because if a new route is created out of the UK (say to Latin America) then other routes have to be cancelled. There is a reliance on other hubs, including Schiphol which has benefitted from investment in infrastructure.
6. The perception was that the UK's energy policy – across the board, from nuclear to renewables – is unclear and that government is taking a 'stop/go' approach to energy strategy. Policy decisions give the impression that HMG's decisions are not conducive to investment either in the fundamentals of energy infrastructure or in energy-intensive businesses with long payback

cycles seeking to be based in the UK. There was also a feeling that HMG was not tackling the issue of medium- to long-term energy prices being much higher in the UK than in mainland Europe.

## Financial Services

7. Financial institutions based in the UK who are operating internationally have the best problem in banking: too much capital. However the current hostility towards the financial sector means that investor institutions have reduced their risk appetite.

## Education

8. Emerging markets are driven by aspiration and education. There are now 100,000 Chinese students in the UK higher education system (not counting private schools). People from overseas also attend a range of UK institutions such as Wilton Park, the Royal College of Defence Studies and the Royal Military Academy Sandhurst. They also benefit from schemes such as the Chevening scholarship. This creates a large alumni base with a strong affinity to the UK. Historically the UK has failed to keep in touch with its alumni, but the Foreign and Commonwealth Office is now trying to encourage its international network to be more proactive in this area.
9. Education is regarded as the lynchpin of long-term competitiveness for the UK: there is a risk that knowledge begins to be exported as successful institutions outside the Russell Group may consider the UK's university assessment regime to be too domestically-focussed.
10. There are challenges in terms of maintaining the UK's prime position in the education sector. Medical students from Saudi Arabia are starting to choose Canada instead of the UK, and Indian students are choosing the US to learn IT skills.
11. The 'elephant in the room'; UK visa policies. Businesses feel that for deep, long-term networks of alumni to be created and sustained – across many countries, not solely focussing on the BRICs and emerging markets – policy needs to be changed to facilitate the development of one of the UK's most powerful assets.

## Capacity building

12. UK business wants HMG to do more capacity building overseas, as ultimately this will help the UK's own interests. Investors want clarity and certainty. They want to know that their businesses won't be nationalised or stolen.
13. The BRICs (Brazil, Russia, India and China) are encountering problems because of their corruption levels and lack of delivery. UK businesses are having to walk away from acquisitions because of concerns about corruption and health & safety. The UK is encouraging China to prosecute bribery, and these types of initiatives are welcomed by UK business. However it is worrying that business partners in other countries express concern about the ethics of HMG, particularly around the lobbying and policy-making process.
14. The consideration given to extractives transparency by the Deputy Prime Minister did not acknowledge the good work that business was already doing in this area. HMG's Open Government Initiative is an indication that the government is also playing its part in relation to transparency.
15. The requirement for transparency comes from the top, but in developing countries it can also be helpful to take a bottom up approach starting with basic property rights.
16. Myanmar is a hugely rich country, and this has been recognised by other countries such as Japan. However to truly benefit from its natural resources Myanmar will need a lot of assistance with developing rule of law and democracy.
17. HMG should consider funding training for tax and government officials in countries where the

“ Investors want clarity and certainty. They want to know that their businesses won't be nationalised or stolen”

UK wishes to do business, to encourage longer-term relationship-building of alumni networks. There should be a focus on how to retain personnel after they have been trained to discourage them from being immediately poached by the private sector.

18. The UK has a lot of knowledge and experience to export given its reputation for rule of law and sense of fair play. The independence of the UK's judiciary is a key value. Oligarchs choose the UK for their court cases, including their divorces, because of the reputation of the UK's arbitration and court system. Similarly, even though financial services regulation is perceived to have failed it is still internationally respected as a model to aspire to.
19. Historically the UK has set the standards for the world in commerce and key technologies, but this position as a world leader is under threat because of a lack of investment in new arenas such as carbon reporting and big data. There is a need for the UK to "re-set" itself as a global leader in setting or influencing international standards once more. The phrase "Affinity with Britain" suggests that HMG should not underestimate the UK's pre-eminent 'soft power' assets: education, professional services, legal system, sport, media, creative arts – and should seek to capitalise on alumni networks' "Affinity with Britain" to drive further success in these areas.

" Being in government means planning for the future"

## European Union

20. There is a concern that the UK will not be taken seriously as a global economic power if it leaves the European Union – currently, it is regarded as a gateway to Europe by many states. The benefits of belonging to Europe should be clearly and repeatedly explained to the British electorate. The CBI is undertaking an evidence-based study of the impacts of the UK withdrawing from Europe.
21. Europe should be reformed from within, with value for money in mind, and with a clearer vision of whether or not greater political or economic integration is in the UK's interests.

## Core Recommendations

1. Ensure that the UK's alumni does not become a wasted asset: more focus on education both domestically and internationally, more cross-departmental coordination, a focus on building and sustaining global networks for the UK;
2. Clearer understanding from both sides (business and HMG) of perceptions of the visa issue;
3. UK to lead on technical and commercial standards through greater investment in research and development: can the UK's former pre-eminence be replicated through closer cross-departmental coordination?;
4. Increased capacity building to deliver stronger messages around UK "global standards": legal and professional services, media, education, other soft power assets
5. The focus on corruption to be matched by a focus on the quality of UK goods and services: UK should aspire to be "best in class" in all disciplines;
6. UK electorate to be better informed about the value of belonging to the European Union to avert potential economic disaster;
7. UK should be promoted as platform for accessing the rest of Europe;
8. Policy making must be evidence-based, particularly in the areas of energy, aviation, education and visas;
9. Top 150 UK companies should have a Minister and senior Civil Servant as 'Account Manager' as currently happens for top investors in the UK;
10. Foreign and Commonwealth Office to pick a small pool of countries as the focus of their attention, including the provision of capacity building where appropriate;
11. Outputs from international Ministerial visits to be shared with business: creation of a

“library” of reports;

12. All trade delegations to be accompanied by business journalists, instead of, or in addition to, political journalists;
13. Hard decisions need to be made on aviation, energy and education: and quickly;
14. A joined up approach by the 17 Ministries which form HMG.

**Liz Richards**

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