THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Houghton Street
London, WC2A 2AE
www.lse.ac.uk

Angus Brendan MacNeil MP
Chair
International Trade Committee
House of Commons
London SW1A 0AA

20th April 2021

Dear Angus,

New Research on how the UK's Trade Deals can Level-Up the UK

I am writing to introduce the findings of LSE's wide-ranging Economic Diplomacy Commission which I chaired and offer an early meeting to discuss how the Commission's evidence and recommendations can support your Committee's valuable work scrutinising the Government's efforts to ensure that the UK's new trading arrangements secure real benefits across the UK.

Regional Competition for FDI

The Commission considered international evidence of policies that can help "left-behind" communities build up their economies and resilience. Analysing places including Boston, Leipzig and Chongqing, our year-long evidence gathering showed that a key thread in many localised economic recoveries has been a degree of decentralisation of foreign direct investment policies and responsibilities. The pronounced regional dimensions and idiosyncrasies necessary to attract inward investment, and the unique insight that devolved nations, regions and communities have into their own strengths, histories, and characters, can have a significant impact on bringing in investment.

The evidence shows that more could be done to fully immerse communities in the UK's foreign economic policies around investment as well as trade and, in doing so, help them maximise post-Brexit opportunities. By working with local authorities and devolved administrations, and encouraging appropriate levels of regional competition for inward FDI, DIT could do far more to assist localities, which know their markets best, to showcase strengths and improve weaknesses. Such healthy competition would enrich the choices of multinational corporations seeking to invest in a city or region in the UK, as well as helping communities understand the tangible benefits of the UK's new trading position. Your Committee's consideration of this would be very valuable.

Trade Adjustment Assistance to Help Communities Thrive

Our evidence shows that, as the UK embarks on its ambitious independent trade agenda, forward-looking impact analyses of trade proposals on regions and communities can play a transformative role in improving understanding and mitigating potential effects on employment and businesses. Once these effects are understood, it will be important for the Government to establish a robust and rehabilitative programme of trade adjustment assistance which will be crucial in absorbing future trade shocks and re-employing affected workers. It will also be enormously valuable to communities that otherwise might see only negligible economic benefits due to the inevitable dislocations from trade and investment. DIT could play a crucial leadership role alongside the Treasury and DWP, and your Committee's consideration of this opportunity would be most influential.

Our analysis showed that the UK's current Rapid Response Service (RRS) is far too small and under-funded to deal with the challenges faced. The UK spends £2.5m on the RRS, while the US spends $450m on its own targeted Trade Adjustment Assistance programme, but both underestimate the scale of investment needed. The UK's RRS currently does not offer special assistance or expanded unemployment benefits to offset trade shocks, instead offering generalised career advice, support for re-drafting CVs, and links to external career courses. It also only covers England and Northern Ireland, with separate initiatives as you will know in Scotland and Wales. It would be enormously valuable for the Government to enhance this to take into account changes caused by new trading arrangements.

Targeted trade assistance is necessary because of the distinction between job losses due to trade and job losses due to other cyclical or structural events. Enhanced Government interventions could have a real and positive effect on the stance of local communities towards globalisation and trade efforts. Based on our international analysis, interventions could include support for displaced workers and tailored help, such as schemes to facilitate re-employment including supporting vocational training. Targeted upskilling policies - direct training for the next generation of work – would also do much to counter firms' concerns over the UK labour market's readiness for changes within the advanced manufacturing and industrial landscape with respect to digitalization and technical skills. Upskilling in the context of trade assistance would support laid-off workers to move up the value chain by developing flexible, advanced industrial skillsets.

Pre-distribution to Provide Targeted Assistance to Communities

Helping communities and regions prepare for the impact of new trade deals will be crucial to ensuring that they thrive, and also understand the opportunities that the UK's new trade regime present. Our research shows that 'pre-distribution' policies can play a hugely valuable role.

These policies could include human capital and other tax credits. As the UK looks to develop a labour force with greater technical skills, a human capital tax credit would correct an imbalance in current tax policy—where firms are incentivised to invest in research & development through tax relief measures, but are not similarly incentivised to invest in training their employees. By equalising the preferential treatment of physical and human capital development, the UK can also help drive investment in education and training to under-skilled parts of the UK's labour force. This would be very much in line with wider skills and education priorities, and help communities feel the long-term benefits of new trade deals and ambitions for tech and innovation to be at the heart of the economic recovery.

Another 'pre-distributive' tax credit policy worthy of serious consideration concerns trade shock adjustments, and would allow firms that have been displaced or anticipate displacements due to new trade and investment agreements to petition for tax credits. This policy could free up capital to be redeployed to more productive, less impacted activities—subject to conditions on maintaining payroll and remaining in situ.

As you will see, the detailed analysis from the LSE's Economic Diplomacy Commission shows clear paths for the UK's new trading role to support communities across the country. We would be very keen to meet with you and your Committee team to discuss the findings in further detail – please have your team contact Greg Taylor, LSE's Head of Public Affairs, at g.taylor1@lse.ac.uk, to set this up. We look forward to supporting your work to ensure the UK’s new trading arrangements help the UK thrive.

Yours sincerely,

Professor Linda Yueh (Chair)

And the LSE Economic Diplomacy Commissioners:

Professor Christopher Coker

Professor Michael Cox

Professor Swati Dhingra

Sir Martin Donnelly

Professor Saul Estrin

Baroness Falkner of Margravine

Dr Robert Falkner

Professor Steve Machin

Lord Macpherson of Earl’s Court GCB

Guy Monson

Sir Richard Mottram GCB

Lord Powell of Bayswater KCMG

Gideon Rachman

Susan Scholefield CMG

Dr Leslie Vinjamuri

Professor Dame Helen Wallace DBE CMG FBA

Dr Stephen Woolcock