House of Commons International Trade Committee: Inquiry on UK trade negotiations: Agreement with the Gulf Cooperation Council (GCC)

Written evidence submitted by TheCityUK

Introduction

1. TheCityUK is the industry-led body representing the UK-based financial and related professional services (FRPS) industry. The industry contributes 10% of the UK's total economic output and employs more than 2.3 million people, with two thirds of these jobs outside London, and it is the UK's biggest net exporting industry.

2. TheCityUK welcomes the opportunity afforded by the House of Commons International Trade Committee inquiry into a potential UK-GCC FTA[1] to set out industry views on how a UK-GCC FTA could best support sustainable growth. TheCityUK is happy to answer any questions arising from its evidence.

Executive Summary

3. The UK and the GCC enjoy strong trade and investment ties, underpinned by longstanding political, economic and cultural links. The GCC is a priority region for UK FRPS businesses, which have a major presence in many GCC markets and export a range of high-value services to the region; meanwhile, GCC businesses and governments continue to invest significantly in UK businesses and infrastructure. The GCC has strong economic growth prospects and UK businesses are pursuing new commercial opportunities there, for example by helping GCC investors develop Environmental, Social and Governance (ESG) investment mandates and supporting GCC governments in their efforts to manage the evolution of their economies away from having strong natural resources focuses and towards more sustainable services focussed economies. A UK-GCC FTA has the potential to build on these solid foundations and strengthen the UK-GCC bilateral relationship.

4. There will be complexities in negotiating a UK-GCC FTA that addresses services trade issues because there is no single GCC market for services. However, an FTA that eases trade restrictions on UK businesses operating in the GCC, secures digital trade flows, fosters regulatory co-operation, and supports more movement of professional workers, could significantly boost bilateral trade and investment to the benefit of both parties. Moreover, a UK-GCC FTA, complemented by a sophisticated investment attraction strategy and a wider focus on strengthening UK international competitiveness, could attract more investment to support the UK's levelling-up and "Build Back Better" agendas.

An overview of current UK-GCC trade and investment ties and future opportunities

5. The UK-based financial and related professional services industry has a significant presence in the GCC. FRPS is the UK's largest net exporting industry, and a range of UK-headquartered financial institutions have a major base in GCC markets. In September 2021, after consultations with over 60 leading UK-based FRPS businesses about their international

[1] The GCC is a political and economic union whose members include whose members include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

commercial priorities, TheCityUK published an international strategy which identified the GCC as a critical priority growth market for UK-based FRPS businesses in the next five years. Saudi Arabia is considered a Tier 1 priority developing market by our industry, while Kuwait, Qatar, Bahrain and the UAE are classed as Tier 2 priority developing markets.

6. The UK and the GCC have long enjoyed a strong bilateral trading relationship. UK financial services exports to the GCC in 2020 stood at £2bn with a trade surplus of £1.8bn, according to TheCityUK estimates[2]. Meanwhile, there are strong opportunities for future trade as the annual average real GDP growth in the GCC countries over 2022-26 is forecast to range from 2.7% in Kuwait to 3.5% in Qatar, according to IMF data. Business ties between the UK and the GCC have been underpinned by deep historical and cultural ties. English is the language of business in the GCC; there are many UK expatriates working in the region; and UK professionals have played a leading role in spearheading the development of the GCC's financial hubs such as the Dubai International Financial Centre. Meanwhile, GCC financial institutions have long been major actors within the UK's FRPS ecosystem and supported substantial investment into the UK.

7. UK businesses continue to pursue new opportunities in the region, including advising GCC businesses, governments, and Sovereign Wealth Funds on developing sustainability mandates and helping GCC governments diversify their economies away from strong natural resources focuses. UK-based FRPS businesses have been closely involved in Saudi Arabia's recent efforts to liberalise its economy and develop services infrastructure, including through the NEOM City project.

8. The UK and the GCC are natural trading partners: both would benefit from a trade agreement that liberalises trade in goods and services, enables greater bilateral investment flows and enables more regulatory co-operation. To give just one example, if the UK and GCC countries could develop more regulatory coherence around the definition of "sophisticated investors", it would become easier for UK asset management businesses to export complex financial products to GCC customers and clients: at present, even some GCC institutional investors are not always clearly categorised as sophisticated investors. However, it is important to emphasise that an FTA should only be seen as one tool among many to strengthen the UK-GCC trading relationship: if the UK is to take full advantage of future trade opportunities with GCC partners, it needs to also make use of bilateral economic diplomacy initiatives (including bilateral regulatory dialogues) and address wider UK competitiveness and investment attraction issues which are considered in this response.

What are the key elements that should be included within a UK-GCC FTA?

9. From a UK-based FRPS perspective, it is important that any UK-GCC FTA liberalises trade in services as far as possible. The most important areas requiring attention are set out below:

10. **Limit restrictions that GCC countries have placed on UK business' ability to operate in the region:** GCC countries have imposed several restrictions on international businesses seeking to establish in the region. UK businesses operating in the GCC currently face a range of foreign investor equity caps, joint venture requirements, economic needs tests, nationality and residency requirements for business personnel. For example, in Qatar and Kuwait,

[2] The Office for National Statistics (ONS) publishes the relevant data in two categories: Saudi Arabia and Residual Gulf Arabian Countries. The Residual Gulf Arabian Countries include both Yemen and Iraq. Our estimates therefore remove the export and import of financial services from these two non-GCC countries.

foreign commercial presence often needs to be conducted through a local agent. In Kuwait, foreign businesses may not own more than 49% of a locally established business. In Saudi Arabia, laws limit the number of foreign workers who can be employed by businesses and require specific positions within companies to be reserved for Saudi nationals ("Saudisation"). These restrictions, especially the restrictions on hiring business personnel, make it hard to operate a business in the region. UK negotiators should focus on reducing/removing barriers to allow specialist financial and professional services roles to be more easily filled by UK citizens.

11. **Enable greater UK-GCC digital trade:** Digital trade restrictions make it hard for UK-based FRPS firms to service international customers and clients with new technology solutions. These restrictions are fast becoming the most serious form of protectionism facing the industry. Many UK-based FRPS business located in GCC countries find it convenient to store or process data outside of the GCC. However, GCC country regulations on data and data transfer are often unclear. Any UK-GCC FTA should give businesses clarity about their ability to transfer data across borders and incorporate ground rules that enable cross-border trade in services, including:
    - i. Preventing cross-border data flow restrictions, including restrictions on transferring financial data across borders
    - ii. Preventing data localisation requirements which compel business to store data originating in a particular jurisdiction on servers located within that jurisdiction, and ensure that financial services are not excluded from agreements on localisation
    - iii. Recognising the international validity of e-signatures and electronic contracts
    - iv. Protecting confidential information relating to software, source codes and encryption technologies
    - v. Safeguarding rights of client confidentiality and legal professional privilege (LPP)
    - vi. Agreeing not to impose customs duties on electronic transmissions
    - vii. Establishing regulatory dialogue between the UK and GCC member regulators on e-commerce issues such as cyber-security, FinTech, AI and other emerging technologies.

12. **Facilitate deeper UK-GCC financial regulatory cooperation:** The main barriers to trade in high-value services are regulatory: to further grow UK-GCC trade in FRPS, it will be important to strengthen regulatory cooperation between the UK and GCC member regulators. Financial regulation remains a member level competence in the GCC, but the UK should ensure that any FTA with the GCC binds both parties to promote regulatory transparency in financial services. The UK should also work on a bilateral level with GCC partners to:
    - a. Create a framework for financial regulatory cooperation
    - b. Include a commitment to hold financial regulatory dialogues on a regular basis and include industry representatives in these dialogues
    - c. Encourage UK and GCC member regulators to consider aligned approaches to green and sustainable finance based around following international standards and collaborate on key emerging regulatory issues, especially around regulating FinTech, promoting cyber-security, tackling financial crime, and developing AI. The goal should be to prevent regulatory fragmentation.
    - d. Encourage greater acceptance of recognition and deference, provided that UK and GCC regulators are satisfied with each others' high-quality regulatory standards and approaches.

e. Urge GCC countries to become members of the World Trade Organization's Joint Statement Initiative on Services Domestic Regulation.

13. **Secure recognition for UK professional qualifications:** GCC professional standards are regulated at nation state level or professional association level rather than at GCC level. However, a UK-GCC FTA should facilitate national or professional association level decision making on the mutual recognition of professional qualifications (MRPQ) by providing a clear framework for MRPQ discussions and permitting relevant authorities to engage in discussions on requalification systems. UK negotiators should aim to deliver a clear path for the recognition of UK professional qualifications.

14. **Make it easier for UK professionals to work in the GCC by improving the provisions around the movement of professional workers:** The ease of business travel varies widely across the GCC. The UK should use negotiations to seek to extend the length of stay that UK financial and related professional workers are entitled to in all GCC countries.[3]

15. **Secure strong investment protection provisions for UK businesses in the GCC:** UK negotiators should push for investment protection for UK business assets in all GCC members.[4] Investment protection rights should be backed by investor dispute resolution mechanisms which offer adequate, effective and prompt compensation.

16. **Liberalise GCC public procurement markets in services:** The UK should encourage all GCC countries to join the WTO Public Procurement Agreement, and use FTA negotiations to ensure that as many financial and professional services procurement markets as possible are made open to UK businesses (at the moment, some GCC countries have excluded many financial and professional services functions from their public procurement commitments).

17. **Tax**: in several GCC countries, UK businesses are taxed at different rates to local businesses. Although tax issues are not typically addressed within FTAs, UK negotiators should seek to use the opportunities provided by negotiations to seek non-discriminatory tax regimes and encourage the GCC states to participate in and implement international tax rules that align with global norms as set out by the OECD.

How could a UK-GCC FTA strengthen the broader UK-GCC relationship, and support wider UK policy objectives around levelling-up, build back better and sustainability?

18. An ambitious FTA that changes the ground rules on UK-GCC services trade would improve the prospects of attracting more GCC investment into the UK regions and nations, and better equip UK financial and professional services businesses to help GCC partners manage the green transition. However, it is important to note that an FTA is unlikely to achieve these goals by itself. The UK needs to see the FTA as one important component of a wider economic and regulatory diplomacy strategy. The following points explain how the UK can build on the FTA to achieve wider sustainable growth objectives.

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[3] More detail around how the UK might use FTAs to support high skilled labour mobility can be found in Global Talent Mobility: Ensuring UK competitiveness (September 2021, TheCityUK, the City of London Corporation, and EY), available at: https://www.thecityuk.com/research/global-talent-mobility-ensuring-uk-competitiveness-one-year-on-our-scorecard/

[4] The UK already has a Bilateral Investment Treaty (BIT) in place with the UAE (since 1992), Bahrain (since 1991) and Oman (since 1995). However, at present there is no BIT in force with Saudi Arabia, Kuwait or Qatar (in the later two cases, a BIT has been signed but is not in force).

19. GCC businesses and governments have long invested in businesses across the UK's regions and nations. An FTA that strengthens bilateral trade flows could support additional GCC investment to support the UK's levelling-up and build back better initiatives. However, for the FTA to achieve this purpose, it must be supported by a sophisticated investment attraction effort that includes the following:
    a. The UK should continue to implement policies that promote its international competitiveness, such as implementing the FCA's decision to allow dual class share listings on the premium segment of the London Stock Exchange (to attract more international technology listings), reducing the disproportionate levels of tax on the UK financial services industry (to attract more FDI), implementing the new investment screening regime set out in the National Security and Investment Act in an investor friendly way, and making it easier for UK businesses to attract and employ high-skilled international talent.
    b. Sovereign investors in the GCC (including Saudi Arabia) are eagerly seeking new technology investment opportunities. The UK needs to develop tailored investment attraction narratives that articulate UK USPs in innovative areas of financial and professional services (and other industries).
    c. UK investment promotion officials in the UK's network of Embassies and High Commissions in the GCC need a clear value proposition to take to investors. Given the complexities of international investment flows, it may be helpful to provide investment promotion officials with additional training on global capital markets and financial and professional services industry dynamics to support these economic diplomacy efforts. Industry could support such training.
    d. The UK should bring together investment attraction expertise held across various parts of HMG and local government. The Invest in Britain Bureau played a critical role in supporting foreign investment to UK regions and nations in the 1980s and 1990s because it could draw on close links to local authorities.
    e. Many GCC investors, including sovereign investors, are "patient investors", who operate with a mandate to make long term investments such as infrastructure investments. Given the importance of infrastructure investment to the "Build Back Better" strategy, the government should devote particular effort to understanding GCC patient investors and introducing them to relevant projects.

20. UK FRPS businesses are already playing a major role in helping GCC businesses green their supply chains and helping GCC investors develop new green and Environmental, Social and Governance (ESG) mandates. The UK FRPS industry has developed a leading major green and sustainable finance offering and is seeking to export this sustainability expertise to help global governments and businesses manage the green transition. A UK-GCC FTA could help boost the provision of UK green finance and sustainable finance expertise to the GCC by addressing a significant trade barrier limiting green exports: the proliferation of different regulatory standards governing green finance disclosure standards and green taxonomies.

21. A UK-GCC FTA should include provisions on regulatory co-operation that encourage UK and GCC regulators to develop aligned approaches to green and sustainable finance (for example, through recognising one another's ESG standards and identifying common language on taxonomies). Any UK-GCC FTA should include commitments from both sides to co-operate on emerging environmental challenges and the development of green finance solutions. As financial regulation is ultimately a nation state competence in the GCC, the UK

will need to follow up FTA negotiations in this area by engaging with national level regulators in the GCC on green taxonomies and disclosure standards, and continue to work with Saudi Arabian authorities through the G20 to develop international standards in this area.

How should the UK adjust its negotiating approach to account for the political divergences between constituent states of the GCC?

22. Although the GCC provides a common market and customs union, it does not provide an integrated services market. GCC countries do not have consistent tax regimes, regulatory standards or professional qualification systems. GCC countries are all members of the World Trade Organization (WTO) in an individual capacity: GCC members have made varied commitments to liberalise their services markets in the WTO General Agreement on Trade in Services (GATS) and in subsequent GCC FTAs (for example, with Singapore).

23. The lack of a uniform GCC position on services liberalisation will complicate trade negotiations and the UK will need to adjust its negotiating strategy accordingly. In many areas relating to services trade, and especially on regulatory co-operation, the UK may need to seek liberalisation gains by dealing with GCC members on an individual basis, effectively negotiating with each country separately during FTA negotiations. It may be that some of the policy positions mentioned above might be more easily taken forward in other contexts than UK-GCC FTA negotiations. In that case, the UK should seek to advance them via bilateral negotiations. When considering which GCC countries to prioritise when engaging in bilateral negotiations, it will be important for UK negotiators to remember that for the UK-based financial and related professional services industry, Saudi Arabia is a Tier 1 priority market while Kuwait, Qatar, Bahrain and the UAE are Tier 2 priority markets.

Conclusion

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

TheCityUK
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