

**Evidence to the House of Commons International Trade Committee:
Inquiry into impact of COVID-19 pandemic on international trade**

Executive Summary

1. TheCityUK is the industry-led body representing UK-based financial and related professional services (FRPS). The industry contributes more than 10 per cent of UK GDP and employs over 2.3 million people. It is the largest taxpayer, the biggest exporting industry and generates a trade surplus greater than all other net exporting industries combined. It is a national asset, as well as being one of the world's leading international financial centres. TheCityUK is grateful for this opportunity to submit evidence to the Committee.
2. COVID-19 has sparked a major fall in international trade. This submission explores the various impacts and their consequences; the role of the UK-based FRPS industry in tackling and mitigating them; the pandemic's implications for global trade patterns and UK business; and how the UK government, with business, can take action, multilaterally and bilaterally, towards furthering global recovery.

What is the impact of the COVID-19 pandemic on global trade?

3. There is no doubt that the impact of COVID-19 is unprecedented in scale and severity. The virtually simultaneous lockdown in so many major markets, and the resultant curb on economic activity, is having huge economic effects. Accurate economic data, for the UK and other markets, will not be available for some time given collection time-lags and will be only partially disaggregated. For example, the comprehensive and disaggregated services trade data published by the Office of National Statistics (ONS) in January 2020 only covers the period to the end of 2018. The impact of COVID-19 on the UK economy, including on exports, will only start to show in the March 2020 trade data (to be published mid-May 2020), which will however only disaggregate trade in goods, not services.
4. It is already clear, however, that various key factors are bearing down sharply on trade flows. Downturns in economic activity have led to falls in orders worldwide. Global supply chains have been disrupted by port controls on shipping and cuts in freight and passenger flights (the latter normally carrying significant volumes of freight). Even though precise statistics are not yet available, there are telling indicators of damage: in the UK, the downturn in domestic distribution, and the rise in retailers' indebtedness have dampened orders for imported goods.¹ Government measures, including export controls on goods related to COVID-19 treatment and therapies, have had their own trade effects.²

¹ Banks and other lenders reportedly face between £8 billion and £10 billion of losses and write-offs from loans

How is the UK financial and related professional services industry responding to threats to international trade posed by COVID-19?

5. The UK-based FRPS industry, along with other services sectors (logistics, shipping, domestic distribution and retail), is playing a critical role keeping international trade flowing. Although much focus has rightly been placed on the need to maintain trade in “essential goods”, trade in goods generally, including foodstuffs, depends on services. The FRPS industry is deeply embedded in global supply chains and facilitates supply contracts, trade finance, freight forwarding, shipping and other services. Without FRPS, international trade and commerce would simply not be possible. For example, banks, insurers, reinsurers, payment suppliers, mutual funds and pensions, and the related professions supporting them, are all currently contributing to facilitating the purchase and delivery of essential goods and food supplies. A sign of how deeply embedded the services sector is in manufacturing value chains is that one third of the value of UK goods exports are services inputs (OECD figures).³ Services themselves represent 80% of the UK economy.

6. While affected by the lockdown, the UK-based FRPS industry remains in operation, not least thanks to previous investment in business and operational resilience and the commitment of employees up and down the country. Once the immediate crisis recedes, FRPS will play a critical role in global economic recovery, supporting communities to get back on their feet in differing circumstances, driving investment and helping businesses recapitalise. Many businesses will have incurred new debt during the pandemic lockdown.⁴ Identifying mechanisms to enable small and mid-tier businesses to convert their debt into equity will help ensure their long-term sustainability. TheCityUK is progressing work to identify how best to fulfil this objective and will be keeping the Bank of England engaged with its work. It aims to publish its recommendations in the coming months. TheCityUK will also produce research addressing the ecosystem recovery plan, which will analyse the medium-term economic impact of the pandemic and the role of the FRPS industry in driving renewed economic growth.

What are the implications of COVID-19 for global trade patterns and international supply chains? How might these implications affect UK businesses?

7. The long-term implications cannot yet be assessed, but the following potential global predicaments stand out:
 - a. How quickly will fractured supply chains be restored?

made against shops, retail parks and shopping centres (Cass Business School research)

² See a Statement (1 April 2020) by the Global Services Coalition (<https://www.thecityuk.com/news/global-services-industries-urge-cooperation-and-restraint-from-world-governments/>)

³ <http://www.oecd.org/industry/ind/TIVA-2018-United-Kingdom.pdf>

⁴ For an analysis of the differing circumstances that may affect different regions of the UK, please see COVID-19 and the UK Regions, please see: <https://www.thecityuk.com/news/covid-19-and-the-uk-regions/>

- b. Which economies will resume their pre-COVID-19 trend path and which economies will take longer to recover?
 - c. Will post-COVID-19 indebtedness be evenly spread among advanced and emerging economies?
 - d. Will there be a radical acceleration of the existing tilt towards favouring the Asian economies?
 - e. How will climate change measures be affected, particularly as regards international collaboration, burden-sharing and effectiveness?
8. Clear answers will have to wait. As different markets pursue different mitigation strategies for COVID-19, and because supply chains are distributed across many different jurisdictions, it is hard to predict when markets and global supply chains will return to pre-COVID-19 activity. Even when lockdown conditions are removed, some sectors will return to full production sooner than others, and some categories of workers will need more protection than others. In turn, supply chains may need to adjust significantly: there have already been some shifts in demand patterns from customers and markets, some of which may endure long after the virus has passed.⁵ The UK-based FRPS industry is tackling the challenging task of advising clients on how best to navigate this difficult period.
9. COVID-19 is not the only factor affecting global supply chains, which had already come under increased scrutiny in many countries before the pandemic. Concerns in some major markets, including the US, centred on such considerations as security of supply of some essential products, technologies and services, the case for shortening supply chains, or full onshoring, even if such reversals of the trend to globalisation carried higher costs in terms of resource-allocation. Businesses too have been reassessing their supply chains, taking account of such factors as heightened political risk, resilience and sustainability. Some firms have sought to limit exposure to higher risk sources and concentrate production in safer regions – a trend which could be further spurred by COVID-19.
10. However these trends play out, international trade in goods and services will remain a cornerstone of global commerce. Any protectionist moves away from the global rules-based trading system would not be in the UK's interests. Given the UK's status as a leading trading nation, UK businesses, their customers and employees, will continue to be deeply embedded in global value chains and could be damaged by their unravelling. It is, therefore, important that the UK government works with trade partners, businesses and global standard setters to keep international trade flowing and the international trade system functioning amid unprecedented challenges. TheCityUK outlined some suggested approaches to boosting bilateral trade and investment in a 2008 submission on Global Britain to the House of Commons Foreign Affairs Committee.⁶

⁵ See the suggestions on restoring supply chains on p3 of Deloitte's report on *Orchestrating the recovery of organizations and supply chains* (April 2020), accessed at: <https://www2.deloitte.com/global/en/pages/about-deloitte/articles/covid-19/covid-19--the-recovery-of-organizations-and-supply-chains.html>

⁶ Written evidence from TheCityUK on Global Britain (July 2018), submitted to the House of Commons Foreign Affairs Committee, can be accessed at: <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/foreign-affairs-committee/global-britain/written/81524.html>

11. Finally, there have been suggestions that, following COVID-19, governments and businesses might de-prioritise environmental objectives and focus on restoring economies to full capacity. However superficially attractive, this perceived trade-off between economic growth and environmental protection is, from the perspective of FRPS, a false choice. Sustainable economic growth, taking full account of environmental, social and governance (ESG) guidelines, should remain a priority. For both environmental and economic reasons, it is important that the UK government should continue to prioritise ESG objectives and press for the adoption of enhanced international environmental and governance standards for global businesses. COVID-19 is itself an ESG challenge that clearly demonstrates the heavy cost that ecological risks bear for global businesses and the need for best practice governance in order to mitigate risks to supply chains. The FRPS industry in the UK has developed one of the world's leading green financial markets, which helps global businesses as they adopt the best recommended environmental standards. There are already assets under management estimated at \$40trn now being targeted towards implementing sustainable investment strategies, and investment in ESG based strategies is growing rapidly.⁷ The recapitalisation process that will follow COVID-19 provides an opportunity to build environmental considerations into global recovery plans.

How can the UK Government engage with countries through multinational institutions and on a bilateral basis to promote international cooperation, increased trade and investment and a coordinated global response to the pandemic?

12. The threat of COVID-19 to international trade can only be overcome if countries work together. The UK Government should aim to align its approach to COVID-19 with other partners, both multilaterally and bilaterally.

Multilateral initiatives

13. Multilaterally, the UK plays a prominent and respected role in many international institutions including the:

- G20
- International Monetary Fund (IMF)
- World Bank
- Bank of International Settlements (BIS) and the Financial Stability Board (FSB)
- OECD
- WTO.

14. All these institutions, in different ways, took a prominent role in addressing the global financial crisis. In 2008-2010, developed and developing countries, including the US, China

⁷ Climate Action 100+, an investor founded initiative launched in 2017 to ensure carbon emitters take action on climate change, is now supported by 450 investors with over \$40 trillion in assets under management who are engaging companies to curb emissions, improve governance and strengthen climate related financial disclosures, as described at: <http://www.climateaction100.org/>

and the UK, responded with a coordinated fiscal approach that enabled a global economic recovery. Leaders recognised that, in a globalised economy, it was not possible for countries to isolate themselves from global economic shocks, and that global crises need to be tackled collectively. After the financial crisis, however, countries stepped back from multilateral approaches and pursued economic policies through more conventional, national means. Financial regulatory approaches agreed upon at the G20 and FSB were implemented differently in key markets like the US and the EU, creating a degree of market fragmentation that affected global recovery. Moreover, despite agreement in 2008 to avoid protectionist responses to economic crises, there has since been a worrying rise in trade-restrictive measures. WTO Director General Azevêdo, reflecting on these trends in 2018, observed that “we are heading in the wrong direction, and we seem to be speeding up.”⁸

15. It is, therefore, perhaps unsurprising that countries have responded to COVID-19 with more protectionist policies, imposing restrictions on trade in essential goods. According to the Global Trade Alert, an independent trade policy monitoring initiative, as of early April 2020, some 70 governments, including China, the European Union, European Member States, the UK, India, Turkey and the United States, had implemented some type of export curbs on medical supplies and medicines associated with the COVID-19 pandemic.⁹ (Some curbs have since been relaxed as policymakers came to appreciate that most producers of medical products rely on imports to manufacture their goods.)
16. However, despite being a spur to anti-globalisation rhetoric, COVID-19 has made clear, once again, the need for countries to work together to tackle common crises. The UK Government has been encouragingly clear about the need for a coordinated global response to this crisis from the start, working with others in the WTO and G20 to develop some initial coordinated international responses, such as the G20 Summit statement of 26 March 2020 (announcing a global \$5trn stimulus plan).¹⁰ From the perspective of UK-based FRPS, further UK engagement through multilateral institutions should take account of the following:
 - Open trade and the development of a more integrated global market has been of considerable benefit to producers and consumers in the UK. Producers have been able to specialise and provide consumers with a wider choice of higher-quality products; consumers have benefited from more competitive prices.
 - Globalisation has also helped the UK become one of the world’s leading financial centres. The UK-based FRPS industry raises capital for international businesses and plays a critical role in enabling global trade flows, thus enhancing global growth.
 - Any retreat from globalisation, including further protectionist measures and moves to disrupt international supply chains, even if justified only as a temporary response to COVID-19, would be harmful to the interests of UK business and consumers.

⁸ Comments made by WTO Director-General Azevedo in the WTO mid-year report on trade-related developments presented on 25 July 2018 at a meeting of the Trade Policy Review Body can be accessed here: https://www.wto.org/english/news_e/news18_e/trdev_25jul18_e.html

⁹ As noted by Bernard Hoekman, Matteo Fiorini and Aydin Yildirim in *Export Restrictions: A Negative-Sum Policy Response to the COVID-19 crisis*, which can be accessed at: https://cadmus.eui.eu/bitstream/handle/1814/66828/RSCAS_2020_23.pdf?sequence=1&isAllowed=y

¹⁰ The G20 statement can be accessed here: <https://www.gov.uk/government/news/g20-leaders-summit-statement-on-covid-19-26-march-2020>

- Globalisation was not created in a vacuum. It is based upon a rules-based trading system that the UK helped create through supporting international institutions like the IMF, World Bank and WTO. The UK must continue to support this rules-based system, upon which much of our prosperity depends.
- Brexit has made the UK's engagement with these multilateral institutions even more important. As the UK launches its independent trade policy, embracing once again its trade spokesperson role and standing outside of any large trading bloc, it must rely on the proper functioning of global rules-based institutions such as the WTO (particularly the WTO Dispute Settlement Understanding). Failing these institutions, and the disciplines they provide, the UK will lack key safeguards against protectionist measures during crises such as COVID-19.
- Supporting rules-based institutions like the WTO or G20 so that they are capable of responding properly to COVID-19 does not mean that the UK should uncritically advocate an institutional status quo. To the extent that COVID-19 leads to – or accelerates – lasting changes in the global economy, some of these institutions may need reinvigorating or radically reforming (on the analogy of the creation of Bretton Woods institutions after WWII) if they are to function truly effectively in the years ahead. As an example, changes to the WTO's dispute resolution mechanism may well be needed if it is to regain the support of key WTO members, most notably the US. TheCityUK and the UK-based FRPS industry is ready to offer input, through its Liberalisation of Trade in Services Committee, on business experience of the WTO's workings, and areas in which its effectiveness might be enhanced.

17. It must be recognised that many countries are sceptical about further multilateral trade liberalisation via a traditional WTO negotiating round, and that reform initiatives at multilateral institutions can take years to achieve. Beyond focusing on immediate steps to uphold the current trade regime, the UK government should therefore continue to build coalitions of countries that favour strengthening the rules-based trading system. In the global business framework, the UK-based FRPS industry has already played an important role in developing such coalitions. As an example, TheCityUK's partner, the Global Services Coalition, which includes business membership organisations from services industries in markets as diverse as Australia, Canada, Chile, the EU, Hong Kong, Indonesia, Japan, New Zealand, Singapore, Taiwan, the US and the UK, has built a robust private sector group pressing for further liberalisation. TheCityUK is also working with partners such as the European Services Forum and the World Alliance of International Financial Centres to make the private sector case for market opening in services.

18. One effect of COVID-19 that is already evident is enhanced reliance on electronic communications and interaction of all kinds by virtual means. This trend, which has resulted in movement of sharply increased data volumes, is unlikely to be reversed. Well before the pandemic, a significant group of WTO members had embarked on an initiative to establish disciplines for electronic commerce (the WTO term for digital trade).¹¹ The UK government

¹¹ The Joint Statement on e-commerce can be accessed here:
https://trade.ec.europa.eu/doclib/docs/2019/january/tradoc_157643.pdf

should prioritise such initiatives to combat moves to restrict digital trade and data-movement. While recognising regulatory and data-protection considerations, the UK should oppose data localisation measures, which impose constraints on businesses under normal trading conditions but are especially harmful given the spread of COVID-19, as they make it much harder to manage the movement of essential goods to those who need them most. Localisation measures will also weaken business' cybersecurity efforts, make them more vulnerable to natural disasters and other environmental risks by limiting their ability to manage their geographical exposure, and undermine their ability to comply with key regulatory requirements for financial risk management. These concerns were well recognised before the COVID-19 pandemic, which has only served to underline their importance.

19. It is also important, in the COVID-19 context, for the UK to work with international partners to counter moves by some WTO members to impose customs duties on data flows. All WTO members have agreed since 1998 to a WTO Moratorium on customs duties on electronic transmissions which prevents customs duties being imposed on electronic transmissions. This move has enabled free trade in software, emails, text messages, digital music, films and videogames and other essential digital products; without it, the rise of internet related technologies over the last two decades could have been severely restricted. However, in March 2020, some WTO members proposed reviewing this Moratorium. Any imposition of customs duties on electronic transmissions could have major effects on the free flow of data, as well as introducing the prospect of duties on services delivered by electronic means. At a time of heightened reliance on frequent exchanges of information, data connectivity has become an essential underpinning of modern life. If information flows are impeded, consumers, companies, governments and entire economies can no longer leverage the full benefits of the digital economy. Moreover, international trade flows are made possible by technologies which enable businesses to manage supply chains across several jurisdictions at low cost. In a recent statement, the Global Services Coalition underlined that information flows are now more central to the development of world trade than at any previous time, not least in response to the COVID-19 crisis.¹² Any restrictions on the free flow of data would increase transaction costs in supply chain management, impeding a global recovery from COVID-19.

Bilateral initiatives

20. Although many of the fundamental rules upon which the international trade system is founded originated in the GATT and the WTO Agreements, in practice the terms on which UK firms can access foreign markets often rely also on bilateral agreements. Following Brexit, the UK Government, as well as industry and regulators, are making joint efforts towards taking forward the UK's programme of bilateral trading agreements with key trade partners; and some of the preparations towards this are well underway. In addition existing efforts to expand the range of UK's trade and investment arrangements with non-EU partners, the UK also now needs to explore ways in which it can partner with countries on

¹² The statement of the Global Services Coalition can be accessed at:
<https://www.thecityuk.com/news/current-wto-debate-on-the-e-commerce-moratorium-scope-and-impact/>

developing post-COVID 19 initiatives, tackling protectionism, re-invigorating supply chains, strengthening risk management and developing capital markets, as well as responding to measures taken on COVID-19 in other markets.

21. Bilateral efforts to advance international trade and investment require joined-up government and a tripartite alliance between government, industry and regulators. For example, bilateral trade and investment initiatives such as Free Trade Agreements, Economic and Financial Dialogues, Financial Partnerships and agreements reached through Memoranda of Understanding (MoUs) cannot work unless several government departments and regulators and the UK-based FRPS industry work together to achieve common objectives. Naturally, different initiatives require varying levels of input from a range of stakeholders: a Free Trade Agreement requires input from the widest range of ministries and agencies, whereas a sector-specific MoU between UK regulators and a bilateral partner may only require the engagement of a few. When considering how best to work with other countries on the response to COVID-19, the UK government should bear in mind that there are many existing forums for bilateral discussion and it may be sensible to work within successful pre-existing structures where there is already senior industry buy-in. This would avoid duplication and the risk of time-consuming negotiations on creating new structures.
22. The UK-based FRPS industry stands ready to support the UK Government in all bilateral initiatives dedicated to promoting bilateral trade and investment. TheCityUK's Market Advisory Groups (MAGs), which bring together industry experts on relevant markets as well as other voices such as the City of London Corporation and relevant Chambers of Commerce, can contribute business advice on how to take forward a range of post-COVID-19 initiatives. We could also offer views on which bilateral forums might be best placed to advance such initiatives – whether regulatory dialogues, Economic and Financial Partnerships, Financial Dialogues, trade negotiations or more sector-specific approaches.

Conclusion

23. In this submission, TheCityUK has outlined some of the ways in which UK Government, industry and regulators can work together to maintain and strengthen international trade flows in the light of COVID-19. TheCityUK would be happy to provide further detail on any issues raised in this evidence.