House of Commons

Trade and Industry Committee

Trade with South–East Asia: Government Response to the Committee's Sixth Report of Session 2004–05

Eighth Special Report of Session 2005–06

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The Trade and Industry Committee

The Trade and Industry Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department of Trade and Industry.

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The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at http://www.parliament.uk/parliamentary_committees/trade_and_industry.cfm.

Committee staff

The current staff of the Committee are Elizabeth Flood (Clerk), David Bates (Second Clerk), Grahame Allen (Inquiry Manager), Clare Genis (Committee Assistant) and Joanne Larcombe (Secretary).

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Sixth Special Report

The previous Committee published its Sixth Report[1] of Session 2004-05 on 4 April 2005. The Government's response to this Report was received in August 2005 and is published as an Appendix to this Special Report.

Government Response

The Government welcomes the Committee's report and has the following comments on the Committee's conclusions and recommendations:[2]

Support to businesses from UK Trade and Investment (UKTI)

1. We fear that the reorganisation of UKTI may lead to business opportunities in certain (temporarily less fashionable) countries being overlooked, and the loss by dispersal of country expertise. Some of our witnesses shared these concerns. It is still too early to judge whether our fears will be borne out by events, nor do we wish to recommend another reorganisation: UKTI has had too many 'makeovers' in recent years. We recommend our successors to examine the structure and effectiveness of UKTI in the course of the next Parliament. In the meantime, at the very least, to avoid further confusion among businesses, there should be no further changes to the name of UKTI. (Paragraph 33)

UK Trade and Investment has no plans for further name changes. As the Committee is aware, there was a pressing need to introduce a unifying identity that brought together the two elements of the organisation's activity on trade and inward investment. This reflected the increasing convergence of the trade and inward investment agendas. It also avoided confusion for our customers in the market place. The new UKTI identity has been widely acclaimed by trade and investment colleagues in the UK and overseas as being effective and coherent.

2. We have already expressed concerns that devolution of responsibilities for trade promotion to the regions might lead to a duplication of effort and the ridiculous situation of different regions competing with each other. We note that the Department of Trade and Industry is aware of this danger, and the Permanent Secretary is of the view that UKTI's co-ordination of efforts will reduce these risks. We would recommend our successors to keep this area under review. (Paragraph 34)

UKTI works closely with the Regional Development Agencies (RDAs) to ensure that international trade and investment contribute to a sustainable improvement in the economic performance of the English regions.

1 Sixth Report from the Trade and Industry Committee, Session 2004-05, *Trade with South-East Asia*, HC 368

2 The paragraphs in bold are quotations from the Committee's Sixth Report

In support of international trade, UKTI's regionally-based network operates as the RDAs' international trade arm. This allows us to join up regional priorities and business needs with UKTI's national strategic priorities, and with the unique resource of FCO's worldwide network of Embassies, Consulates and High Commissions. In each region, UKTI has an International Trade Director co-located with the RDA, to manage UKTI's international trade funding and activity. He or she also has a wider strategic role in the region, and works closely with the RDA and business representatives in developing a regional international trade strategy, linked closely to the Regional Economic Strategy.

UKTI's close partnership with the RDAs on international trade, at both regional and national level, has been strengthened by developing, last year, a national Dual Key Framework for joint working. This includes the joint agreement by each RDA and UKTI of regional delivery plans for international trade, and other means to ensure that regional priorities are fed into national policy and service development. This means that we can respond to the needs of businesses regionally and ensure that resources which both UKTI and many RDAs are putting into international trade are used to best advantage.

3. We were surprised at the low level of awareness of UKTI services among their target customers. It is possible that UKTI's regional offices will spread knowledge of the services available, particularly if they work closely with local Chambers of Commerce and trade associations. However, businesses also have a responsibility of their own. There is nothing that can be done to help businesspeople who, as we heard, do not even try to find out from the internet whether the UK Government provides any assistance to exporters. (Paragraph 41)

UKTI welcomes the Committee's observations and agrees that businesses must share responsibility to find out what assistance may be available from Government. Subject to that, UKTI is working hard with key bodies throughout the UK i.e. Chambers of Commerce, Trade Associations etc to develop awareness of assistance the UK government has to offer target customers. UKTI conducts an annual tracking research survey to establish the levels of awareness and understanding of UKTI amongst our target trade audiences. The results of this year's survey will be available towards the end of July. On receipt of the results of the survey we will forward them to the Committee.

Support in-country

4. The service given by the posts in Malaysia, Singapore and Thailand—especially the commercial sections, but also more generally—are highly prized by the British business community, and, in our view, rightly so. We congratulate them on what they are achieving with fairly modest resources. (Paragraph 42)

The Government welcomes the Committee's positive comments on the service given by posts in Malaysia, Singapore and Thailand. We are determined to continue to provide the best possible value to our British and local customers with the resources available.

Problems in trading with Malaysia, Singapore and Thailand

5. Although counterfeiting in the three countries we studied is clearly not so great a problem as it is in China, in some sectors (for example, the music and film industries)

there is considerable piracy, especially in Thailand. British companies need to make protection of IPR an important element of their business, both in terms of preventative action, like constant development of products and close relationships with suppliers, and in ensuring that they have access to good legal advice if IPR is infringed. (Paragraph 24)

The Government agrees that British companies operating in these countries should be proactive in protecting their IPR.

6. Although companies have to be aware of logistical considerations in these three countries, it seems to us that these are minor compared with those faced by companies trading with mainland China. (Paragraph 26)

Logistics is an important area for companies to think about in these countries. We agree with the Committee's conclusion.

7. Neither of the Business Councils in Malaysia and Singapore plays as active a role as the China-Britain Business Council does in mainland China; but in neither country is it as difficult for foreign companies to operate as it is in China. We asked British businesses in Malaysia whether they wished that they had a more active Council and in Thailand whether they regretted the lack of one. In both countries, businesses were satisfied with the status quo. We consider that UKTI's approach of varying the degree of effort according to the wishes of British business and the general economic and political environment to be the right one, provided that, if British activity in Malaysia and Thailand intensifies, UKTI reviews the situation. (Paragraph 44)

We agree with the Committee's comments and UKTI will continue to monitor activity levels reviewing support as needed. The CBBC, in addition to serving its corporate membership, provides UKTI specified services in mainland China particularly in places where there is no UK consulate. The business councils in Singapore and Malaysia are advisory in their nature and serve as fora for businesses with a common interest with UKTI serving as a secretariat.

8. We are disappointed with the negligible take-up of the British Chambers of Commerce Thailand's initiative in establishing a free mentoring scheme to match UK exporters new to Thailand to Thai member companies of the Chamber. We have no criticism to make of UKTI's advertising of the scheme, which it did via UK Business Links and its regional offices. We are baffled as to why businesses fail to take the assistance that is offered. (Paragraph 45)

UKTI is also surprised and disappointed by the low uptake for this scheme. Markets such as Thailand can be very relevant to SMEs provided that they are ready for them. When considering similar schemes in future, clearly we will need to consider whether more can be done to highlight to companies the potential relevance of such markets to their business and the value in accessing them of support from Posts.

Promising sectors: oil industry

9. This is a sector where British expertise is recognised worldwide. Our perception is that Malaysia offers considerable opportunities for SMEs in the oil industry. The

companies already established there are proof that it is possible to penetrate through the bureaucracy and, once operations have been set up, they appear to be profitable and run without too many problems. UKTI has chosen this—rightly—as a priority sector for the promotion of British trade with Malaysia. It is now for the industry to take up the challenge. (Paragraph 49)

The Committee is quite right to point out that it is for the UK oil and gas industry to take up the challenge of securing business in a difficult, but lucrative market such as Malaysia. For as long as the industry sees Malaysia as a difficult market and a market where UKTI can make a difference, UKTI will support it in its efforts. At the recent Oil and Gas Asia Exhibition in Malaysia, UKTI supported 31 UK oil and gas companies to exhibit.

In ascertaining priority markets, the oil and gas sector is advised by an Oil and Gas Advisory Board, which consists of senior representatives from both government and industry. Any changes in advice from the Advisory Board are carefully considered and reflected in the priority status of a market.

Promising sectors: education

10. It is clear that there are considerable opportunities for all types of UK educational institution in South East Asia, whether for provision in-country or for recruiting more students to UK-based courses. Greater coordination appears desirable, and it would be a shame if the benefits of the Prime Minister's Initiative (PMI) were now wasted because of a lack of funding for an integrated marketing and strategic campaign to promote UK education. (Paragraph 62)

UKTI agrees with the Select Committee that there are considerable opportunities for UK education in Asia. Many SE Asia countries—for example, China, Thailand, Malaysia and Singapore—are priority markets for UKTI (and many of its key stakeholders). We will continue to highlight opportunities in these markets, and help UK businesses and academic bodies take advantage of them.

PMI was a substantial success. We are committed to maintaining a policy of active engagement with public and private stakeholders, including the British Council and the Department for Education and Skills, to promulgate a coordinated and cohesive approach to education export activity.

Trade agreements

11. Currently a Free Trade Agreement (FTA) between the EU and ASEAN would be impractical, a severe distraction from other trade negotiations, and would provide little help to UK exporters.

12. At present, the economic gains from FTAs with the individual members of ASEAN appear likely to be small. Even the most enthusiastic advocate of FTAs, Singapore, acknowledges that their importance is largely political rather than economic. Moreover, the WTO negotiations are now, rather creakily, making progress again, and there is a consensus that efforts should be focussed on these. However, it is not yet clear whether the bilateral agreements already made between South East Asian countries and

the USA, Australia and Japan may have some deleterious effect on the access of UK companies to the South East Asian markets; so we recommend that the Government keep a watch on the situation and, if it appears that the UK is losing business as a result of FTAs, that it urge the EU to lift its moratorium on further trade negotiations. The UK has historically been a significant trading partner in the region, and we detected a considerable amount of goodwill towards the UK and willingness to continue that relationship. We should not lose this advantage by default. (Paragraph 67)

The UK remains strongly committed to multilateral trade liberalisation through the WTO. Successful conclusion of the DDA[3] remains our primary objective, and we will look to use our Presidency of the EU and G8 to add momentum to negotiations.

Europe is already committed to a challenging programme of trade negotiations agreed prior to the launch of the Doha Development Agenda. We believe this programme should remain, and that in order not to undermine progress in the DDA, we should avoid shifting the balance significantly towards additional bilateral negotiations.

The UK Government recognises that bilateral and regional trade agreements are an important feature in the world trading system, and have become important tools for WTO members in pursuit of their economic and developmental objectives. While nondiscriminatory regional trade polices can complement unilateral and multilateral trade liberalisation, the World Bank research of November 2004 adds to the economic evidence base that multilateral liberalisation will bring significantly greater benefit to the global economy than a patchwork of bilateral agreements.

The EU is already exploring alternative routes to strengthen our economic relations with key countries and regions around the world including ASEAN, by targeting the main obstacles to bilateral trade which are all on the non-tariff side. In support of this, the Trans Regional Euro Asia Trade Initiative (TREATI) has been in place for some time, providing a framework for economic cooperation on a region-to-region basis involving dialogue and activities in key sectors. It was designed to complement ASEAN's own efforts towards regional integration, and provide the framework for a possible EU-ASEAN FTA following the conclusion of the DDA. More recently during Commissioner Mandelson's meeting with the ASEAN Economic Ministers in Vietnam 26-27 April, agreement was reached for the creation of a political level 'vision group' to jointly study the feasibility of a EU-ASEAN FTA following conclusion of the DDA.

We recognise that there is growing concern among some UK-EU business that they are becoming disadvantaged by the proliferation of preferential agreements being negotiated by ASEAN countries. We would be open to evaluate possible future agreements on a case-by-case basis, based on a rigorous test to measure mutual economic benefit. The Commission closely monitors other countries' trade initiatives including the US, ASEAN and China and their potential effects on EU interests. The Trade and Industry Select Committee has recommended that the UK Government keep watch on developments. This is something that is already done, for which we will continue to work closely with the Commission to share our findings.

3 Doha Development Agenda