

Written evidence submitted by TheCityUK (TIP0002)

Introduction

1. TheCityUK is the industry-led body representing the UK-based financial and related professional services (FRPS) industry. The industry contributes over 10% of the UK's total economic output and employs more than 2.3 million people, with two thirds of these jobs outside London. It is the biggest exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined.
2. TheCityUK welcomes the opportunity afforded by the inquiry and is happy to answer any questions arising from its evidence. As a body representing UK FRPS, we have sought to answer only questions relevant to our membership.

Executive Summary

3. The UK-based FRPS industry has a significant and fast-growing presence in the Indo-Pacific. It is the UK's largest exporting industry and a range of UK-headquartered financial institutions have a major focus on Indo-Pacific markets. In September 2021, TheCityUK published a new international strategy on behalf of the industry, drawing on data about the international commercial priorities of over 60 major UK-based FRPS businesses. The strategy identified the Indo-Pacific as a critical priority growth market: Japan and Singapore as Tier 1 priority developed markets and India and Indonesia as Tier 1 priority developing markets. Australia and New Zealand were identified as Tier 2 priority developed markets, with Malaysia and Vietnam as Tier 2 priority developing markets.
4. As the UK government implements the Indo-Pacific tilt, it should support the UK's biggest exporting industry in its efforts to strengthen its commercial footprint in the region, so as to drive benefits to UK businesses, savers and investors. The Indo-Pacific region is vast and the UK must be targeted in its engagement. Economic diplomacy initiatives should focus on the priority markets where there will be the greatest opportunity for UK businesses to contribute to the prosperity of the region and the UK. Some key tasks for the UK in the region should include deepening regulatory engagement with key developed markets in the region – for example, by effectively utilising the new UK-Japan Regulatory Forum to collaborate on global challenges such as transition finance and joining advanced regional regulatory discussions on data governance – and building new trade and investment ties with fast-growing developing markets like India and Indonesia. To fulfil these ambitions, the UK may need to boost resources available to Indo-Pacific Embassies and High Commissions and ensure that staff in Post have detailed knowledge of global financial markets. Industry can help develop such expert knowledge to help officials advance trade and investment.
5. The UK's Indo-Pacific tilt should also draw on the targeted use of development initiatives to support sustainable growth and project UK soft power. The UK should partner with developing country governments to help them foster socio-economic development, sustainable growth and the rule of law. Industry can support Indo-Pacific governments by advising local authorities on the development of governance codes, sustainability finance frameworks and regulatory regimes. The UK has great expertise to share with regional partners around developing their business environments and building services hubs and financial centres. The provision of such expertise should be at the heart of the UK's efforts in

the region: the UK should aim to be the trusted partner to all countries in the region seeking to improve their citizens' quality of life.

6. Through a combination of trade and investment policy, development assistance, and economic and regulatory diplomacy initiatives, the UK should put itself at the heart of this critical region. The benefits to the UK and Indo-Pacific – including more high-skilled jobs and more sustainable investment – would be considerable.

What are the UK's main interests in the Indo-Pacific region, and what are the main threats and opportunities?

7. The UK has considerable economic interests in the Indo-Pacific region. The global economic centre of gravity has shifted decisively towards Asia in recent decades. Japan and India are the world's third- and sixth-largest economies.¹ The Association of South East Asian Nations (ASEAN), which has a combined GDP of US\$2.6trn and a population of over 660 million, is projected to become one of the world's largest economic blocs by 2050, with combined GDP forecast to reach £4trn.² India and ASEAN have the second- and third-largest labour forces in the world,³ youthful populations and a fast-growing middle class. Within ASEAN, Indonesia is a growing economic powerhouse and a G20 member, with a GDP of US\$1trn and a population exceeding 270 million.⁴
8. The Indo-Pacific is also attracting ever more global investment. In a low interest rate environment, global investors are hunting for risk adjusted yield: Indo-Pacific markets provide many such opportunities. UK FRPS businesses would be eager to work with local governments to create even more investment opportunities by helping developing markets attain international business, financial and legal standards. As Indo-Pacific economies look to manage their green transition, UK FRPS – with its sustainable finance capabilities – is well positioned to work with regional partners to facilitate the greening of regional economies.
9. UK FRPS businesses have responded to these economic and investment interests by deepening commercial ties across the region. Industry strongly welcomes UK efforts to foster further regional ties. It welcomed the UK-Japan Comprehensive Economic Partnership Agreement (CEPA), the UK's Free Trade Agreements (FTAs) with Singapore and Vietnam, and the UK's successful application to become an ASEAN Dialogue Partner. Industry is also supportive of the UK's intention to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and a potential FTA with India. As most barriers to trade in FRPS are regulatory and require regulatory cooperation to resolve them, trade agreements that include such frameworks (e.g., CEPA, with the establishment of the Regulatory Forum) are most effective for advancing UK services trade goals and position its FRPS businesses to capture a leading share of global markets.
10. One of the key opportunities open to the UK is for its FRPS industry to become the world's leading provider of digital financial solutions. One barrier to achieving this goal is the rising number of restrictions countries are imposing on digital trade. UK interests are on the side of open trade in data: the Indo-Pacific region is currently divided between countries that are leading the world in terms of championing digital trade (for example, Australia, New Zealand and Singapore) and countries that are imposing major restrictions on digital trade. As the UK

¹ World Bank data

² IMF World Economic Outlook Database

³ World Bank data

⁴ World Bank data

implements its Indo-Pacific tilt, it should prioritise supporting regional regulatory dialogues on data governance so as to encourage a more liberal approach to digital trade. The UK should also persuade all countries in the region of the benefits that integrated global digital markets can bring. The UK's efforts to negotiate a Digital Partnership Agreement with Singapore are encouraging: negotiators should conclude as ambitious a deal as possible and deepen digital ties between these two leading international financial centres.

What are the geopolitical implications of the UK's potential accession to the CPTPP?

11. The UK-based FRPS industry supports the UK's accession to the CPTPP. The CPTPP is one of the world's largest regional trade agreements: it is already helping to draw greater investment into the Indo-Pacific region and reshaping Pacific Rim supply chains so as to favour its members. CPTPP accession would provide UK businesses with a larger addressable market. Becoming the first non-Pacific Rim CPTPP member and taking on membership obligations would also be a clear expression of UK commitment to the region. Membership would provide a useful platform for engaging with other Pacific Rim players, including the US and China, should they seek CPTPP membership.
12. CPTPP members – including Australia, New Zealand, Japan and Singapore – have been at the forefront of proposing innovative solutions to supporting more digital trade. As services trade becomes increasingly digitalised (even before COVID-19 more than half of global services trade was digitally enabled), shaping frameworks that support more digital trade is critical. The innovative digital governance solutions proposed by CPTPP members may provide a basis for future global approaches to the subject: the UK should aim to be involved in these regional discussions at an early stage.

How can the UK maximise the influence brought by its new status as an ASEAN Dialogue Partner? And what should it use this influence for?

13. The UK's new status as an ASEAN Dialogue Partner demonstrates its commitment to pursuing deeper engagement in the Indo-Pacific. It is important that the UK follows through on its commitments and maximises its influence by maintaining the pace of regular high-level visits to the region, being represented at ASEAN meetings, and by establishing platforms that deepen UK-ASEAN cooperation on areas of mutual interest. The UK should leverage the extensive UK FRPS networks in the region and work with the private sector to engage ASEAN businesses, including through establishing a UK-ASEAN Business Summit that takes place on the side-lines of official UK-ASEAN engagements, such as dialogues between ministers or senior officials. Capacity building initiatives such as the UK Prosperity Fund ASEAN Low Carbon Energy Programme, which draws on the expertise of UK FRPS to facilitate green finance flows, are welcome. The UK should also consider establishing an FTA with ASEAN.
14. Beyond engaging ASEAN as a bloc, the UK should also look to foster regulatory cooperation with individual ASEAN countries through establishing dialogues such as the Economic and Financial Dialogues (EFDs) with India and China and the Financial Dialogues with Japan and Singapore. The recent establishment of the Ministerial-level annual Joint Economic and Trade Committee (JETCO) with Indonesia was welcome; the UK should also consider pursuing a higher level of economic partnership through an EFD. Such dialogues can be central to bilateral partnerships (as with China and India), bringing benefits for citizens on both sides and providing a platform for jointly addressing emerging challenges. At the same time, it can lead to more considered approaches to financial regulation, reduce the risks of

market fragmentation and make it easier for UK-based FRPS businesses to service clients and customers in the Indo-Pacific region.

15. The UK can also build partnerships with ASEAN countries by targeting Overseas Development Assistance (ODA) resources towards the region. The UK should use development projects (including Prosperity Fund projects) to provide technical assistance to ASEAN countries seeking to develop their business environment and attract more international trade and investment. The UK has considerable experience to draw on: previous development projects have helped developing and emerging markets develop their services sectors by adopting regulatory standards similar to those used in the UK. Such projects have strengthened the rule of law and supported financial inclusion and regional stability. Over time, the delivery of such development initiatives gives UK businesses an advantage as they look to expand in these markets. Areas where UK industry could best support Indo-Pacific governments and regulators on development efforts include:
 - promoting foreign investment;
 - strengthening governance and accountability;
 - developing sustainable finance frameworks;
 - promoting financial inclusion through the deployment of FinTech, digital solutions and alternative finance (including Islamic finance);
 - developing capital markets overseas; and
 - providing financial training.

How can the new Build Back Better World/Clean Green Initiative be used most effectively as an alternative to the Belt and Road Initiative in the Indo-Pacific?

16. In 2017, the Asian Development Bank estimated the financing gap in economic infrastructure for Asia at US\$459bn per year, doubling to US\$907bn with the expected need for funding of social infrastructure.⁵ This infrastructure financing deficit is weighing on economic growth momentum and efforts to eradicate poverty or respond to climate change – and this is likely to worsen in the wake of the COVID-19 pandemic.
17. International policy efforts such as the new Build Back Better World/Clean Green Initiative and the Belt and Road Initiative have the potential to channel more capital into infrastructure in the Indo-Pacific. Both initiatives provide good opportunities for UK-based FRPS to finance, design, support and help in the implementation of the various projects, particularly where infrastructure is involved.

What should be the resource priorities for the FCDO's new Indo-Pacific Directorate? Where should the FCDO focus on increasing its footprint in terms of Posts and staff?

18. UK diplomatic missions are a national asset. Investing to maintain and strengthen them should be a priority. Now that the UK has made a commitment to support sustainable growth in the Indo-Pacific, it needs to ensure that its Embassies and High Commissions have the resources needed to deliver on this commitment. Proper resourcing will also signal the UK's commitment to contributing to regional prosperity.
19. Given that FRPS is the UK's biggest exporting industry and responsible for helping channel investment into Indo-Pacific countries, it should lie at the heart of UK economic diplomacy initiatives in the region. Diplomatic missions in priority FRPS markets within the Indo-Pacific

⁵ <https://dx.doi.org/10.22617/WPS189402-2>

should be able to draw on the expertise of dedicated financial services related staff in Post. It is not always easy to promote trade in financial services, attract investment, and address financial regulatory issues, which require specialist knowledge of global financial markets. Industry is eager to support UK officials by providing specialist training to ensure that they are fully equipped to support the Indo-Pacific tilt and secure the best outcomes for the UK economy.

**What should the UK's approach be to strengthening relations with Indonesia, Japan and Taiwan?
In what areas should the UK prioritise deeper collaboration with these countries?**

20. The UK should use a mix of trade, investment and development policy initiatives to strengthen economic ties with key Indo-Pacific markets. The results will include greater prosperity and platforms for deeper political and cultural cooperation.

Japan

21. The UK and Japan have a strong economic partnership, underpinned by a shared commitment to the global rules-based system and extensive trade and investment ties. In 2019, UK-Japan trade in services reached £13.1bn, with financial services accounting for 56% of all UK services exports to Japan.⁶ Japan is the UK's sixth-largest investment partner globally and second largest outside the EU-28 after the US, with two-way investment valued at £995.4bn in 2018.⁷ Nearly 1,000 Japanese companies have a commercial presence in the UK, collectively employing more than 100,000 workers, with a majority of these jobs outside London.⁸ The UK is also used by many Japanese financial institutions as a strategic base for the Europe, Middle East and Africa region.
22. There is scope for a further increase in bilateral services trade and the CEPA was a significant milestone in helping to achieve it. It provided greater opportunities for the UK and Japanese regulators to work towards mutual compatibility of their regulatory and supervisory frameworks for financial services. The CEPA also provides a framework for collaborating on issues such as sustainable finance and approaches to new financial services, and shape global industry standards by jointly engaging with international institutions including the G7, G20 and WTO. Industry is eager to partner with Japanese counterparts to explore how the financial sector can address demographic challenges accompanying the "silvering" of the UK and Japanese economies. UK and Japanese businesses can work together to develop innovative new models of finance to drive the silver market and ensure the sustainability of health and pension systems.

Indonesia

23. Trade and investment should also be at the centre of UK efforts to build stronger ties with Indonesia. UK-Indonesia services trade amounted to £825 million in 2019.⁹ In 2019, the outward stock of FDI from the UK in Indonesia was £7.1bn, accounting for 0.5% of the total UK outward FDI stock.¹⁰ The recent Joint Trade Review between the UK and Indonesian governments identified FRPS as one of the priority sectors that should feature in bilateral economic discussions, and highlighted the possibility of a UK-Indonesia trade agreement.

⁶ Office for National Statistics (ONS), UK trade in services

⁷ ONS, Foreign Direct Investment (FDI) totals for Inward and Outward flows, positions and earnings

⁸ British Embassy Tokyo; Ministry of Economy, Trade and Industry of Japan

⁹ ONS, UK trade in services

¹⁰ ONS, FDI totals for Inward and Outward flows, positions and earnings

Industry would welcome more formal economic links between the two countries such as an EFD.

24. Further opportunities for UK FRPS businesses to contribute to stronger UK-Indonesia ties can be found in infrastructure financing, sustainable finance, capital markets development, insurance, FinTech and Islamic finance. In order for these opportunities to materialise, the UK should work with Indonesian authorities to develop Indonesia's business environment to UK and international regulatory standards. The industry welcomes the UK Prosperity Fund programme that aims to reduce poverty by strengthening the regulatory environment in Indonesia: UK FRPS businesses are ready to offer their support.
25. Indonesia's presidency of the G20 in 2022 presents opportunities for the UK to strengthen bilateral relations, while also participating in an international institution that plays a key role in coordinating global financial policy. The UK should continue to engage with the G20 with a view to shaping global industry standards and achieving greater regulatory coherence. One area of focus for UK G20 engagement should be to develop more globally integrated sustainability markets by shaping common international green disclosure standards and crafting principles to support more interoperability of sustainability taxonomies.

How can the UK improve its partnership with Indonesia in areas including land and environmental rights, and promoting open societies and rule of law in the region?

26. The UK should develop existing funding initiatives to help Indonesia attain international standards in governance and regulation. UK legal services firms, which have an international reach, could leverage available ODA platforms (e.g., Prosperity Fund resources) to provide Indonesian stakeholders with advice on establishing robust legal systems and developing its business environment to align more closely with international standards. Such initiatives would help the UK strengthen its association in the region with the rule of law and legal expertise and support the UK's overall global position as a leading hub for legal expertise.

Conclusion

27. We hope the views of TheCityUK will help the Committee in its inquiry, and would be pleased to provide further insight.