



# International Trade Committee

## Oral evidence: The Covid-19 Pandemic and International Trade, HC 286

Wednesday 13 May 2020

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Members present: Angus Brendan MacNeil (Chair); Robert Courts; Mark Garnier; Paul Girvan; Sir Mark Hendrick; Mark Menzies; Martin Vickers; Matt Western; Mick Whitley; Craig Williams.

Questions 162 - 188

### Witnesses

**I:** John Drummond, Head of Trade in Services Division, Trade and Agriculture Directorate, OECD; Vivienne Stern, Director of Universities UK International; and Miles Celic, Chief Executive Officer, TheCityUK.

**II:** Courtney Fingar, Foreign Direct Investment Editor, New Statesman Media Group; Laura Bannister, Senior Adviser, Trade Justice Movement; and Dr James X Zhan, Director of the Investment and Enterprise Division, UN Conference on Trade and Development.

## Examination of witnesses

Witnesses: John Drummond, Vivienne Stern and Miles Celic.

Q162 **Chair:** Good afternoon and welcome to this meeting of the International Trade Committee on our inquiry into the impact of Covid-19 and the trade in services. Today we have two panels. The first panel will join us shortly and then the second panel at about 3.30 pm.

Can I ask the members of the first panel to introduce themselves, please? I will start with Miles.

**Miles Celic:** My name is Miles Celic. I am the Chief Executive of TheCityUK, which is the representative body for financial and related professional services.

Q163 **Chair:** Thank you very much. I cannot resist saying that with an extra consonant there, you will be popular with at least half of Glasgow, although maybe not the other half. John?

**John Drummond:** Good afternoon. My name is John Drummond. I am the Head of the Trade in Services Division at the Organisation for Economic Co-operation and Development in Paris.

Q164 **Chair:** Thank you very much. Vivienne?

**Vivienne Stern:** I am Vivienne Stern and I am the Director of Universities UK International.

Q165 **Chair:** We met a few months ago in a working thing that the Committee had for a stakeholders evening.

**Vivienne Stern:** We did.

Q166 **Chair:** I will start off by asking John Drummond a question. The World Trade Organisation has said that services trade could be the component of world trade most impacted by the Covid-19 pandemic. Do you agree with this and, if so, why do you think this is indeed the case?

**John Drummond:** The OECD very much agrees with that assessment. Compared to the fallout on international trade after the 2008 global financial services crisis, where services trade proved to be resilient, it is going to be different this time around, in particular because the measures put in place for health precaution reasons—such as travel limitations and social distancing—are particularly pertinent and complicating for trade in services. We can see already that the tourism and transportation sectors are particularly impacted.

From the OECD's point of view, there are three policy considerations that are quite important for your inquiry. The first is that services trade is a particularly important source of employment and new job creation. That



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is a driver of an engine of job creation that is going to be constrained in the foreseeable future.

The second is that small and medium-sized enterprises are particularly impacted by complications and restrictions for trade in services, so that is a sector of the economy that could be particularly damaged.

The third is the importance of trade in services in terms of spill-over effects into the broader economy, whether it is manufactured or agricultural good exports, that depend particularly on services trade as well. To the extent that services are impacted, there are considerations of contagion into other parts of the economy.

Q167 **Chair:** Thank you very much. Which areas do you think the public will notice most, or which will be the ones that will do best and worst? I am particularly concerned about maybe in the travel area. The demand has gone, but when the demand comes back, will the supply be there, for instance?

**John Drummond:** Absolutely. When the OECD was analysing trade in services, we looked at it in clusters of different services sectors because it is very prevalent across the whole economy. There are going to be different impacts depending on what the services are. Some will do better and some will do worse.

Services related to the digital network—for example, telecommunications services or audio-visual and computer-related services—may, in fact, accelerate or do better, but it is really transport and travel, as you mentioned, where there are particular concerns.

Financial and professional services could be more mixed. In some respects, they can operate better from a distance, but they also rely on in-person contacts, which are going to be constrained by travel restrictions.

We look also at the construction sector, architecture and engineering professional services in the construction sector. The measures that are in place can have a particular serious impact in those sectors as well.

**Chair:** Thank you very much for that. Matt Western wants to come in there.

Q168 **Matt Western:** Can I put a question—a couple of points, really—to Miles Celic and Vivienne Stern? For your respective sectors, finance and educational services, what has the impact been from Covid-19? What operational resilience and workforce challenges have your sectors faced in moving to predominantly home working and how has that impacted on the actual delivery of those services?

**Miles Celic:** In terms of the impact on financial and professional services, in many ways it is a little early to give a definitive answer on that. We had the MPC report from the Bank of England this month that



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suggested that demand in financial and related professional services remains reasonably high.

Very much building on John's question, it is a question of segment; which part of the industry is seeing differing levels of demand? If you were to take elements of banking, there remains a focus on trade finance, for instance, for essential products. If you take legal services—and this also refers to financial services—clearly, mergers and acquisitions activity has dropped off. We are seeing much more of a focus on things such as restructuring and so on.

It is a mixed picture and my sense is that it will take some time for that to begin to become a bit clearer. The ONS data that we are expecting in the middle of this month may provide some greater detail about where we are at this stage.

In terms of the adaptation and the operational resilience point, this is something the industry has been working on with regulators and the Government very closely for some time. I am pleased to say that companies have adapted extremely well. They have proved to be very resilient. The planning and the contingencies that were put in place have operated well. I was talking to a senior executive in one of our large companies earlier today who said that they had made the transition to work more remotely without missing a heartbeat.

There are, however, issues that we need to ensure that we are not complacent about. Cybersecurity will be more of a challenge and we are alive to that. There is a need to ensure that the architecture and apparatus is in place to support this remote working and also to make sure that we are looking after employees. For some people, the lockdown is more of a strain. We need to make sure that we are able to support people in terms of mental health.

But overall, whilst not complacent, we have been very pleased with how the industry has made the adaptation to remote working.

**Vivienne Stern:** The university sector has been significantly affected. As you will no doubt be aware, teaching is now happening online. That happened very quickly. In the period before the lockdown started, there was a lot of uncertainty about how that would work but, broadly speaking, the experience has been fairly good. It is probably not perfect in all cases, and there are some disciplines where it is difficult to provide education online in the way that you would do face to face.

From the wider university perspective, the impact on things like research activities and the way that universities support both students and staff has been enormous. Universities have put in place exceptionally detailed programmes of action to make sure they continue to support staff and students and continue to operate.



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On the international front—this is obviously the area I am most interested in—we have quite a lot of international students still with us who were not able to go home and who are still on campuses and in university accommodation. Universities have been trying to make sure they are safe and looked after, that they are being fed in some cases, and that they have access to healthcare, mental health support and all the other things they need.

For prospective students, we are in the early stages of the process of bringing onshore the students who would be due to start in the next academic year, many of whom come already for pathway provision from April/May onwards. That has been significantly disrupted and that is the bit that we are most worried about. What will happen to international student recruitment this autumn given all of the uncertainties?

Q169 **Matt Western:** Thank you both. If I could come back to Miles Celic, are there any specific issues about the UK's position as global leader in insurance services and how in this pandemic that has impacted on the reputation but also on the sector itself?

**Chair:** Mr Celic? Could you maybe repeat the question, Matt Western, please, to Mr Celic?

**Matt Western:** I think it may have frozen. We can move on.

Q170 **Mark Menzies:** This is to John Drummond, initially, but I would like to hear from the others. What impact could continued social distancing in workplaces have on the ability of trade in services to recover following this pandemic?

**John Drummond:** Trade in services and movement of professionals across borders is a key element of firms being able to be competitive in trade and services. I suppose travel restrictions and social distancing create complications.

One key consideration is how long social distancing constraints are going to be in place. Obviously, this needs to be led by health considerations, but the longer-term impacts would need to be measured by how long these particular health measures are in place.

It is going to be particularly important for Governments to make sure they are both transparent and clear in terms of what the longer-term horizon might be for the measures being in place, to the extent possible. One thing that we will want to watch carefully, for example, is how consumer behaviours change in terms of their consumption and demand, and whether or not that changes different sectors that are more competitive or less in the face of social distancing restrictions.

**Miles Celic:** This raises a number of questions. It has been an accelerator to a certain extent. These sorts of major changes historically act as catalysts for change but also accelerators of pre-existing trends.



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Social distancing within offices clearly will mean that as and when people begin to return—and my personal view is that this will be a phased return and there may well be waves of people coming back in and then back out, being encouraged to work from home or encouraged to go in—we will need to ensure that there is appropriate space within offices to allow for that.

There is a cultural dynamic to all of this as well. Regulators and supervisors have focused for some time on the role of culture within organisations. It is harder to measure. It is not a metric you can easily have. But it is true when people say that culture tends to eat strategy for breakfast. The culture of an organisation is absolutely critical. In talking to a number of our members, particularly those who are very focused on promotion of positive behaviours and positive cultures within their organisations, a lot of that is done physically. A lot of that is done by people sharing a space together, spending time together, imbibing an organisational ethos. Doing that online through Zoom calls, or whatever it may be, is much more difficult and challenging. I expect that we may well see a hybrid approach developing over time.

The other element on this, of course, is that people are beginning to question the amount of office space that they need. One of the great advantages that London has—and not just London but Manchester, Birmingham and Edinburgh as clusters for our industry—is that you have a high concentration of people in high-skilled jobs. London has 1.6 million people in high-skilled jobs, the highest number of any city in the world. New York is second with 1.2 million. A lot of that is about bringing people together into a shared environment, a shared space, a cluster, in effect. If you have fewer offices with those people, that becomes more difficult. Again, we are into that hybrid approach.

One chief executive I was speaking to said that they probably will lose one or two of the floors that they currently rent in central London because they are beginning to realise they do not need them, but that then creates a question of what to do with the remaining space. To the culture point, you may end up using that as a sort of hub where people work from home and work remotely for half of the days of the week and then come together for that cultural piece and the organisational ethos piece on a reasonable basis in a central location.

**Vivienne Stern:** We have talked about some of the things that are likely to affect our ability as a sector to do well in the autumn in terms of international student recruitment.

To put this in context, the UK sector earns about £6.9 billion a year from international student fees, and that translates into value to the broader UK economy. It is £20 billion in export earnings overall for education exports, of which just over £13 billion is directly to do with onshore recruitment. If you consider what those students do when they are out and about in towns and cities right across the UK, spending money in the



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economy, our estimate is that the value to the economy of that expenditure is about £29 billion a year. It is a big deal.

The kinds of things that might influence how well we are able to cope with this autumn include things like the travel restrictions that might be in place and also availability of commercial flights, quarantine arrangements that we are now expecting to be introduced and requirements for social distancing on campus.

Then there are nuts-and-bolts things that need to be fixed right now. If you are an international student, at some point you need to get a visa. If you want to get a visa, you have to at some point go to a visa application centre. You have to apply for clearance from the Foreign Office to study certain courses. Those processes are not working at the moment, so there are some things that, on the Government side, we need the Government to do to oil the wheels to make sure things can proceed.

Then, of course, there is the big thing that we cannot possibly know, which is what the effect of this crisis will be on the appetite of prospective international students to come to the UK. We are gathering lots of evidence from a wide variety of sources. The British Council is doing a lot. There are lots of commercial organisations surveying prospective students. At the moment, the headline seems to be that the demand is there—a high proportion of the people who were planning to study in the UK still want to do that—but they have big questions. They are not, by and large, terribly impressed with the UK's public health response compared to some of our competitors, and they are worried about things like their safety and wellbeing should they come here.

As far as it is possible, we need to do what we can as a sector, but I would argue also that the Government need to pay attention to this, too, and to take steps to reassure prospective students that if they come here they will be well looked after.

Finally, there is the student experience and learning angles. Lots of students are saying things about not being quite sure that the online experience is what they were looking for. We need to do what we can to reassure them that if they come to the UK—even if that is a bit late and they do a bit of their course online before they come to the UK or do a combination of online and face-to-face learning because we have social distancing rules that prevent people gathering in the normal way—they are still going to get a decent experience. That is something we have to work very hard on, I think.

Q171 **Chair:** I am sure Vivienne will correct me if I have this wrong, and I probably do, but I think six or seven students were worth something like £1 million to the UK economy. Do I remember that correctly?

**Vivienne Stern:** Yes, that is it. It is incredible. It is now becoming much more widely understood. The crucial thing is that that is widely



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distributed. It is not concentrated just in London and the south-east. It is right across the country.

Q172 **Chair:** I was interested in what you said about the public health response. That is probably a more difficult one to get correct at this stage, but one thing that I think you were indicating was that the Home Office response needs to sharpen up. Did you mean that the Home Office response is particularly bad now since Covid-19, or was it bad anyway?

**Vivienne Stern:** No, actually, the opposite is true. It is quite important that I say this because Universities UK and the Home Office have not always seen eye to eye. The Home Office has been fantastic. In the last couple of months, we have asked them to move pretty quickly to introduce things that were not in the system, to create automatic extensions for people whose visa leave was due to expire, to change rules so that it is allowable to study online, and to change compliance regulations for universities as sponsors. They have done a lot and they have done it quite quickly.

We are now getting into the second phase. Some of the urgent things were fixed and there is now quite a long list of things that we think the Home Office could do to put us in a better position. Some of them are quite simple. Make it possible for people to apply for a visa earlier than they would normally be able to. At the moment, you are not able to apply earlier than three months before the date of your expected travel. We could extend that period. They could reassure people that if they do spend time studying online and then they are going to come to the UK later, they will not have to worry that when they get to that point somehow they will be refused a visa and will not be able to complete their course. It is that level of detail we need to get into with them. I can share with the Committee a list of things we are asking the Government to do.

Q173 **Chair:** That would be, indeed, very useful. A number of the things you have mentioned there are cost free, basically shifting the pain to a different point.

**Vivienne Stern:** Yes.

Q174 **Craig Williams:** I wonder whether I could focus on—and I totally reiterate the importance of financial and professional services and our obvious advantages—and look at Miles Celic’s contribution to TheCityUK’s submission about the work that has been done during this crisis to keep international trade going. Could I tease more detail out of you about the role that has played and also the main challenges it has faced?

**Miles Celic:** Thank you for that. One of the main ways that the industry has been supporting the wider economy through the crisis, which is particularly relevant to this inquiry, is through trade finance. This is an enormous economic support that the industry provides globally. It is worth between US\$15 trillion and US\$17 trillion. About 90% of all trade involves some form of financial instrument within it or supporting it. This





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is particularly the case with the banks, which finance between one-third and two-fifths of global merchandising trade. That has been a huge area that we have been working on. Companies within our membership have been working with the UK Government, with the European Government, with international institutions and with other Governments to look at what more can be done for micro, small and medium enterprises in terms of supporting them through support for exports.

Then, more broadly, there are a couple of things that I would point to. First, we remain very concerned about a rise in protectionism. There is a natural response that happens after crises such as these arguing for a shortening of supply chains. We would argue that that is not the appropriate point. There is a good case to be made in many instances for a diversity of supply chains. That emphasises resilience. It supports resilience. But the UK economy and our industry in particular is underpinned by an outward, internationally facing approach. We would look to the Government and to the authorities to continue to stress the need to avoid protectionism.

Secondly, it is the role the industry can play in the recovery, partly driven by trade, supporting the work of DIT and others in making the case for free trade agreements and also building on the global financial partnerships initiative that Treasury launched a couple of years ago.

Finally, it is also looking at how to recapitalise businesses after the crisis. Naturally, there has been a move to support businesses through debt. It is quick. It is efficient. People are familiar with it. But the risk is that you end up with a large number of companies who have taken on an excessive and unsustainable amount of debt. How do you turn that into something more manageable over the longer term? How do you potentially turn that into equity, for instance? How do you recapitalise those companies?

That is something that we are working on, having been in discussions with the Bank of England, Treasury, the FCA and others. There is a huge amount of industry effort going into that at the moment.

**Q175 Craig Williams:** Before we invite anybody else to contribute, could I dig into the mid and long-term impacts and challenges you have outlined, given the depth of the City and given UK plc's good—*[Inaudible]*—opportunity as well for us coming out of this pandemic or living with it longer term.

**Miles Celic:** I did not quite catch all of that but, if I am correct, your question is about the advantages that the UK ecosystem has in this space and how we can go forward.

The advantage that we have is one of the deepest and most liquid capital markets in the world here in the UK. That is not a flag-waving point. That is simply a recognition of reality. There are two major international financial centres, by any calculation, and those are London and New York



City. We are already in a strong position in being able to draw upon that. It would be an enviable position for many other countries.

The issue is one of scale and speed. The question will be quite how much the demand is going to be. The initial analysis we have done suggests that there is a need for between £90 billion and £105 billion of refinancing of unsustainable debt once we are through the crisis. That figure will almost certainly change. That is based on a model that assumes that we start moving out of lockdown from the end of June. Clearly, that may shift and there may be other demands that come in.

Then it is a question of how to build on the natural advantages that the UK has not just in financial and related professional services, but in many of the other related clusters of high-skilled and high-talent jobs, such as the creative industries and the other parts of the service economy that make up 80% of the UK economy. We need to make sure that we have a regulatory system and a supervisory system that learns the lessons we are learning at the moment in terms of e-commerce and digital trade, making sure that we are approaching that in the best possible way, avoiding data localisation, for instance, making the case for open markets internationally through the unique position that the UK has—we have set this out in our submission—as a leading member and a very influential member of a range of international forums and decision-making bodies.

**Chair:** Thank you very much. We are now going to move to Mark Hendrick and then Mark Garnier. We have three Marks on the Committee—all of them top marks, of course.

Q176 **Sir Mark Hendrick:** My question is directed to Vivienne. Given that I have a university in my constituency, I am particularly interested in the impact on the education sector. There were some figures thrown about earlier and you mentioned lots of money coming from students coming into this country. We had an estimate of something like £20,000 per student in Preston and obviously we had quite a few thousand students a year. It has made a big impact financially on what is a relatively small city.

You mentioned earlier about the surveys that have been carried out by various organisations. QS did a survey and found that of 4,600 respondents, 55% of students said their plans had changed, 32% said they were still considering it, and 14% said they would enrol as planned. That means that 87%, potentially, might not actually come and study in the UK, which is mind-boggling.

But in contrast to that, a report done by London Economics was much more optimistic and said that there would be a 24% decline compared with the last academic year. How do you feel, from the information that you have, that things are developing? What sort of percentage of student drop-off are you expecting?



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**Vivienne Stern:** Honestly, I think it is too early to say. That QS survey was conducted in early or mid-March, early in this crisis. We have to keep a hawk eye on the various surveys that are happening. I expect the sentiment to change.

I have a couple of examples that I can send to the Committee. On our website, we now have an insights page where any new insights of that type are being logged together so you can build up a picture. Another organisation, IDP Connect, conducted a survey that was published on 4 May, so fairly recently. This was a survey of 6,900 international students looking at a range of destinations, not just the UK. It found that 69% of international students with current offers from universities—so, they are holding offers—expect to continue their studies as planned, which is quite extraordinary, and only 5% were saying they are definitely not going to come.

When you dig down, though, there are more reasons to be slightly concerned because, sitting underneath that, if you then go on and ask students if they will still do that if they can start the course online initially and then come on to campus for face to face when that is possible, less than 40% of students seem to be happy with that proposal. Also, 57% of this sample felt that it was not currently safe to come to the UK.

Then, of course, it is not just about student perceptions. It is also about the position we are in in the autumn. Will there be commercial flights available? How much will they cost? We have a job to do as a sector to make sure that we can tell prospective students, “If you decide to come, we will find a way to get you here. By the way, if there are quarantine arrangements required by the UK Government, we will sort that out for you”. That is, as you can imagine, a fairly eye-watering project for us at the moment, but that is the position we need to be in. We need to be able to say to students, “If you have the will, we will make sure there is a way”.

It is too early to make any predictions for where we will end up. I know, though, that there are universities forecasting an 80% decrease in international student enrolments. If that were to happen, there are some universities for which that would be existential.

Q177 **Sir Mark Hendrick:** Following on from that, how well do you think universities themselves are adapting to ensure that they can continue to export their services? There is talk about a lot of universities going online. There are a lot of well-established online universities, like the Open University. Can they make themselves attractive enough when they are just learning about being more online than existing universities like the Open University?

**Vivienne Stern:** Universities were in variable positions when it comes to how well prepared they were to switch all teaching and learning online, but most universities already had a pretty good digital infrastructure supporting teaching and learning. It was not that they were going from



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zero to 60. Even if they did not have fully online programmes available, they had virtual learning environments. They had lecture capture. They had all sorts of things that enabled them to make high-quality content available. Everybody has been working fast to catch up with the leading edge.

Then, of course, quite a lot of universities have distributed provision already. They have students studying at a distance around the world. We have seen universities trying to use those overseas outposts as a way of hedging the impact of Covid-19.

As a sector, we have to demonstrate that if we are going into a period in which we cannot be certain that we will be able to provide face-to-face teaching in the way that we did at the beginning of this academic year, that is felt to be a high-quality offer and is felt to be a reasonable alternative. That means we have to fix the knitting. We have to make sure universities improve what they are able to offer. We also have to communicate it to prospective students.

**Q178 Sir Mark Hendrick:** Finally, how helpful do you think the Government have been in terms of providing support to the sector?

**Vivienne Stern:** Broadly speaking, I have nothing but praise for the officials and Ministers we have worked with. They absolutely get how difficult this is. The Home Office has been very responsive. DfE has been very responsive.

The Government responded to Universities UK's set of proposals for stability measures reasonably positively. We feel we are not quite there yet. There will need to be some financial support. What we have so far is policy support rather than financial support. Those conversations are still happening. We are not quite at the end of it but, on the international side, I feel like we are working as a team. We all know that there is a problem that will affect not just universities but the whole UK economy. Michelle Donelan and, in the Trade Department, Graham Stuart both know what is going on and both are pretty personally committed. We have a meeting tomorrow of an education sector advisory group to try to work through what a recovery package should look like. I feel pretty good about the way the Government are working with us on this.

**Q179 Mark Garnier:** Vivienne, it is good to see you again. We worked together when I was Graham's predecessor. By the way, Graham is an outstanding Minister in this particular area. Education is his passion, so he is very good at that.

You have given some interesting answers to some of these questions about what you are proposing to do, but out of it there are a number of things that flash alarm bells. One of those is this view of the public health response that the UK has had. Clearly, you have an interesting problem facing you. You have 232,000 potential students due to start their first year at university and they are going to have to make a decision when



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we do not know what is going to happen. They are going to be coming in September or not based on our public health response at that point, rather than what we are doing now.

It strikes me that you have multiple problems facing you. Number one is public health. Number two is competition from overseas. At the end of the day, if someone is going to go online, why would they go online to a UK university when there is an entire world of universities they could go online to as well? If you are not going to get that UK experience and you are going to be stuck in whatever country you are living in, you might as well go to another university. You could go to Harvard. You could go to any of the other universities that provide online courses.

Then there are two questions in terms of numbers. Of the 232,000 who are due to start their first-year course in September, some may defer that course for a further year, in which case they may come but not this year. They may come in 2021. Similarly, I have heard of kids of 18 who are leaving school this year and may also be thinking about doing the same thing. They will not necessarily get the full university experience, so they may defer for another year.

Finally, an interesting question is the effect it has on Britain's soft power. As you know, I have always been a big fan of the soft power that the universities create around the world. Can you discuss those points? This year may be down on numbers but next year there may be an enormous surge in demand as that backlog comes through. What is going to happen to our soft power? It is great that the Government are helping, but how do you see this panning out, not just this year but next year?

**Vivienne Stern:** The other thing that is going to affect us is affordability of international education. I would imagine that even were you to find that next year things had returned to normal, there will be a smaller pool of individuals who can afford to travel for study internationally because of the economic effects, which are going to be worldwide.

Your point about the competitive environment is important. We are about to publish a little study that shows that the UK has lost market share in 17 of the 21 top standing markets for international students in the last decade. That is a real problem.

The frustrating thing is that we were on the point of having a turnaround. The Government announced in September last year that we would reintroduce the post-study work offer and we were seeing the response in the market to that, particularly in places like India where we have had a hard time. To be competitive is really important.

One thing I would like to stress is the importance of promotion. We have a good post-study work offer now. Another QS survey—not the one that we heard about earlier from Sir Mark—showed that there is a very low level of awareness of that graduate route in the market at the moment. We have to do something about that. We want the Government to work with us on that.



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We want the Government to invest more in promoting the UK as a study destination through the GREAT campaign. We think that that needs to expand to operate in countries that are not ODA-eligible. That is a whole can of worms I perhaps should not open up here, but at the moment it can operate only in ODA-eligible countries for a variety of reasons. It certainly needs to be activated in Europe because a third of international students come from Europe and we may be about to make it more difficult for them to choose the UK.

Going back to public health, the IDP survey I mentioned asked students what they thought of the public health response in various countries. The UK is only slightly better than the US down at the bottom of that table. That is a big problem. The Australians and Canadians seem to be perceived to have done a decent job. We need to think about how we can reassure prospective students and also what additional measures we need to put in place on campus and more broadly to demonstrate to prospective students that if they come here, they are going to be safe.

Of course, the NHS is an asset for us here. We can do more to promote the fact that if you come to the UK, you will have access to high-quality healthcare through the NHS.

**Q180 Mark Garnier:** Yes, although that, of course, exposes us to some rather interesting political problems about health tourism, as you know.

On the 17 out of 21 markets we are declining in, can you quickly give us a view on why that is? Is it to do with our immigration system? Is it to do with our lack of promotion? Is it the ODA thing you were talking about? What is it? What is behind that?

**Vivienne Stern:** There are two big stories. One is the rise of competitor destinations—Canada and Australia, basically. The second is the growth in intraregional mobility and more students choosing to study within their own region. That means there is a larger number of countries that have not traditionally recruited lots of international students but are now doing so—places like Malaysia.

There is an opportunity for the UK there as well, because one of the reasons why Malaysia has done so well as a destination for international students is that there are lots of international universities offering programmes there, of course the UK amongst them. Through transnational education, we may be able to take advantage of some of that.

When you are looking at the Canada and Australia story, it is all to do with visas. We have started to fix that. Hopefully, we will start to make some inroads.

**Q181 Matt Western:** Can I come in briefly? Thank you, Vivienne, for that. I was looking at the IDP Connect analysis a couple of days ago. What is interesting is the staggering number of international students who go to



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Australia by comparison to the UK.

My understanding is that Australia is looking to impose pretty tight restrictions on students entering Australia over the next year or so. Is that the case, and what is the opportunity for the UK?

**Vivienne Stern:** The big flurry in the university sector in the UK at the moment is actually the opposite. Australia has said that when it starts to lift travel restrictions, international students will be first in line. There have also been some quite effective measures taken by Australian institutions and state governments to attract international students. But in general terms, the Australian response has been quite tough and has been perceived as tough, and the Australian Prime Minister's comments have also been quite robust in relation to international students.

Oddly, in this environment, that tough talk and tough action seems to translate into higher levels of confidence among students about whether they will be safe. Who knows if that is still going to be the way people feel in September? Maybe not, but that is an interesting flip in the way that you might normally consider some of these measures.

Q182 **Martin Vickers:** My question is mainly targeted at John Drummond, but if the other witnesses want to contribute, please do.

The current pandemic has increased the pace of digitalisation and created new ways of working. First, how should the UK seek to maximise these new opportunities for digital trade and e-commerce? Secondly, what impact could these changes have on international negotiations on e-commerce and digital tax?

**John Drummond:** Thank you very much. It is a good point. The pace of digitalisation was already rapid even before the crisis and, if anything, it is only accelerating as a result of the current business conditions.

From a trade policy point of view, in terms of opportunities or ensuring that a regulatory environment or business remains competitive in these circumstances, there are three or four things that the OECD has identified that are particularly important.

Investing in infrastructure and connectivity is key. We can see that internet traffic volumes have increased dramatically, so infrastructure is very important. Strengthening and enforcing intellectual property rights is also key to a competitive regulatory environment.

Facilitating electronic transactions and access to payment systems is also important. There is a series of steps and measures that the OECD has recommended to ensure that economies are competitive and can take advantage of the opportunities of digitalisation.

Also, from a trade policy point of view, there is the international rule framework and the structures. You mentioned the implications for international negotiations. There has been a particular priority given to



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electronic commerce negotiations at the World Trade Organisation. Many countries are using their bilateral and regional trade negotiations to strengthen or upgrade provisions that relate to digital trade in their international agreements and strengthen the rules-based regime for digital trade. Those are all steps that the OECD would think to be very important.

On the current status of the WTO negotiations, I can see two effects. The motivation and the rationale for a successful conclusion of the e-commerce negotiations is more important than ever under these circumstances. But like with business, and as Miles and Vivienne have been describing in terms of challenges in financial services and in the education industry, in terms of the conduct of trade negotiations, multilateral agreements are complicated enough to conclude under the best of circumstances. Having a collective agreement across the WTO member countries in these circumstances would be that much more difficult.

Our view is that political will is very important, and the leadership of countries that are particularly motivated and invested in the importance of services trade and a multilateral trading system is more important than ever under these circumstances.

**Miles Celic:** If I may briefly add to that, I very much endorse what John has said. It absolutely speaks to a role for the UK in terms of some of the countries that John has alluded to. The UK can take a leadership role in this space and it is important that it does. We have seen absolutely the importance of data flows in the last few weeks, building on what we have known has been developing for some time, and the importance of the WTO e-commerce talks are accentuated by that.

It goes back to the point about protectionism. There is a job for committees such as this one, and organisations such as the ones you are taking evidence from and others, in informing people that protectionism is not just about border barriers. It is not tariffs and quotas, and in fact the chances are that as a proportion, that will decrease over the time. It is behind-the-border barriers. It is issues around regulation, taxation bands and data localisation.

I very much endorse what John says. I do think there is a strong role for the UK in making the case for greater data flows and reducing the friction that currently exists and has always been talked about.

**Vivienne Stern:** On that last point on regulation, there are problems that we do look to the Government to help us negotiate away. One of the things that is sharply in focus at the moment is the recognition of qualifications studied partially or wholly online. We have half a million international students in the UK and 700,000 on TNE programmes. In lots of countries, if you study part of your degree online, it will not be recognised, so you cannot get a job in the public sector and you cannot progress academically. We cannot fix that, but the Government can help





us fix that through Government-to-Government relationships. We are trying to help the Government understand where those barriers are, and then we would like an action plan to get rid of them.

**Q183 Robert Courts:** Thanks, panel, for your fascinating insights this afternoon. I wanted to rewind a little bit, or this may be a somewhat overarching question that brings together all the issues that we have been discussing or hearing about from you this afternoon. Mr Drummond, I wonder if you could help us with this, certainly at the outset.

We have heard a lot of data about the possible impact of the pandemic on trade in services. How reliable is that? If it is a question of time until we have reliable data, when do you think we will have a full sense of the impact on the sector?

**John Drummond:** That is a very important question. I agree that one of the biggest challenges with the data is the time lag. We are living these events in real time, and policymakers and Governments are having to react to it on a daily basis, but for international trade and measuring flows and impacts across borders, that picture emerges much more slowly.

For example, we are just starting to see some preliminary data for the first quarter of this year, which includes part of March. You will have seen some of it as recently as today. But we will not expect the second quarter data until August or September, and often trade data can be revised in different directions in second and third iterations. A clear picture and a measurement unfortunately is not expected until next year.

There are two things we can do. We know the magnitude of the impact is important, and everything we have discussed today is informative in terms of how Governments and policymakers should consider reacting. I do not think an underreaction is possible under these circumstances.

The second thing we can do is to watch what is happening in the regulatory environment, which we can see in real time. Both Vivienne and Miles have talked about the importance of stability and certainty in the regulatory environments in which their industries operate.

At the OECD, we measure regulatory restrictions on an annual basis. We are working with the WTO and UNCTAD and feeding into the G20 to look at what barriers to trade are coming into place now. These are things that affect restrictions on foreign entries or impacts on movements of people, barriers to competition or whether or not transparency reflects the regimes that are actually in place.

Even before the Covid-19 crisis, there were some worrying signs, as Miles has alluded to, protectionist tendencies, in particular in services and in particular affecting digital trade. Those were already a problem. It is only going to be compounded in these current circumstances. But even though the concrete trade data might be some time off, we can see the changes in the protectionist tendencies and that is where collective action



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internationally and strong leadership on services trade is going to be particularly important.

Q184 **Robert Courts:** Thank you. If I understand correctly, we cannot see what the impact has been yet, but we can see that there are some trends emerging, certainly in the regulatory field.

Would you think that the trends you are seeing in the regulatory field emerging at present are likely to have a lasting impact on international trade in services? Probably, from what you are saying, they were emerging in any event, particularly in the digital sphere, and that is not particularly Covid-19 related, but perhaps you would elaborate on that.

**John Drummond:** A real challenge in these kinds of circumstances is thinking about addressing the crisis immediately at hand, how to construct the recovery and how to make sure that you build things back in a better manner if you can.

Part of the important message from the OECD is certainly that immediate health measures and considerations are important, but policymakers need to be conscious of designing those and implementing them in ways that do not last any longer than absolutely necessary and that you already are thinking about how to unwind some of those restrictions going forward.

That is very difficult to do, but it is why transparency at the international level is important. There is good faith in most cases, but where there might have been protectionist instances already, some things can be done under cover of the current crisis. We must be alert to make sure that those do not stay in place any longer than necessary.

**Miles Celic:** If I could quickly come in on that, I would very much endorse what John has said. That is very much our experience. I have two brief points in addition.

First, the data, particularly if you look at things like ONS data, will be subject to further revision. I would be slightly careful that we do not take the initial data as an absolute definitive source, particularly with something as unprecedented as this. I expect that there will be further inputs over time that will need to be taken on board.

The other point is that in the absence of data, there is a natural reaction to try to leap towards projections. There are a whole range of projections in this space, but the variability because of the unprecedented nature of where we are can be shown, for me, on the WTO projections on the impact on trade this year, which is for a fall of between 13% and 32%. That gives you a sense that we are somewhat driving through fog at the moment. The data is absolutely vital—I completely agree with that—but we need to take real care with it as it currently stands.

**Robert Courts:** Understood. Thank you very much.



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Q185 **Chair:** Thank you very much, Robert Courts, for those questions; important, indeed. We are doing quite well with time. [*Inaudible*]  
— basically it is an opportunity more than a question to Miles Celic and to Vivienne Stern. How could the Department for International Trade support your members' efforts to increase digital trade and the e-commerce provisions in their services? Basically, what do you want? What would you like the Department to do for you? It is an open goal for you. Have a shot.

**Vivienne Stern:** If we are talking about digital trade, then the two top things are to help us with the regulatory barriers I have described and to help us promote the quality of digital education via things like increased investment in the Study UK strand of the GREAT campaign.

I am going to use this opportunity to sneak in something a little bit tenuous here.

**Chair:** I said you had an open goal; fire on.

**Vivienne Stern:** Thank you. I am not going to waste it. The UK has a fantastic mechanism for doing this through the British Council. The British Council is highly dependent on income from English language teaching and exams. Its income has absolutely stopped. We need the Department for International Trade and the FCO to roll in behind the British Council and make sure it is there when we come out of this. That is an urgent issue. It is are going to run out of cash if the FCO does not help it out. I apologise for sneaking that in.

I will send you the list of things we are asking the Government to do more broadly, but alongside promotion, there are the things we have talked about on clarity around the public health response, the help with overcoming overseas regulatory barriers and the measures to ease visa restrictions.

We would also like to explore whether the export finance support mechanisms that are available through the Department for International Trade could be used somehow to help us with the affordability problem. If we have students who would still like to come here but have a difficult set of economic circumstances, what could we do to make it easier for them to make that decision, even if means somehow paying them back? Some sort of loan scheme, for example, could be underpinned by the Government but designed not to be subsidised by the Government. Is there something we can do in the short term to create financial incentives through scholarships or waiving visa fees just for tier 4 for one year? Those are the sorts of things we are going to be asking the Government whether they would be willing to consider.

Q186 **Chair:** Would a right of residency after study be something?

**Vivienne Stern:** Yes, we have steered clear of that for the reasons Mark Garnier mentioned—the political sensitivities. The graduate route as it is currently designed does not build up a right to residency. That was part



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of our proposal. We said that for political reasons we thought it was important that it should not create a path to settlement.

Our first ask would be: you have the two years. If you want to make this super-competitive, first, tell people about it and, secondly, you could extend it. Chris Skidmore has suggested four years. Right now, we are going to be in a very competitive market, so you could extend that offer.

Crucially, if some of the students who would be hoping to take advantage of that route will be studying part of their degree online, make sure they are not disadvantaged for doing that. If they are going to be studying a programme of 11 months, part of which is online, make sure they still qualify for the graduate route.

**Q187 Chair:** In Scotland, the Government is very keen on that, they would argue not for political reasons but for very practical reasons. Miles, do you want the same shot at the back of the net that I have just given Vivienne?

**Miles Celic:** I would appreciate that. I am going to take four shots at the net and hopefully the goalie will not stop any of them.

The first is about avoiding protectionism. That has to be at the absolute core of all of this. There are concerning elements that existed before the crisis that are unwinding the benefits of internationalisation or globalisation. Particularly given the role that the UK has and historically the way the UK economy has operated, it is really important that DIT in particular and Government and political leadership overall make the case for open trading relationships. What would be great—and I very much welcome the announcement of the starting of talks with the Japanese, for instance, today—is to come out of this running at FTAs with a real set of ambitions to deliver FTAs, and to set an example to the rest of the world that the way out of the economic doldrums that we are about to go into is through enhanced trade. As I say, I think DIT has been doing a great job on that.

Secondly, looking more broadly across Government where DIT has a role, but so do other Departments, there is this issue of regulatory diplomacy. We should be investing in our diplomatic network. We should be investing in our representation at international forums such as the WTO, the FSB, BIS and a variety of economic and other bodies. That is particularly important given the inaccurate view that the UK is turning in on itself. We need to be absolutely at the forefront of making the case for global engagement, and that is something that I think the UK—again, as an open country not just economically but in terms of our approach to education, as Vivienne has set out, which is a massive national asset—should be promoting and pushing.

The third is having and developing an architecture for regulation. I was in Singapore and in Indonesia in November last year talking to regulators, to Government and to others, and the question that kept coming up was,



“Once you are out of the EU transition period, what is your regulatory philosophy in financial and professional services? What is the structure of your regulators? What is your overseas firms regime?” Those questions are being asked ever more, and I think we need to be in a position to at least answer them with a degree of detail. That will be particularly important in the months ahead. That is the docking mechanism. It is the docking system that allows financial and professional services overseas to dock into financial and professional services here in the UK.

The final one, and it has been touched upon, is talent. The number one issue for the companies that we represent is not regulation, it is not tax; it is talent. It is the ability to attract people to the UK. It is the ability to attract people within the UK into our industry, but also the fact that London, Edinburgh, Manchester and Birmingham—all the other major cities where we have a major presence in our industry—are successful because of the clusters of talent that exist, not just in financial and professional services but in the creative industries and the tech industries and in other parts of the economy. If we can keep that approach to attracting the best talent into our schools, into our universities and into our companies, and the best entrepreneurs, that is the best foundation or the best building block for the UK’s economic future.

Q188 **Chair:** Thank you very much, Miles Celic. An interesting session. Bearing in mind, of course, that services are 46% of exports, I was interested in your comments about the office culture and office space earlier on. The Home Office point and the points that were made about public health responses were also fascinating, particularly in regard to students coming. It is maybe not good news that the perception of the UK is around where that of the US is, but it is best to have that information now and to act upon it. A third of students being from the European Union was something I did not know either. The call for the British Council not to be left high and dry was, I think, made very loud and clear.

There were a number of other well-made points, and, of course, talent. I think we had the talent on the Committee—sorry, on the panel in front of the Committee here today. Of course, colleagues on the Committee are very talented, too. I should maybe throw that one in.

My final question is to John Drummond. I was listening to your accent there, Mr Drummond. Is that from Maritime Canada, or where in Canada?

**John Drummond:** Close—Ontario, northern Ontario, with a Scottish background.

**Chair:** I was going to say that, with the surname, indeed. Canada is, of course, my second favourite country, and you can maybe see why. I got a wry smile from Mark Menzies there. I thank the first panel very much for their time and expertise, and for coming along and giving us all the knowledge and expertise that they could in the hour that we had available.



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