

Global horizons

Realising the services export potential of UK nations and regions







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About the Institute of Export & International Trade (IOE&IT):

IOE&IT is the professional membership body representing and supporting the interests of everyone involved in importing, exporting and international trade. The IOE&IT's mission is to empower organisations and equip individuals with the expertise to trade effectively, sustainably and competitively.

IOE&IT is the leading authority in best practice and competence for businesses trading globally. It offers a world-renowned suite of qualifications and training. As a partner to UK government, IOE&IT delivers national and international programmes, acting as evangelists for the UK and establishing UK processes and standards globally.

IOE&IT co-partners in running the online Customs Academy, the world's first training platform dedicated to customs skills. It is also part of the consortium that delivers the Trader Support Service for goods moving between Great Britain and Northern Ireland. IOE&IT leads a consortium piloting the UK government's Ecosystem of Trust programme, and is a member of several industry committees, including the Border Vision Advisory Group.

Headquartered in Peterborough, UK, IOE&IT has offices in London, Brussels, Northern Ireland, Kenya, Hong Kong and Geneva.



About Flint Global:

Flint advises business on policy, politics, regulation and competition economics in European and global markets. We help our clients succeed in an increasingly complex world by providing advice at the point where government and business meet, with an authoritative perspective on both.

Members of Flint's expert multi-national team have worked at very senior levels in the British and other European governments, the EU Commission, regulatory agencies, competition bodies and the private sector. Our clients come from many countries and operate in many sectors, including digital, tech, telecoms, media, financial services, life sciences, manufacturing, retail, transport and energy.

Foreword

From ‘equal opportunity’ and ‘Global Britain’ to ‘levelling up’, governments of all political stripes have tried to address regional export disparities in the UK, demonstrating a longstanding recognition of the untapped economic potential across the country.



Geopolitical shifts, including Russia’s invasion of Ukraine, the US and China decoupling, changes to global supply chains and advances in technologies have risen up the UK government’s list of priorities. Events such as the Covid-19 pandemic, the UK’s formal exit from the EU and a challenging economic and fiscal backdrop, occupy much of policymakers’ bandwidth.

In light of the urgency created by these geopolitical and technological changes, the Institute of Export & International Trade (IOE&IT) is taking a considered, systematic look at the opportunities for increasing prosperity across all parts of the UK.

The UK is a brilliant, world-renowned exporter of services, from legal to logistics and construction to the creative industries. While services trade is notoriously tricky to capture in official data, successive analyses have pointed to London and South East England together constituting the largest proportion of services exports in the UK, by a wide margin. This disparity suggests there is scope for improvement in other parts of the

country, with the resultant impact on community development, social cohesion and economic growth.

This paper presents a methodology for assessing the *services exports potential* – or SEP – of nations and regions throughout the UK. We don’t intend this to be exhaustive in the first instance. Our hope is to spark a conversation about services trade.

IOE&IT believes passionately that there exists tremendous untapped potential across the UK’s nations and regions. We know the government can’t address this challenge alone and I’m delighted to announce that IOE&IT has established a UK Nations & Regions team as testament to our commitment to supporting growth and investment in all parts of the UK.

It is clearly in the public interest for us to support national and international initiatives and bring together input and feedback from members and the wider business community, across the devolved nations and regions, further championing MSMEs throughout the length and breadth of the country.

**Marco Forgione, director general,
Institute of Export & International Trade**

Executive summary

Technological advances and a growing global middle class mean that services will account for 28% of global trade flows by 2035, up from 25% pre-pandemic.¹ In the UK, services contribute significantly to prosperity, accounting for around 50% of total exports.

Despite the UK's comparatively liberal approach to trade in services, the benefits of services exports are heavily concentrated in London and South East England. In 2021, these areas accounted for around 60% of all UK services exports.

There are several, often structural, factors that can contribute to a country's success (or lack of it) as a services exporter. These include the regulatory environment, geography, immigration and mobility regime, language, trade relationships, skills, education, and appeal to tourists.

Policymakers struggle to articulate and deliver policies that boost services exports. Internationally, barriers to trade in services are often complex, a function of competing regulatory challenges and priorities, and require deep levels of trust to address. This means that politicians and regulators often err on the side of caution.

This paper aims to evaluate, assess and rank services exports potential (SEP) in UK nations and regions and create a new framework to help policymakers identify measures to remove barriers at the regional level. The four criteria – economic complexity, connectivity, education and skills, and higher education research and development (R&D) – are factors considered indicative of a region's propensity and capacity for services exports. Having policymakers identify, address and remove regional impediments to services exports will help companies across the country harness the benefits of international services trade.

There are several key observations from this paper:

- **In England 24 of 33 regions (73%) have actual service exports (ASE) rankings in line with SEP.** This suggests, on a relative basis, that most English regions are performing in line with their potential. However, the gap in SEP and therefore ASE, between London and all other regions is vast. This means that in order for regions across the country to increase their export performance, they must first take steps to increase their potential.
- **There are nine English regions with significant differences between their SEP and ASE.** Five of these are overperformers and four are underperformers. The notable overperformer is Shropshire and Staffordshire, while the clearest underperformer, relative to potential, is East Riding and North Lincolnshire.
- **Due to data limitations, it was not possible to incorporate Northern Ireland, or regions within Wales and Scotland, into the full exercise.** Considering these limitations, Welsh and Scottish regional services exports appear to be broadly in line with potential.
- **Policymakers should form a regional trade in services taskforce in order to encourage, enable and realise SEP across the country.** The taskforce should be charged with improving regional data quality, refining the SEP framework to increase the model's predictive accuracy and delving deeper into the causality of the relationship between observed criteria and services exports.

¹ [Department for Business & Trade, 2023](#)

Additionally, UK policymakers should:

- **Ensure policy stability.** A stable and competitive business environment is essential for the attractiveness of the UK as a global services hub.
- **Deepen trade relationships.** Striking agreements with international partners, in areas such as mobility and data, will help to remove regulatory friction and reduce costs. The UK should also seek to expand mutual recognition of professional qualifications, taking inspiration from the mutual recognition agreement with Switzerland.
- **Ease immigration and mobility rules.** The UK needs to ensure that, in the short-to-medium term, it remains attractive to international talent. Policy levers to achieve this include temporary mobility arrangements with international partners such as the EU.

And at a regional level:

- **Encourage economic complexity and sector specialisation.** Diversifying regional economies and creating clusters around a few key sectors could increase economic complexity and boost regional performance.
- **Improve connectivity.** Given services trade relies a great deal on people-to-people interaction, sustained and substantial investment in connectivity – including physical and digital infrastructure, such as broadband – would provide solid foundations for businesses to export services.
- **Increase levels of education and training.** The government should work with private and third sector organisations to establish regional centres of excellence, aimed at boosting services export performance via the upskilling of local individuals and businesses. This could be complemented by greater regional and MSME involvement in UK trade missions, to help firms make new connections, and meet new partners, customers and sellers.
- **Boost higher education R&D expenditure.** The UK's investment zones strategy should prioritise regions that are currently lagging behind others in R&D expenditure. Programmes such as Pioneer and Horizon Europe should also be fully implemented.
- **Draw international comparisons.** The UK government should consider potential lessons learned from other countries.

Introduction

Technological advances and a growing global middle class mean that services will account for 28% of global trade flows by 2030.² In the UK, services already account for around 50% of total exports.³ The country's competitive advantage in services is attributable to several factors, such as a historically business-friendly regulatory environment, its high-skilled population, its favourable connectivity infrastructure (including both broadband and transport links) and its convenient geographical location.

These are all factors that could also foster the scaling up of services exports across the UK. Advances in technology, the proliferation of trade agreements that address barriers to services trade, and global investment in physical and digital infrastructure all contribute to the rapid (and future) growth in services on a global scale.

However, despite the growing prevalence of services trade and the UK's global prowess, policymakers struggle to articulate and deliver a policy and trade agenda that would result in tangible improvements for UK services exporters.

This challenge is not unique to the UK. Barriers to trade in services are often complex, a function of competing regulatory challenges and priorities, and require deep levels of trust to address. Unlike goods, which can be monitored, tracked and checked as they enter a country, services can be imported and exported over the phone or internet. This effectively means they can be traded in a way that is invisible to a country's relevant enforcement and regulatory officials.

This limited visibility – as well as a lack of understanding and trust in the regulatory and enforcement regimes of other jurisdictions – means that politicians and regulators often err on the side of caution, particularly in respect of regulated services that pose either systemic or consumer risk. This caution can result in, for example, requirements for financial services providers to operate out of a locally established office or restrictions on the international transfer and processing of personal data.

Even a country such as the UK – which has a comparatively liberal approach to trade in services and benefits as a result – struggles to ensure that companies across the entire country benefit from opportunities to sell services globally.

While the UK is the second largest services exporter in the world, the benefits are highly concentrated in London and South East England. In 2021, the two regions accounted for around 60% of all UK services exports.

This large regional discrepancy suggests that, despite the UK's globally dominant role in services exports, there are some uniquely regional impediments to exporting services internationally. If identified and addressed, removing these blockages could improve UK-wide performance further and ensure that the benefits of global services markets are felt across the country.

This paper aims to assess the relative *services exports potential* of the different UK regions, and create a new indicative framework to help identify measures policymakers could take to remove barriers at the regional level.

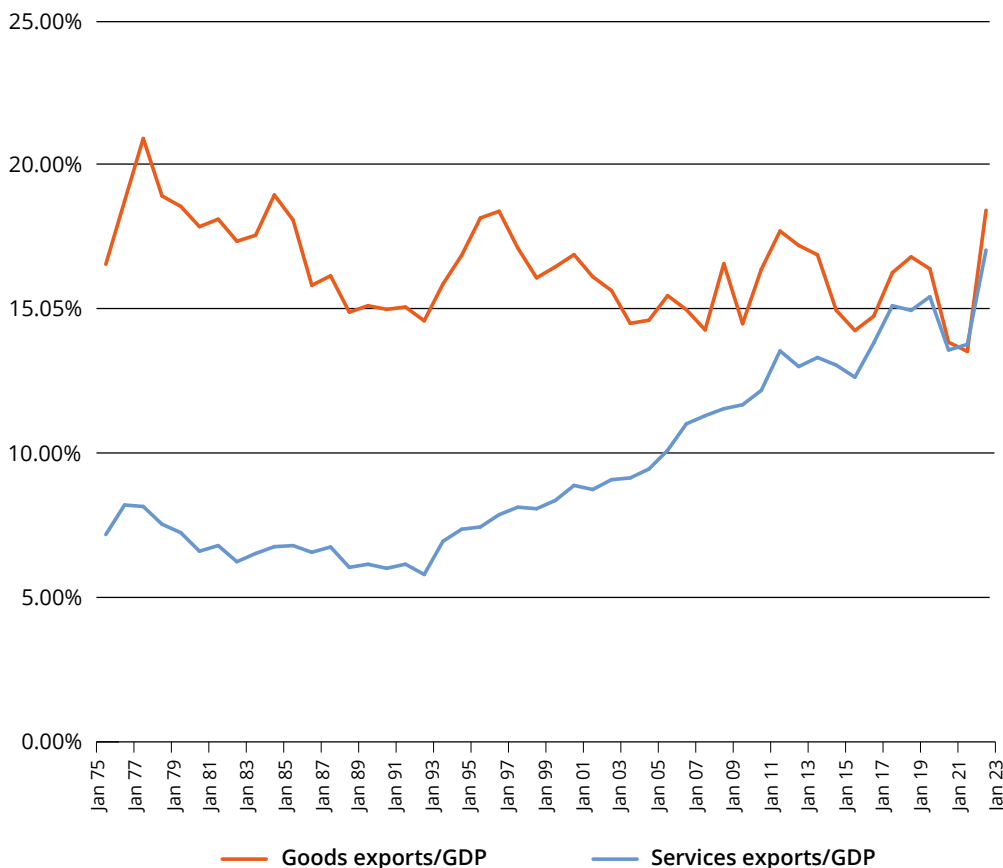
² [Department for Business & Trade, 2023](#)

³ [ONS Pink Book, 2021](#)

Trade in services across the UK

UK services exports have grown steadily as a share of GDP for the past 30 years, including after Brexit. This contrasts with levels of goods exports, which have remained relatively flat over the same period.

Figure 1: UK goods and services exports as a share of GDP⁴



There are several reasons for the growth in services trade, both in the UK and at a global level. Chief among these has been the rapid advancements made in ICT, such as video conferencing. Whereas before, selling services such as bookkeeping or graphic design over long distances would require travel and sending physical documents and designs via post, now companies regularly utilise digital technologies to make the most of cost-efficient offshore options.

The World Bank estimates that digitally delivered services were worth \$3.82trn in 2022 and accounted for 54% of total global services exports that year. Since 2005, the year developing countries began to export services at volume, digitally delivered services exports have increased by 375%.⁵ But some countries have benefitted more than others. The relative strengths and weaknesses in services exports can be due to several factors, examined below in the UK context.

⁴ [Office for National Statistics, 2023](#)

⁵ [WTO and World Bank, 2017](#)

Regulatory environment

Although trade in services generates economic prosperity, barriers are on the rise. Governments and regulators are increasingly moving to restrict market access in areas that impact services trade, such as the ability to transfer data internationally, ostensibly for national security or privacy reasons. These restrictions can stem from legitimate concerns, but are often applied in a way that discriminates against foreign providers. Other kinds of regulations that impact services trade include mobility restrictions and national qualification requirements that do not recognise third-country qualifications.

Services firms benefit from consistency in the application of relevant regulations. A stable and predictable regulatory and political environment provides greater commercial certainty and is more conducive to foreign direct investment (FDI). This is particularly important for UK services performance, given that foreign-owned companies are responsible for over half of the UK's total service exports (56%), particularly to the EU.⁶

The instability and uncertainty that UK companies faced immediately following the Brexit vote had a materially detrimental impact on services investment in the UK. With the exception of digital technology, the UK's share of European FDI in business and financial services noticeably fell between 2016 and 2019.⁷ In total, Bank of England policymakers estimate that Brexit has led to the UK missing out on £29bn in business investment.⁸

The UK is a relatively open market for trade in services at a global level, which has a direct impact on the country's economic outlook. The services sector accounts for over 80% of economic output and makes up over 80% of the UK's workforce.⁹ According to the OECD's Services Trade Restrictiveness Index, the UK's regulatory environment for services is less strict than most other OECD countries (aside from those metrics related to the movement of people).¹⁰

However, the UK's changing data regime, for example, still poses a level of uncertainty for firms. Post-Brexit, the UK sought to create its own separate data protection system, but the relevant legislation has faced delays and amendments due to a change in government in 2022 and is yet to enter into force. The UK's ability to receive data from the EU is also not guaranteed, as both the cross-border data provisions under the UK-EU Trade and Cooperation Agreement (TCA) and the EU's data adequacy agreement with the UK are up for review in 2024 and 2025 respectively. This uncertainty means firms are hesitant to make long-term commercial decisions that rely on the free flow of data between the UK and the EU.

⁶ [Borchert & Magntorn, 2020](#)

⁷ [Lowe, 2021](#)

⁸ [Romei, 2023](#)

⁹ [Hutton, 2022](#)

¹⁰ [OECD, 2022](#)

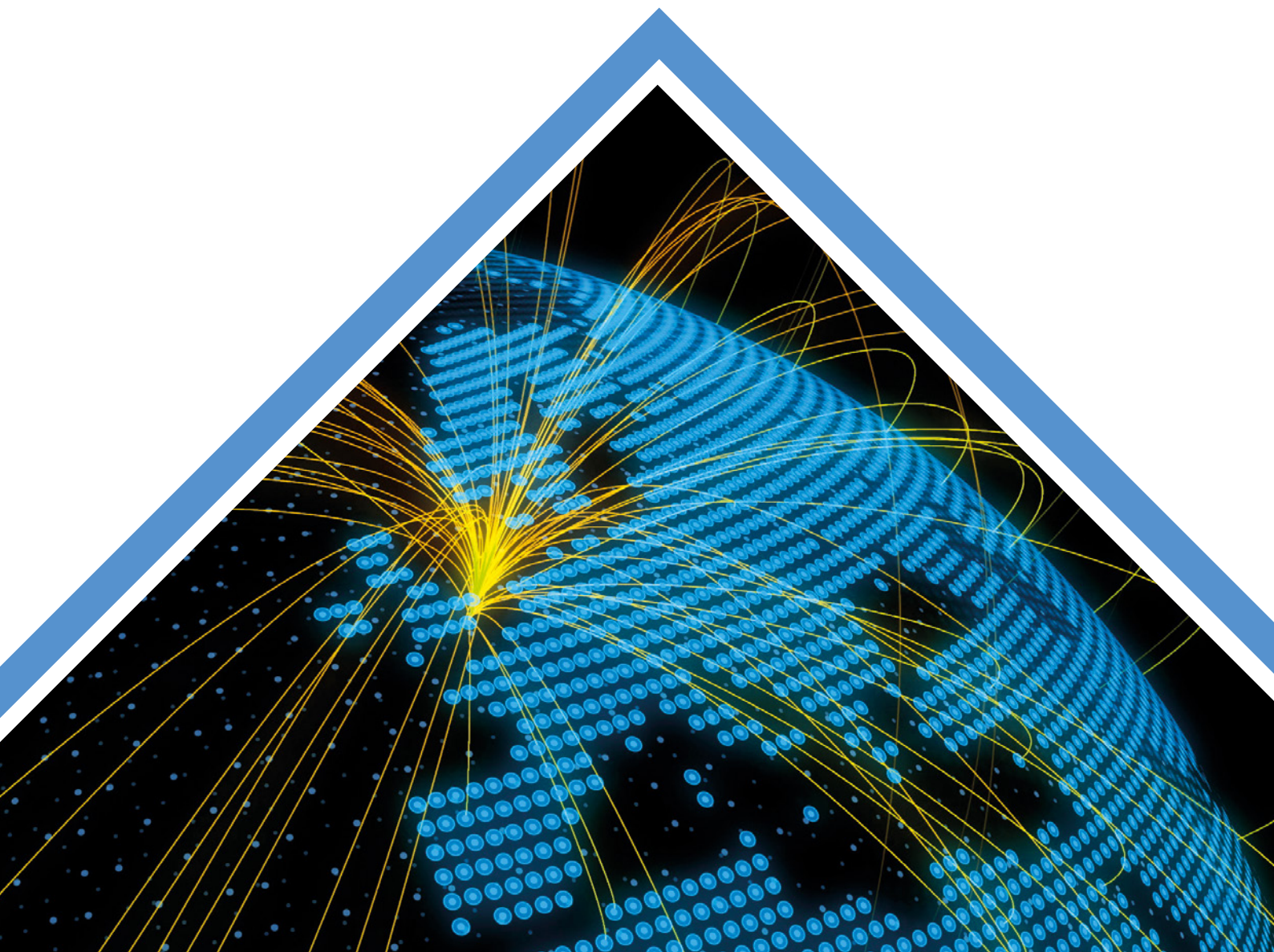
Geography

Compared to goods trade, the ability to trade services is less affected by geographic distance due to advances in ICT and the nature of how services are exported. Nonetheless, where a country is situated can still play a significant role in shaping the nature of its services exports. This is because much of services trade relies on face-to-face interactions (virtually or in-person) – whether that be a meeting with a customer, presenting a seminar or the ability to network.

Distance, including the time and cost spent on travelling between cities or to airports, still has a consequential impact on services trade. The pandemic and global lockdowns have accelerated the transition to new, digital working methods, lessening the impact on a firm's ability to provide services; nevertheless a 2019 study by PwC found that doubling the distance between the UK and a trading partner would decrease trade in services by 41%.¹¹

The UK benefits from its unique geographical positioning. Its time zone means that businesses can, in the space of a single working day, communicate with customers and partners in commercial capitals in Europe, throughout North America and in growing markets in Africa and Asia.

¹¹ [Armstrong, et al, 2019](#)



Immigration and mobility regime

Market access for services can be limited when there are restrictions on the ability for people to move across borders. Countries often apply visa entry restrictions and stay limits for intra-corporate transferees, contractual suppliers and independent service providers. An international labour force is both pivotal and, in some cases, a necessary condition, for facilitating international services trade. This is particularly true as transactions are often reliant on the skills, ingenuity and experience of staff. According to the OECD, “Trade in services depends on the movement of professionals... Mobility of natural persons across international borders is crucial, particularly for trade in business services”.¹²

The UK has eased mobility in recent trade agreements. This is reflected in the extension to the Youth Mobility Schemes with New Zealand and Australia¹³ and the Services Mobility Agreement with Switzerland, which allows Swiss professionals to come to the UK and provide services for up to 12 months in certain sectors such as consultancy, financial and legal.¹⁴ These agreements encourage services trade, as they promote the exchange of skills and expertise between the countries involved.

The UK is also successful in attracting international students to study in the country due to the global reputation of its most prominent universities, which is second only to the US. In 2021, the UK exported £16bn in education services – more than legal services (£128m), accounting, auditing and tax consulting (£3bn), and advertising and market research (£11.4bn).¹⁵

However, restrictions on mobility following its departure from the EU and the end of freedom of movement have put downward pressure on mobility from Europe. EU citizens now face the same immigration rules as non-EU citizens. As a result, the UK has seen a decline in EU students post-Brexit. For example, first-year EU domiciled enrolments dropped by 53% from 2020/21 to 2021/22, in line with the end of the Brexit transition period.¹⁶ Analysts attribute this to newly imposed student visa requirements and higher tuition rates.

For workers, the UK government has introduced a new points-based system, with rules on sponsorship and salaries retained. Only countries that have reached agreements with the UK on mobility have priority. Services sectors that rely on lower-paid migrants – such as the construction, hospitality and transport industries – have seen labour shortages since the end of the post-Brexit transition period. Other services sectors – such as finance, insurance and administration – have also seen a net loss of workers under the UK’s new immigration rules.¹⁷

¹² [OECD, 2020](#)

¹³ [Department for Business and Trade, 2023](#)

¹⁴ [Department for Business and Trade, 2023](#)

¹⁵ [Office for National Statistics, 2022](#)

¹⁶ [HESA, 2023](#)

¹⁷ [Portes & Springford, 2023](#)

Language

Services trade depends on the ability of individuals to communicate. A common language can help to reduce barriers to delivering a service, whether that be in conversation or being able to fill in forms and documentation correctly. Although not specific to trade in services, a 2023 study found that a common (official or spoken) language increases trade flows by 44%.¹⁸

English remains the primary corporate language of choice for international business, even for firms that are not based in an English-speaking country. English also tends to be the language of choice spoken between people of different countries.¹⁹ This widespread use of the language highlights its importance in global communication, giving English-speaking markets, such as the US and UK, a competitive advantage in services trade. As the largest country in Europe that speaks English, the UK is often chosen as a base for international service companies to access the wider European market.

But the benefits English provides to markets like the UK could erode over time due to a combination of factors, such as improvements in education globally, the growing importance and influence of other languages such as Mandarin (the second most spoken language in the world) and the impact of technological advances in the ability to translate languages more easily. Further, proficiency in English varies across countries and companies that want to export services and succeed in markets where English is not widely spoken will have to adapt in order to remain competitive. A more liberal visa regime in the UK would allow firms to recruit foreign workers with the requisite language skills to enter and grow in international markets where language is a barrier.

¹⁸ [Egger & Lassmann, 2011](#)

¹⁹ [Borzykowsky, 2017](#)



Trade relationships

Free trade agreements (FTAs) often attempt to address barriers to trade in services, although typically exceptions remain, allowing governments to impose restrictions as they see fit. Most FTAs do not materially liberalise services market access. However, they can lock in pre-existing commitments to provide assurances to companies that market access will not be withdrawn and allow for a level of certainty to inform commercial decisions. FTAs also provide other benefits for services exporters, such as greater opportunities for foreign investment and more flexibility for people to move between markets to deliver services.

The UK is using its independent trading agenda to try and address market access barriers for services trade. Post-Brexit FTAs with Australia, Japan and New Zealand include commitments to facilitate cross-border services trade. Although these markets are relatively open and the agreements do little to change market access for UK service exporters, these types of commitments, if replicated in other agreements, would create significant benefits in more restrictive markets that the UK is pursuing FTAs with, such as India.

Agreements with equally ambitious partners can also improve market access for services exports in a material way, as reflected in the UK's recent agreement with Iceland, Liechtenstein and Norway. This treaty contains commitments for the mutual recognition of professional qualifications so that each of the signatory countries recognise each other's qualifications as being equally favourable to its own.²⁰ The UK is pursuing similar levels of ambition in its negotiations with Switzerland on mutual recognition for financial services. This deal would benefit UK financial services firms and could serve as a model for future agreements with similar countries.

Skills and education

Services trade frequently requires specialised knowledge and competencies. High-value jobs in industries such as legal services, financial services, advertising, business consulting and accountancy usually depend on professionals holding at least one degree in a relevant field, often complemented by further qualifications. Firms trading internationally greatly benefit from having access to a highly educated workforce. The UK can increase its international competitiveness and boost its trade in services by building a knowledge-intensive labour pool. This can be done through investment in education, training programmes and promoting R&D. Additionally, the UK can supplement the skills of its domestic workforce through strategic immigration policies.

The UK is already a major hub for talented students worldwide, largely due to being the host of some of the most prestigious universities internationally. Notably, both Oxford and Cambridge rank in the top 10 globally, adding to the country's appeal to attract students aiming for top-tier education.²¹ In terms of upper-secondary education, the UK's school system provides high-quality education for its students. The average performance of UK students in upper-secondary education ranks eighth out of 41 among OECD countries.

²⁰ [Free Trade Agreement between Iceland, the Principality of Liechtenstein and the Kingdom of Norway and the United Kingdom of Great Britain and Northern Ireland. Article 12.4, 2021](#)

²¹ [Times Higher Education, 2023](#)



Nonetheless, the UK's performance in terms of individuals achieving an upper-secondary degree is not as impressive, with only 82% of individuals aged 25 to 64 having attained this level of education. As a result, the UK is positioned 23rd in the OECD rankings on this metric.²² Increasing the number of upper-secondary graduates can allow more UK students to access its world-class universities and cultivate a workforce equipped for high-skilled jobs.

To increase trade in services, the UK can therefore look to improve its workforce's skills and access to further education. According to the Office for National Statistics (ONS), 13.3% of businesses are experiencing a shortage of workers, while the Federation of Small Businesses (FSB) has found that 80% of small companies reported difficulties recruiting applicants with suitable skills. The Bank of England attributes these shortages to the decrease in available labour supply in comparison to before the Covid-19 pandemic.²³ In regard to these challenges, the government's Shortage Occupation List (SOL) identifies dozens of professions (and, by extension, skills) that are lacking in the UK, many of which are related to services and value-add services such as engineers, ICT professionals and architects.²⁴ Policymakers should continuously review and update the SOL to ensure it remains forward looking and addresses the needs of the UK.

²² [OECD Better Life Index](#)

²³ [Francis-Devine & Buchanan, 2023](#)

²⁴ [UK Visas and Immigration, 2023](#)

History and culture

The history and culture of a market contribute to the success of its tourism industry, a sector that can often comprise a significant share of an economy's services exports. These factors play a part (along with good weather) in France holding the title of most popular tourist destination in the world for over 30 years.²⁵ Inbound travel and tourism also have a cross-cutting impact on a range of domestic services, such as hospitality, accommodation and transport. Tourism is one of the fastest-growing sectors internationally – contributing to nearly 10% of global GDP through the various employment opportunities, the extension of client markets and the growth in exports that it creates.²⁶

Tourism in the UK is a major industry and inbound tourism is the UK's third largest service export. Domestic and inbound tourism combined contribute approximately £127bn a year to the UK economy, worth 9% of GDP.²⁷ In 2019, the UK ranked as the 9th largest tourism destination and the 5th biggest in Europe.²⁸ There are multiple contributing factors to the UK's success in tourism, such as the Royal Family, the global significance of its entertainment, media and sports industries, and cultural institutions such as the Natural History Museum.

But the regional impact of tourism to the UK is disproportionately imbalanced, with London receiving the majority of international visitors. In 2022, the total number of inbound visits to London was above 16 million, with the next closest city, Edinburgh, reporting 1.8 million in the same year.²⁹ As tourism rebounds following the loosening of travel restrictions, the UK could do more to promote the value of its lesser-known cities and regions outside of London, in partnership with tourism industries. A successful example of this is the spike in tourism Northern Ireland experienced as a result of the television programme *Game of Thrones*. The show's global popularity, along with a supporting marketing campaign by Tourism Ireland, had a positive effect on tourism in Northern Ireland, contributing an estimated £50m to the region's economy.³⁰

Opportunity for improvement

In summary, the UK fares relatively well according to all of the above criteria. For example, it has a historically pro-business regulatory regime that allows for an open business environment, it benefits from a highly-skilled, English-speaking workforce and its post-Brexit trade relationships aim to liberalise trade in services.

However, there is scope for improvement. The OECD's Services Trade Restrictiveness Index for the UK indicates its immigration regime is a particular weakness and this should therefore be an issue warranting particular attention from policymakers.³¹

²⁵ [World Population Review, 2023](#)

²⁶ [Wijesekara et al., 2022](#)

²⁷ [House of Commons, 2022](#)

²⁸ [United Nations World Tourism Organization, 2019](#)

²⁹ [Office for National Statistics, 2023](#)

³⁰ [Manneheimer et al., 2022](#)

³¹ [CBI, 2022](#)

Regional disparities

While the UK is a hugely successful services exporter at the aggregate level, the gains are hyper-concentrated in London and South East England.

Actual Services Exports (ASE)

To better understand and address regional disparities, we first look at the Actual Services Export (ASE) of each region. ASE reflects the real value of trade in services for each region and nation and the percentage of total UK services trade the value of each one represents. This analysis provides a foundational overview of the UK's services export landscape and establishes a performance metric against which to measure against each nation's and region's potential, as described below.

To structure its analysis into discrete geographic units, this report uses the Nomenclature of Territorial Units for Statistics (NUTS) standard. NUTS is an EU-derived standard for referencing regional and local data, where NUTS 1, NUTS 2 and NUTS 3 refer to descending levels of economic territory, meaning NUTS 1 refers to the largest economic territories and NUTS 3 the smallest. Post-Brexit the UK has replaced NUTS with International Territorial Level (ITL) as its internationally comparable geocode.

Services Export Potential (SEP)

In this section, we identify a non-exhaustive selection of four criteria that contribute to a region's success as a services exporter. Drawing on experimental spatial data from the former Department for Business, Energy and Industrial Strategy (BEIS) and Nesta Research & Development, we use these criteria to rank the relative SEP of England's regions.³² A partial analysis is then conducted using the available data for Wales, Scotland and Northern Ireland.

This approach allows for an indicative assessment of how regions are performing in terms of relative ASE vs SEP and identifies policy levers that could lead to improvement. This new measure of relative SEP has been created to develop the foundation of a framework to assist policymakers identify and address opportunities to boost services exports across the UK.

The criteria chosen are illustrative and more work is needed to rigorously identify and measure the causal relationship between different economic factors. Data unavailability means the full exercise is not yet possible for the whole UK, inclusive of Wales, Scotland, and Northern Ireland. For each metric, the most recent BEIS/Nesta data have been used. For the export values, 2018 data has been chosen due to it being the most recent data set with full regional coverage; newer publications have data missing due to confidentiality concerns.

³² [Department for Business, Energy and Industrial Strategy and Nesta Research & Development, 2020](#)

Methodology for calculating services exports potential (SEP)

For each of the criteria identified (economic complexity, connectivity, education/skills and higher education R&D) we have used the relevant experimental BEIS/Nesta Research & Development spatial data to rank the UK regions by performance. The top-performing region has then been assigned a score of 25, with every other region assigned an equivalent score based on their own relative performance.

For example, if the top-performing region was assigned a figure under a given metric of 1000, and the lowest a figure of 343, under this approach, they would be assigned a relative score of 25 and 8.6, respectively ($343/1000 \times 100/4 = 8.6$). We then create an amalgamated assessment of each region's relative SEP, scored out of 100, and rank accordingly. Because connectivity considers two variables (broadband speed and distance to airport), each variable is assigned a score out of 12.5 and then combined to give a total score out of 25.

Notes on the data

While more recent data would be preferable – and improving the quality of data is one of this report's recommendations – the data chosen still produce policy-relevant outcomes because Covid-19 and the subsequent UK (and global) economic shutdowns led to severe economic distortions, with subsequent implications for trade (services and goods) data.

UK GDP has only this year (2023) returned to pre-pandemic levels.³³ This means that 2019-2022 data provide less insight into the structural advantages or disadvantages of the UK economy with regard to services trade than that collected just before this period. While the pandemic will fundamentally alter the UK economy, these effects are only now beginning to stabilise.

Given this analysis intends to identify significant discrepancies between relative levels of a region's ASE and SEP, it is unlikely that minor recent changes in export levels or rankings will impact the conclusions.

³³ [Office for National Statistics, 2023](#)

Table 1: Total services exports at regional (NUTS 2/ITL) level, 2018 (ASE)

Rank	Region	Value (£m)	% of total services exports
1	Inner London (West)	81,322	26.51
2	Inner London (East)	31,885	10.40
3	Outer London (West and North West)	17,997	5.87
4	Berkshire, Buckinghamshire and Oxfordshire	16,956	5.53
5	Surrey, East and West Sussex	13,108	4.27
6	Hampshire and the Isle of Wight	9,142	2.98
7	Eastern Scotland	8,571	2.79
8	Greater Manchester	8,406	2.74
9	East Anglia	8,113	2.65
10	Gloucestershire, Wiltshire and Bath/Bristol area	7,771	2.53
11	Shropshire and Staffordshire	7,445	2.43
12	West Midlands	7,184	2.34
13	West Yorkshire	6,767	2.21
14	Bedfordshire and Hertfordshire	6,518	2.13
15	West Central Scotland	5,556	1.81
16	West Wales and The Valleys	4,509	1.47
17	Leicestershire, Rutland and Northamptonshire	4,089	1.33
18	Cheshire	4,071	1.33
19	Merseyside	3,983	1.30
20	North Eastern Scotland	3,744	1.22
21	Northumberland and Tyne and Wear	3,687	1.20
22	Derbyshire and Nottinghamshire	3,545	1.16
23	Lancashire	3,429	1.12
24	Essex	3,395	1.11
25	Tees Valley and Durham	3,204	1.04
26	Kent	3,175	1.04
27	Outer London (South)	3,017	0.98
28	East Wales	2,926	0.95
29	Herefordshire, Worcestershire and Warwickshire	2,770	0.90
31	Dorset and Somerset	2,687	0.88
31	Northern Ireland	2,502	0.82
32	South Yorkshire	2,156	0.70
33	Southern Scotland	2,015	0.66
34	Outer London (East and North East)	1,883	0.61
35	North Yorkshire	1,797	0.59
36	Devon	1,636	0.53
37	Highlands and Islands	1,565	0.51
38	East Yorkshire and Northern Lincolnshire	1,403	0.46
39	Cumbria	1,134	0.37
40	Cornwall and the Isles of Scilly	853	0.28
41	Lincolnshire	788	0.26

Economic complexity

While an individual services business does not necessarily need to build a domestic market before exporting, on a regional level, it can be said that a successful domestic services industry is a pre-requisite for strong ASE. As such, the success of the domestic services industry can be used as an indicator of SEP.

As a proxy, measuring a region's economic complexity (see Table 2) – in this instance, defined as the sophistication of economic activity in a region³⁴ – is intuitively a leading indicator, with a higher score being indicative of more services-based activity, although the region's industrial composition needs to also be considered. Also, the more sophisticated a region's industrial base, the more likely it is to be internationally competitive and outward-looking.

Unsurprisingly, London regions top the economic complexity regional rankings, in keeping with their general levels of services exports, but there is some regional differentiation.

Eastern Scotland, for example, ranks 20th for regional economic complexity despite coming seventh for services exports in 2018. This could be explained by Edinburgh's historical position as a financial services hub. Of Eastern Scotland's total £9.3bn in services exports (excluding travel services), financial and insurance activities accounted for £5.6bn, or 57%. The next largest services export sector was transportation and storage, with £1.7bn.³⁵ Dundee's status as a video game industry hub may also have contributed to its success in service exports – the city has the highest concentration of gaming companies per working-age population of all British cities.³⁶

This suggests that, while economic complexity can be conducive to a region's propensity to export services, it is not necessarily a singular requirement to excel at services exports if a region can develop extensive expertise in a single industry.

³⁴ [Economic complexity Index, Department for Business, Energy and Industrial Strategy and Nesta Research & Development, 2020.](#)

³⁵ [Official for National Statistics, 2023](#)

³⁶ [Dundee City Council, 2023](#)



Table 2: UK regional economic complexity

Rank	Region	Economic Complexity	SEP Weighting ³⁷
1	Outer London (West and North West)	0.4058	25.00
2	Outer London (South)	0.3936	24.78
3	Inner London (East)	0.3578	24.15
4	Inner London (West)	0.3411	23.85
5	Surrey, East and West Sussex	0.2889	22.92
6	Outer London (East and North East)	0.2664	22.52
7	Berkshire, Buckinghamshire, and Oxfordshire	0.2376	22.01
8	Bedfordshire and Hertfordshire	0.2122	21.56
9	Greater Manchester	0.0838	19.27
10	Gloucestershire, Wiltshire and Bristol/Bath area	0.0667	18.97
11	Hampshire and the Isle of Wight	0.0404	18.50
12	Essex	0.0266	18.26
13	Cheshire	0.0154	18.06
14	Kent	0.0154	18.06
15	West Midlands	0.0049	17.87
16	Merseyside	-0.0036	17.72
17	Leicestershire, Rutland and Northamptonshire	-0.0121	17.57
18	West Yorkshire	-0.0233	17.37
19	Herefordshire, Worcestershire and Warwickshire	-0.0331	17.19
20	Eastern Scotland	-0.0381	17.11
21	East Wales	-0.0468	16.95
22	North Eastern Scotland	-0.0491	16.91
23	East Anglia	-0.0631	16.66
24	Lancashire	-0.0710	16.52
25	Derbyshire and Nottinghamshire	-0.0748	16.45
26	Devon	-0.0752	16.45
27	Highlands and Islands	-0.0756	16.44
28	Cumbria	-0.0772	16.41
29	Tees Valley and Durham	-0.0832	16.30
30	Dorset and Somerset	-0.0850	16.27
31	South Yorkshire	-0.0881	16.22
32	Northumberland and Tyne and Wear	-0.0885	16.21
33	North Yorkshire	-0.0911	16.16
34	Cornwall and the Isles of Scilly	-0.0929	16.13
35	Shropshire and Staffordshire	-0.1029	15.95
36	Northern Ireland	-0.1094	15.84
37	West Wales and The Valleys	-0.1095	15.84
38	South Western Scotland	-0.1124	15.78
39	East Riding and North Lincolnshire	-0.1225	15.60
40	Lincolnshire	-0.1312	15.45

³⁷ To account for the negative economic complexity values, the following formula is used to deduce the SEP weighting:

$$(([\text{economic complexity value}] + 1) / [\text{top economic complexity value}] + 1) * 100 / 4$$

Connectivity

International services trade requires sellers to interact easily with their buyers, either in person or virtually. In a pre-digital age, this connectivity was facilitated by a significant reduction in travel times via improvements in aviation, alongside advancements in telecommunication technologies. In the modern era, the internet, video-conferencing software and co-working web platforms have drastically increased the scope of services that can be sold and delivered virtually over great distances.

To account for both in-person and virtual connectivity, we have combined two metrics (Tables 3 and 4) to provide insight into general regional connectivity: **broadband speed**³⁸ and **travel time to airport**.³⁹

The two measures combined provide some insight into a region's SEP. At the extreme, if a region has poor physical and digital access to international markets, it will be at a structural disadvantage in comparison to other parts of the country with better connectivity. Cumbria, for example, scores poorly in both (37/41 for regional broadband speed and 33/33 for time to airport) and is therefore unsurprisingly one of the weaker UK performers vis-à-vis services exports (39/41).

Although this methodology is imperfect, it is nevertheless useful for comparative analysis. For instance, while not all airports are equal – some only offer limited and/or infrequent commercial services, and some are more expensive to fly from than others – the presence of one is generally a reliable indication of the connectivity of a region. As the source data set only includes English regions in its figures for travel time to airport, Scotland, Wales and Northern Ireland are not represented in Table 4 (see page 24).

³⁸ [Broadband Speed, Department for Business, Energy and Industrial Strategy and Nesta Research & Development](#)

³⁹ [Time to Airport, Department for Business, Energy and Industrial Strategy and Nesta Research & Development](#)



Table 3: UK regional broadband speed

Rank	Region	Download speeds (Mbit/s)	SEP Weighting
1	East Riding and North Lincolnshire	83.71	12.50
2	Outer London (South)	74.25	11.09
3	Bedfordshire and Hertfordshire	73.34	10.95
4	West Central Scotland	72.42	10.81
5	West Midlands	71.22	10.63
6	Outer London (East and North East)	71.01	10.60
7	Merseyside	68.07	10.16
8	Outer London (West and North West)	67.64	10.10
9	Leicestershire, Rutland and Northamptonshire	65.49	9.78
10	Greater Manchester	65.24	9.74
11	Hampshire and the Isle of Wight	63.04	9.41
12	Gloucestershire, Wiltshire and Bristol/Bath area	62.81	9.38
13	Tees Valley and Durham	62.47	9.33
14	Derbyshire and Nottinghamshire	61.91	9.24
15	Eastern Scotland	60.64	9.06
16	Berkshire, Buckinghamshire, and Oxfordshire	60.31	9.01
17	Inner London (West)	60.18	8.99
18	Inner London (East)	59.81	8.93
19	West Yorkshire	59.05	8.82
20	Lancashire	58.52	8.74
21	Surrey, East and West Sussex	57.52	8.59
22	Northumberland and Tyne and Wear	56.89	8.50
23	Kent	55.92	8.35
24	Essex	55.68	8.31
25	Shropshire and Staffordshire	54.81	8.18
26	East Wales	52.98	7.91
27	South Yorkshire	51.58	7.70
28	Northern Ireland	51.28	7.66
29	Devon	51.25	7.65
30	East Anglia	51.19	7.64
31	Herefordshire, Worcestershire and Warwickshire	50.50	7.54
32	Cheshire	50.48	7.54
33	Southern Scotland	50.21	7.50
34	Lincolnshire	48.93	7.31
35	North Yorkshire	48.19	7.20
36	Dorset and Somerset	46.56	6.95
37	Cumbria	46.16	6.89
38	West Wales and The Valleys	44.05	6.58
39	North Eastern Scotland	35.07	5.24
40	Highland and Islands	33.52	5.01
41	Cornwall and the Isles of Scilly	31.77	4.74

Table 4: England regional travel time to airport

Rank	Region	Travel time to airport (minutes)	SEP Weighting
1	Northumberland and Tyne and Wear	24.24	12.50
2	Tees Valley and Durham	24.98	12.38
3	Hampshire and the Isle of Wight	26.22	12.17
4	Merseyside	27.01	12.04
5	Greater Manchester	27.55	11.95
6	Bedfordshire and Hertfordshire	27.63	11.94
7	Outer London (West and North West)	28.04	11.87
8	Inner London (East)	29.05	11.71
9	Outer London (East and North East)	29.57	11.62
10	Essex	29.60	11.62
11	Surrey, East and West Sussex	30.02	11.55
12	West Midlands	30.86	11.41
13	Cheshire	31.06	11.37
14	East Riding and North Lincolnshire	32.12	11.20
15	Gloucestershire, Wiltshire and Bristol/Bath area	33.34	11.00
16	Derbyshire and Nottinghamshire	33.37	10.99
17	Lancashire	33.59	10.96
18	Dorset and Somerset	33.87	10.91
19	West Yorkshire	34.00	10.89
20	Herefordshire, Worcestershire and Warwickshire	36.56	10.47
21	Inner London (West)	36.67	10.45
22	Cornwall and the Isles of Scilly	37.49	10.31
23	Devon	39.05	10.06
24	Leicestershire. Rutland and Northamptonshire	39.45	9.99
25	Outer London (South)	39.62	9.96
26	Kent	40.80	9.77
27	East Anglia	40.91	9.75
28	Berkshire, Buckinghamshire, and Oxfordshire	41.25	9.69
29	South Yorkshire	41.49	9.65
30	North Yorkshire	47.14	8.72
31	Shropshire and Staffordshire	48.75	8.46
32	Lincolnshire	57.38	7.03
33	Cumbria	86.01	2.31

Education and skills

Having a highly educated and skilled labour force is conducive to general economic growth and productivity. This is particularly true for high-value, internationally competitive services such as financial, advisory, legal and engineering.

As a proxy for regional education and skills, we have ranked the regions by the percentage of economically active professionals in the region with a National Vocational Qualification Level 4 (NVQ4) or above.⁴⁰ This provides a good general assumption regarding the ability of people, in a given region, to work in an export-focused services job and feeds into its SEP.

The London regions continue to dominate, in terms of percentage of professionals with NVQ4 or above. Nonetheless, regions such as East Wales, North Eastern Scotland and North Yorkshire also rank relatively high, despite their weaker ASE. This suggests that, at least from an education and skills perspective, there are UK regions with greater SEP that is not reflected in their current services export figures.

Note: the source data set does not currently include Northern Ireland so Northern Ireland is not represented in the table on page 26.

⁴⁰ [Economically active professionals with NVQ4 or above, Department for Business, Energy and Industrial Strategy and Nesta Research & Development](#)



Table 5: England, Scotland and Wales regional percentage of economically active professionals with NVQ4 or above

Rank	Region	Percentage of NVQ4 professionals	SEP Weighting
1	Inner London (West)	76.20	25.00
2	Inner London (East)	66.80	21.92
3	Outer London (West and North West)	61.10	20.05
4	Outer London (South)	56.50	18.54
5	North Eastern Scotland	54.70	17.95
6	Eastern Scotland	51.90	17.03
7	Berkshire, Buckinghamshire, and Oxfordshire	51.80	16.99
8	West Central Scotland	51.40	16.86
9	Surrey, East and West Sussex	50.30	16.50
10	Outer London (East and North East)	47.60	15.62
11	Bedfordshire and Hertfordshire	47.50	15.58
12	Cheshire	47.10	15.45
13	Gloucestershire, Wiltshire and Bristol/Bath area	46.60	15.29
14	Highland and Islands	46.10	15.12
15	East Wales	46.00	15.09
16	North Yorkshire	45.20	14.83
17	Southern Scotland	44.90	14.73
18	Hampshire and the Isle of Wight	44.30	14.53
19	Herefordshire, Worcestershire and Warwickshire	43.10	14.14
20	Greater Manchester	42.50	13.94
21	Merseyside	41.00	13.45
22	Dorset and Somerset	40.10	13.16
23	South Yorkshire	40.00	13.12
24	Kent	39.60	12.99
25	Devon	39.60	12.99
26	Leicestershire, Rutland and Northamptonshire	39.50	12.96
27	Cornwall and the Isles of Scilly	39.20	12.86
28	Northumberland and Tyne and Wear	38.90	12.76
29	Shropshire and Staffordshire	38.90	12.76
30	West Wales and The Valleys	38.80	12.73
31	East Anglia	38.70	12.70
32	West Yorkshire	38.60	12.66
33	Derbyshire and Nottinghamshire	38.60	12.66
34	Lancashire	38.40	12.60
35	Essex	36.90	12.11
36	West Midlands	36.30	11.91
37	Tees Valley and Durham	35.70	11.71
38	Cumbria	35.40	11.61
39	Lincolnshire	33.80	11.09
40	East Riding and North Lincolnshire	33.20	10.89

Higher education R&D

Regional investment in higher education can have a direct impact on services exports if it leads to an increased number of foreign students paying to study in regional universities. There are also potential second-order benefits from regions having universities, in the form of innovation and industrial clusters that can spin out of universities.

Regional data on higher education sector enterprise R&D expenditure provides a plausible snapshot of general investment levels in high-value sectors linked to the higher-education sector. This expenditure could plausibly drive direct services exports (i.e. foreign students attending universities) and also have indirect spill over benefits (i.e. new services firms created as a second-order consequence of higher education investment such as university-linked consultancies and start-ups).⁴¹ Unsurprisingly, Inner London and Berkshire, Buckinghamshire and Oxfordshire top the ranking, but other regions such as East Anglia, Eastern Scotland, Greater Manchester and the West Midlands also put in a strong showing.

Note: the source data set does not currently include Welsh regions or Northern Ireland, so these regions are not represented in the table on page 28.

Analysis by nation

The four criteria discussed above – economic complexity, connectivity, education/skills, and higher education R&D – give a snapshot of a region's SEP.

Due to data unavailability, the full exercise – comparing the regional ASE ranking with the regional SEP – can only be carried out for English regions. However, the partial data available for Wales, Scotland and Northern Ireland still allows for preliminary observations, and are covered separately later in this report.

As per the methodological discussion earlier in the paper, this is an illustrative framework to help conceptualise policy options relating to boosting regional services exports. Other criteria – discussed in the conclusion – could be incorporated into the index and further work would need to be carried out to determine direct causality.

⁴¹ [Higher Education R&D, Department for Business, Energy and Industrial Strategy and Nesta Research & Development](#)

Table 6: England and Scotland higher education sector enterprise R&D expenditure

Rank	Region	Expenditure (€ thousands) ⁴²	Weighting
1	Inner London (West)	2,045,665	25.00
2	Berkshire, Buckinghamshire, and Oxfordshire	1,062,733	12.99
3	East Anglia	910,591	11.13
4	Eastern Scotland	707,132	8.64
5	Greater Manchester	649,034	7.93
6	West Midlands	479,372	5.86
7	West Central Scotland	452,809	5.53
8	Gloucestershire, Wiltshire and Bristol/Bath area	345,654	4.22
9	West Yorkshire	288,685	3.53
10	South Yorkshire	266,531	3.26
11	Derbyshire and Nottinghamshire	217,475	2.66
12	Northumberland and Tyne and Wear	209,902	2.57
13	Inner London (East)	208,432	2.55
14	Hampshire and the Isle of Wight	179,722	2.20
15	Leicestershire, Rutland and Northamptonshire	159,037	1.94
16	Merseyside	154,855	1.89
17	Surrey, East and West Sussex	153,159	1.87
18	Devon	151,803	1.86
19	North Yorkshire	100,147	1.22
20	North Eastern Scotland	82,288	1.01
21	Bedfordshire and Hertfordshire	81,610	1.00
22	Tees Valley and Durham	72,341	0.88
23	Essex	55,047	0.67
24	Lancashire	40,692	0.50
25	Outer London (West and North West)	38,318	0.47
26	Shropshire and Staffordshire	32,553	0.40
27	Kent	31,197	0.38
28	Highland and Islands	31,084	0.38
29	Outer London (East and North East)	26,450	0.32
30	East Riding and North Lincolnshire	19,442	0.24
31	Lincolnshire	17,294	0.21
32	Dorset and Somerset	11,077	0.14
33	Outer London (South)	7,008	0.09
34	Herefordshire, Worcestershire and Warwickshire	2,600	0.03
35	Cornwall and the Isles of Scilly	2,261	0.03
36	Cheshire	1,922	0.02
37	Cumbria	226	0.00
38	Southern Scotland	0	0.00

⁴² Expenditure is denominated in Euros (€) due to the original data source, Eurostat, being standardised to allow for pan-European comparisons. Figures are rounded to the nearest thousand.

English regions

Table 7: English regions' SEP scores

Region	Actual Services Exports (£m)	Economic Complexity	Connectivity (broadband)	Connectivity (distance to airport)	Education and skills	Higher education R&D	Total
Tees Valley and Durham	3,204	16.30	9.33	12.38	11.71	0.88	50.61
Northumberland and Tyne and Wear	3,687	16.21	8.50	12.50	12.76	2.57	52.53
Cumbria	1,134	16.41	6.89	2.31	11.61	0.00	37.23
Greater Manchester	8,406	19.27	9.74	11.95	13.94	7.93	62.84
Lancashire	3,429	16.52	8.74	10.96	12.60	0.50	49.31
Cheshire	4,071	18.06	7.54	11.37	15.45	0.02	52.45
Merseyside	3,983	17.72	10.16	12.04	13.45	1.89	55.27
East Riding and North Lincolnshire	1,403	15.60	12.50	11.20	10.89	0.24	50.43
North Yorkshire	1,797	16.16	7.20	8.72	14.83	1.22	48.13
South Yorkshire	2,156	16.22	7.70	9.65	13.12	3.26	49.95
West Yorkshire	6,767	17.37	8.82	10.89	12.66	3.53	53.27
Derbyshire and Nottinghamshire	3,545	16.45	9.24	10.99	12.66	2.66	52.01
Leicestershire, Rutland and Northamptonshire	4,089	17.57	9.78	9.99	12.96	1.94	52.24
Lincolnshire	788	15.45	7.31	7.03	11.09	0.21	41.09
Herefordshire, Worcestershire and Warwickshire	2,770	17.19	7.54	10.47	14.14	0.03	49.38
Shropshire and Staffordshire	7,445	15.95	8.18	8.46	12.76	0.40	45.75
West Midlands	7,184	17.87	10.63	11.41	11.91	5.86	57.68
East Anglia	8,113	16.66	7.64	9.75	12.70	11.13	57.88
Bedfordshire and Hertfordshire	6,518	21.56	10.95	11.94	15.58	1.00	61.03
Essex	3,395	18.26	8.31	11.62	12.11	0.67	50.97
Inner London (West)	81,322	23.85	8.99	10.45	25.00	25.00	93.28
Inner London (East)	31,885	24.15	8.93	11.71	21.92	2.55	69.25
Outer London (East and North East)	1,883	22.52	10.60	11.62	15.62	0.32	60.69
Outer London (South)	3,017	24.78	11.09	9.96	18.54	0.09	64.46
Outer London (West and North West)	17,997	25.00	10.10	11.87	20.05	0.47	67.49
Berkshire, Buckinghamshire, and Oxfordshire	16,956	22.01	9.01	9.69	16.99	12.99	70.69
Surrey, East and West Sussex	13,108	22.92	8.59	11.55	16.50	1.87	61.43
Hampshire and the Isle of Wight	9,142	18.50	9.41	12.17	14.53	2.20	56.82
Kent	3,175	18.06	8.35	9.77	12.99	0.38	49.55
Gloucestershire, Wiltshire and Bristol/Bath area	7,771	18.97	9.38	11.00	15.29	4.22	58.86
Dorset and Somerset	2,687	16.27	6.95	10.91	13.16	0.14	47.43
Cornwall and the Isles of Scilly	853	16.13	4.74	10.31	12.86	0.03	44.08
Devon	1,636	16.45	7.65	10.06	12.99	1.86	49.00

Table 8: English regional SEP vs ASE rankings

Region	SEP	SEP Rank	ASE (£m)	SEP Rank	Difference
Inner London (West)	93.28	1	81,322	1	0
Berkshire, Buckinghamshire and Oxfordshire	70.69	2	16,956	4	-2
Inner London (East)	69.25	3	31,885	2	+1
Outer London (West and North West)	67.49	4	17,997	3	+1
Outer London (South)	64.46	5	3,017	23	-18
Greater Manchester	62.84	6	8,406	7	-1
Surrey, East and West Sussex	61.43	7	13,108	5	+2
Bedfordshire and Hertfordshire	61.03	8	6,518	13	-5
Outer London (East and North West)	60.69	9	1,883	27	-18
Gloucestershire, Wiltshire and Bristol/Bath area	58.86	10	7,771	9	+1
East Anglia	57.88	11	8,113	8	+3
West Midlands	57.68	12	7,184	11	+1
Hampshire and the Isle of Wight	56.82	13	9,142	6	+7
Merseyside	55.27	14	3,983	16	-2
West Yorkshire	53.27	15	6,767	12	+3
Northumberland and Tyne and Wear	52.53	16	3,687	17	-1
Cheshire	52.45	17	4,071	15	+2
Leicestershire, Rutland and Northamptonshire	52.24	18	4,089	14	+4
Derbyshire and Nottinghamshire	52.01	19	3,545	18	+1
Essex	50.97	20	3,395	20	0
Tees Valley and Durham	50.61	21	3,204	21	0
East Riding and North Lincolnshire	50.43	22	1,403	30	-8
South Yorkshire	49.95	23	2,156	26	-3
Kent	49.55	24	3,175	22	+2
Herefordshire, Worcestershire and Warwickshire	49.38	25	2,770	24	+1
Lancashire	49.31	26	3,429	19	+7
Devon	49.00	27	1,636	29	-2
North Yorkshire	48.13	28	1,797	28	0
Dorset and Somerset	47.43	29	2,687	25	+4
Shropshire and Staffordshire	45.75	30	7,445	10	+20
Cornwall and the Isles of Scilly	44.08	31	853	32	-1
Lincolnshire	41.09	32	788	33	-1
Cumbria	37.23	33	1,134	31	+2

Everything in its right place

Of the 33 English regions, 24 (73%) have SEP rankings either equal to, or within three positions of, their ASE ranking. This suggests, on a relative basis, that most English regions are performing in line with their respective potential.

Comparatively, 15% of the regions covered are overperformers and 12% are underperforming.

At the bottom of the rankings, for example, Cornwall and the Isles of Scilly, Lincolnshire and Cumbria have low economic complexity, poor connectivity, low education/skills and low education R&D and, in turn constitute a very low proportion of total English services exports.

Nearer the top of the rankings, Greater Manchester and Berkshire, Buckinghamshire and Oxfordshire perform well against all four criteria and have relatively strong SEP scores.

Taking into account the methodological caveats, this does suggest that **improvement across any of the four criteria** could boost both the SEP and, eventually, the ASE of regions. Ideas on how to achieve this are included in the recommendations section (see page 38).

London dominance

London – and Inner London (West) in particular – is dramatically dominant in both relative and absolute terms. First-placed Inner London (West)'s SEP score of 93.28 is around 23 points higher than second-placed Berkshire, Buckinghamshire and Oxfordshire, and its total services exports are around £50bn higher than second-placed Inner London (East).

If other regions could close this gap even slightly by improving their own potential and performance, it would be of significant economic benefit to both those regions and the UK.

London's outsized influence

Analysis by the Financial Times published in 2023⁴³, using OECD data, indicates not only that London constitutes the lion's share of UK economic output, but that the UK's 'economic monopolarity' stands in stark comparison to international comparators. Specifically, subtracting London's economic output would reduce UK living standards by 14%, enough to make Britain poorer than Mississippi, the most economically deprived US state. By comparison, disaggregating San Francisco from the US would make the country 4% poorer. Meanwhile, removing Germany's most productive city, Munich, from the national equation would reduce living standards by 1%. These findings suggest London's position within the UK is an outlier compared to other major world cities and their national economies.

Policy-makers should consider the reasons why this is the case. According to a 2022 report from HSBC⁴⁴, each of Germany's states has an "economic identity" of its own – for instance, Berlin for services and public administration, and Hamburg as the most important hub for international trade in the country. This might indicate that having regions or nations develop their own specialisms can help them to thrive economically, which speaks to our recommendation for sector-specialised clusters for services exports. Moreover, one might argue that Germany and the US are decentralized economies, with considerably more devolved powers afforded to regions and states than in the UK. The ability for local policymakers to determine local needs may play a role in the overall better distribution of economic output in these countries than in the UK.

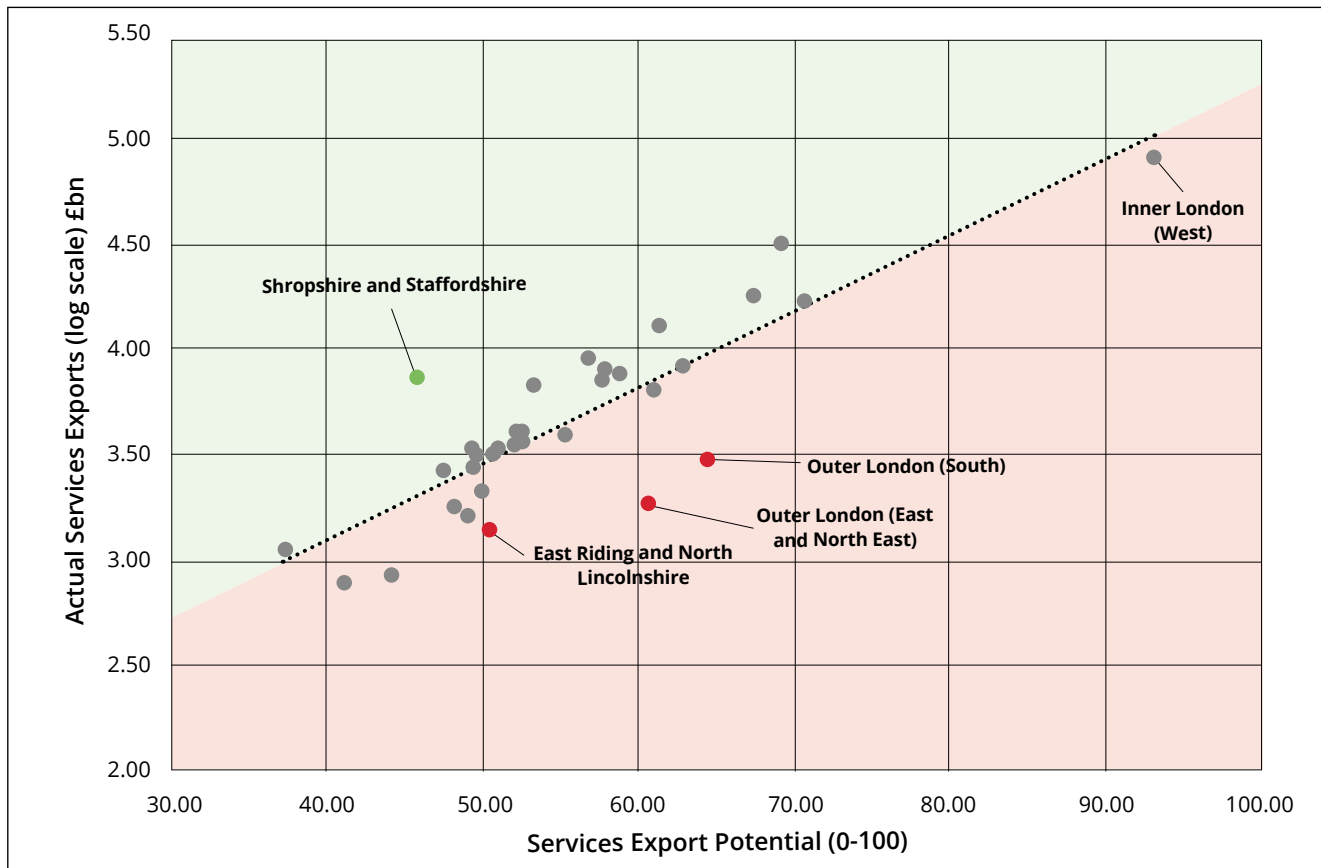
⁴³ [Burn-Murdoch, 2023](#)

⁴⁴ [HSBC, 2022](#)

Bespoke differentiation

Of the 13 English regions with significant differences between their SEP and ASE, four stand out as significant over or underperformers [See Figure 3].

Figure 2: Relationship between SEP and ASE



Shropshire and Staffordshire With its SEP of 30 and ASE of 10, this region tops the list of overperformers. Determining why requires further investigation. The region hosts head offices for several major firms in sectors such as manufacturing, transport, logistics and gambling. This demonstrates the impact a few high-performing international services firms on rankings, given the difference in total services exports between regions is small.

Outer London (South) and Outer London (East and North East) ASE in these areas underperforms SEP. This is probably due to London’s international services companies being concentrated in specific areas, such as the City and Canary Wharf, with the outskirts acting as a commuter belt. This is arguably a function of London’s population size and the need to split the city into distinct NUTS/ITL 2⁴⁵ regions.

East Riding and Lincolnshire This area ranks 22nd for SEP but 30th for ASE. It comes top for broadband speed and in the top half for distance to the airport, indicating good connectivity. But the region comes bottom in education and skills. A report by the Greater Lincolnshire Local Enterprise Partnership highlights insufficient skills to fill roles requiring Level 3 competencies and above.⁴⁶ The region is 30th in higher education R&D expenditure (out of 38). This suggests when a region ranks highly in some criteria and poorly in others, it leads ASE to underperform SEP.

⁴⁵ See section on Actual Services Exports (ASE) on page 17

⁴⁶ [Greater Lincolnshire Local Enterprise Partnership, 2022](#)

Welsh regions

Table 9: Welsh regions' partial SEP score

Region	Actual Services exports (£m)	Economic Complexity	Connectivity (broadband)	Connectivity (distance to airport)	Education and skills	Higher education R&D	Total
West Wales and The Valleys	4,509	15.84	6.58	NA	12.73	NA	35.14
East Wales	2,926	16.95	7.91	NA	15.09	NA	39.95

For the Welsh regions, it is currently only possible to conduct a partial assessment of SEP due to data limitations. In particular, the BEIS/Nesta experimental data do not include Welsh distance to airport data or higher education R&D spending.

However, even accounting for these limitations, it is possible to make the following observations.

Of the criteria for which data are available, Wales's performance is middling-to-low on a UK-wide basis. This is in line with its overall ASE performance. On connectivity, while some improvements have been made to improve broadband access and speed in recent years, Wales is still the lowest performing part of the UK in respect of access to gigabit-capable broadband, which suggests an obvious area for improvement.⁴⁷

West Wales and the Valleys' partial SEP score is lower than the East Wales equivalent.

This is surprising given West Wales and the Valleys' services exports are notably higher (£4,509m, ranked 16 out of 41 for the whole UK) than East Wales (£2,926m, ranked 28 out of 41 for the whole UK). This could well be a function of missing data. However, the relative higher export performance of West Wales and the Valleys is already counterintuitive, given that the East Wales region includes Cardiff, Wales's primary economic hub.

The industry-specific data for the two regions is not comprehensive enough to determine which specific services sectors are driving the relatively better performance of West Wales and the Valleys, but intuitively it could be linked to both services activity in-and-around Swansea, as well as services activity related to high-value regional manufacturing, such as steel. In order to better understand what is driving West Wales and the Valleys to be both a relative and absolute overperformer, data disaggregated at the sector and, ideally, firm-level is needed.

⁴⁷ [Ofcom, 2022](#)

Scottish regions

Table 10: Scottish regions' partial SEP score

Region	Actual Services exports (£m)	Economic Complexity	Connectivity (broadband)	Connectivity (distance to airport)	Education and skills	Higher education R&D	Total
Eastern Scotland	8,571	17.11	9.06	NA	17.03	8.64	51.83
West Central Scotland*	5,556	NA	10.81	NA	16.89	5.53	33.21
North Eastern Scotland	3,744	16.91	5.24	NA	17.95	1.01	41.10
Southern Scotland*	2,015	NA	7.50	NA	14.73	0.00	22.23
Highlands and Islands	1,565	16.44	5.01	NA	15.12	0.38	36.95
South Western Scotland**	NA	15.78	NA	NA	NA	NA	15.78

* Since 2016

** Until 2016

As with Wales, for the Scottish regions, it is currently only possible to conduct a partial assessment of SEP due to data limitations. In particular, the BEIS/Nesta experimental data do not include Scottish distance to airport data. Additionally, a 2016 change in the NUTS geographies led to a change in how the Scottish regions were accounted for – specifically, South Western Scotland was replaced with West Central Scotland and Southern Scotland – and thus created incongruencies in the way that the data was reported. However, even accounting for these limitations, it is possible to make the following observations:

If ranked alongside English regions, Eastern Scotland's ASE would rank 7th, above Greater Manchester and below Hampshire and the Isle of Wight. Even if a high connectivity (i.e. short distance to airport) score is assumed, the maximum SEP score for Eastern Scotland is 64.33. If ranked alongside English regions, this would place Eastern Scotland's SEP 6th in the rankings, and in line with expectations. This suggests that Eastern Scotland's relatively low economic complexity performance of 20th, discussed earlier in the paper, has been offset by stronger relative performance across the other indicators.

While Scottish regional data is robust, data on distance to airport is needed to enable the full analysis of Scottish SEP relative to ASE. Even with the change in the NUTS geographies, it would still be a useful exercise to calculate a more time-limited outlook of the economic complexities of West Central Scotland and Southern Scotland to see how the composite score for Scottish regions compares.

Northern Ireland

Table 11: Northern Ireland's partial SEP score

Region	Actual Services exports (£m)	Economic Complexity	Connectivity (broadband)	Connectivity (distance to airport)	Education and skills	Higher education R&D	Total
Northern Ireland	2,502	15.84	7.66	NA	NA	NA	23.50

Northern Ireland's partial SEP score is the most limited due to a lack of data, namely connectivity (distance to airport), education and skills, and higher education R&D. The lack of data also makes it difficult to make any tentative observations. This is particularly frustrating given recent qualitative evidence suggesting that Northern Ireland is fast becoming a UK services hub for technology, business and financial services. However, a few observations are highlighted below.

Around 40,000 people work in Northern Ireland's financial and professional services industry. International firms are increasingly choosing to locate some of their back-office operations in Northern Ireland, with major financial services firms in the region including Citi, BNP Paribas and Allstate.⁴⁸

According to City of London Corporation research, Belfast attracted £499 million in FDI in financial and professional services between 2018 and 2022.⁴⁹

With so much economic activity in the region, it is vital that efforts be taken to collect and compile data on services trade in Northern Ireland. At a minimum, this could include ensuring Northern Ireland is included in data collection activities already taking place in the rest of the UK.

Furthermore, because of the unique status of Northern Ireland as part of the TCA and Windsor Framework, now, more than ever, discrete data on services is essential for demonstrating compliance with the agreements' frameworks and for shaping the future trading relation of the UK and the EU when it comes to Northern Ireland.

⁴⁸ [Invest Northern Ireland](#)

⁴⁹ [City of London, 2022](#)

Conclusion and recommendations

The framework set out in this paper is designed to instigate a deeper discussion among policymakers about how to begin to conduct an evidence-based assessment of UK SEP and to benchmark ASE against it. The ultimate aim is to ensure companies across the UK are well-equipped to sell their services internationally. The framework is not intended to be definitive, but rather to be a catalyst to prompt discussion, fresh thinking and policy exploration.

To achieve this, this paper recommends that policymakers form a **regional trade in services taskforce**, consisting of relevant agencies and key stakeholders. This group will ultimately be tasked with the development and delivery of concrete proposals for assessing and improving regional SEP. By using a multifaceted approach the taskforce would have the following objectives:

- **Improving data quality at the regional level.** This report has used the best available regional trade and economic data, but limitations were noticeable. In all nations besides England, the results were only a partial analysis due to inconsistent and incomplete data. In order to ensure full UK-wide coverage, the government needs to prioritise the development and implementation of a more comprehensive and robust approach to services data collection. The taskforce should be given a remit to conduct surveys, interviews and other data-gathering initiatives with businesses throughout the UK, with the intention of collecting robust data across all nations and regions that accurately reflects their diverse economic activities and potentials.
- **Refining the SEP framework.** The four criteria that comprise the SEP ranking outlined in this report seem to be strong indicators of ASE performance. However, it may be the case that there are additional criteria which should be factored into the framework, such as international student populations, the prevalence of high-tech manufacturing, business density and interregional connectivity. Additionally, it may be worth considering whether the existing criteria should be refined. For example, it may be helpful to qualify the connectivity (travel time to airport) criteria and specify that the airport must have direct or one-stop connections to a certain number of international markets. Finally, the relative weighting of the criteria might need to be adjusted. The current analysis has weighed each of the criteria equally. The taskforce can investigate if this is accurate or whether, empirically, one factor has a greater impact on export performance and therefore should be more heavily weighted in the SEP framework.
- **Examining the causality of SEP criteria on ASE.** The relationship between economic complexity and services exports is of particular interest. Intuitively, there is an expectation of a positive correlation between them, but, as our paper suggests, high economic complexity may not always be determinative of greater services exports. For example, sector specialisation in Shropshire and Staffordshire, as well as Eastern Scotland, seems to result in better-than-expected export performance. Therefore, the taskforce should examine the relationship of economic complexity with sector specialisation to determine the relative impact of each on export performance.

Alongside the taskforce's work, there are a number of initiatives that policymakers could take, both at a UK-wide and regional level, to increase the potential for UK services exports.

UK-wide

- **Ensure policy stability.** Given the relationship between UK services exports and FDI, a stable and competitive business environment is essential. The post-Brexit reduction in EU market access and ongoing regulatory uncertainty – against the backdrop of the Covid-19 pandemic, the war in Ukraine and the return of inflation – has materially undermined business confidence in the UK. The priority now should be ensuring that any further changes to the UK regulatory regime are made on the basis of sound economic evidence and in consultation with businesses. Policymakers must work with the private sector on public-private partnerships with a view to building infrastructure and other components needed to enhance a region's SEP and ASE. The potential impact of changes in regulation on the UK's attractiveness as a global services hub must also be factored into decision-making processes. Regulatory change that impacts the ability of a services firm to export, such as changes to data rules, should be clearly communicated to companies with sufficient lead-time for companies to adapt.
- **Deepen trade relationships.** Where possible, the UK government should seek to deepen trade relationships with international partners, with the aim of removing regulatory friction and reducing costs. Establishing formalised agreements that lock in existing levels of market access or contain more ambitious commitments can provide commercial certainty for exporters on both sides of a border and encourage foreign investment. Recent ambitious examples, such as the Swiss temporary mobility arrangements, could be replicated with other markets for the benefit of UK services firms. Additionally, data sharing agreements with the US and other relevant trading partners should also be prioritised.
- **Ease immigration and mobility rules.** Given the skills requirements associated with high-value services jobs, the UK needs to ensure that, in the short-to-medium term, it remains attractive to international talent. Fees associated with work visas should be reviewed and reduced, with ease on limitations on foreign student numbers and restrictions on post-study work. The UK should also revisit discussions with the EU and others on temporary labour mobility, with an aim of creating new routes (either in the context of youth mobility, but ideally more broadly) for professionals to come to the UK to live and work, and for UK-based workers to more easily sell services to the rest of the world.



Regional

- **Economic complexity and sector specialisation.** While more research is needed into the relationship between economic complexity and sector specialisation, both seem to contribute to higher potential and performance of services exports. Increasing economic complexity is a long-term and multifaceted feat, which as a precondition, requires the other elements outlined in this report (i.e. infrastructure, education and R&D) as well as access to financing and support for entrepreneurship, among others. An interesting outcome of this research that seemed to be repeated across overperformers is sector specialisation. In Shropshire and Staffordshire as well as in Eastern Scotland, the presence of clusters of related industries in specific sectors may be a factor in each region's better-than-expected export performance. Exploring the benefits of diversifying the economy versus focusing on a few key sectors could provide a valuable insight of economic complexity on regional performance.
- **Improve connectivity.** As services trade relies a great deal on people-to-people interaction, and often at short notice, policymakers should take steps to ensure better connectivity in both physical and digital infrastructure. Depending on the region and its needs, this might include improvements to road infrastructure, public transportation provision and international connectivity such as airports. These improvements could make these areas more attractive for businesses, workers and foreign investors. As an example, procuring more commercial air services to airports that have capacity would bolster connectivity, enhancing a region's attractiveness as a services hub. Ongoing advances in technology mean this will require not only concerted, but continuous and long-term, investment, with a view to providing the wider infrastructure that businesses need to trade. Some regions are significantly behind in connectivity and will require investment from government in order to catch up to the higher standards elsewhere in the country.
- **Increase levels of education, training and opportunities.** The UK's leading role in international services trade is underpinned by a prestigious education system. To realise its full potential, some key areas should be addressed. Increased investment in education, especially at the upper secondary level, can foster a more skilled workforce. Additionally, the government should work with private and third-sector organisations to establish regional centres of excellence aimed at upskilling local individuals and businesses to boost SEP. Particular attention should be paid to sectors on the government's shortage occupation list. This could be complemented by greater regional and MSME involvement in UK trade missions to help firms meet new partners and make new business connections.
- **Boost higher education R&D expenditure.** The government's plan for 'knowledge-intensive growth clusters' in the form of investment zones is to be commended. When determining the location for additional investment zones, consideration should be given to regions that are currently lagging others in R&D expenditure. The government can also increase available R&D funding by implementing its proposed Pioneer programme and/or rejoining Horizon Europe. Policymakers should also encourage R&D activities with direct links to services exports, such as cross-border collaboration and technology transfer.
- **Draw international comparisons.** The UK government should consider any potential lessons that can be drawn from other countries. For instance, policymakers could look at the US and Germany, which see economic output that is comparatively more evenly distributed across the country (see box on London's outsized influence on page 31), and deduce what policy measures and levers the governments in these countries have put in place to enable and encourage services trade and how the UK might take inspiration from these.

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Appendix: UK SEP regional breakdown

Region	Services exports (£ million)	Economic Complexity	Connectivity (broadband)	Connectivity (distance to airport)	Education and skills	Higher education R&D	Total
Tees Valley and Durham	3204	16.30	9.33	12.38	11.71	0.88	50.61
Northumberland and Tyne and Wear	3687	16.21	8.50	12.50	12.76	2.57	52.53
Cumbria	1134	16.41	6.89	2.31	11.61	0.00	37.23
Greater Manchester	8406	19.27	9.74	11.95	13.94	7.93	62.84
Lancashire	3429	16.52	8.74	10.96	12.60	0.50	49.31
Cheshire	4071	18.06	7.54	11.37	15.45	0.02	52.45
Merseyside	3983	17.72	10.16	12.04	13.45	1.89	55.27
East Riding and North Lincolnshire	1403	15.60	12.50	11.20	10.89	0.24	50.43
North Yorkshire	1797	16.16	7.20	8.72	14.83	1.22	48.13
South Yorkshire	2156	16.22	7.70	9.65	13.12	3.26	49.95
West Yorkshire	6767	17.37	8.82	10.89	12.66	3.53	53.27
Derbyshire and Nottinghamshire	3545	16.45	9.24	10.99	12.66	2.66	52.01
Leicestershire, Rutland and Northamptonshire	4089	17.57	9.78	9.99	12.96	1.94	52.24
Lincolnshire	788	15.45	7.31	7.03	11.09	0.21	41.09
Herefordshire, Worcestershire and Warwickshire	2770	17.19	7.54	10.47	14.14	0.03	49.38
Shropshire and Staffordshire	7445	15.95	8.18	8.46	12.76	0.40	45.75
West Midlands	7184	17.87	10.63	11.41	11.91	5.86	57.68
East Anglia	8113	16.66	7.64	9.75	12.70	11.13	57.88
Bedfordshire and Hertfordshire	6518	21.56	10.95	11.94	15.58	1.00	61.03
Essex	3395	18.26	8.31	11.62	12.11	0.67	50.97
Inner London (West)	81322	23.85	8.99	10.45	25.00	25.00	93.28
Inner London (East)	31885	24.15	8.93	11.71	21.92	2.55	69.25
Outer London (East and North East)	1883	22.52	10.60	11.62	15.62	0.32	60.69
Outer London (South)	3017	24.78	11.09	9.96	18.54	0.09	64.46
Outer London (West and North West)	17997	25.00	10.10	11.87	20.05	0.47	67.49
Berkshire, Buckinghamshire, and Oxfordshire	16956	22.01	9.01	9.69	16.99	12.99	70.69
Surrey, East and West Sussex	13108	22.92	8.59	11.55	16.50	1.87	61.43
Hampshire and Isle of Wight	9142	18.50	9.41	12.17	14.53	2.20	56.82
Kent	3175	18.06	8.35	9.77	12.99	0.38	49.55
Gloucestershire, Wiltshire and Bristol/Bath area	7771	18.97	9.38	11.00	15.29	4.22	58.86
Dorset and Somerset	2687	16.27	6.95	10.91	13.16	0.14	47.43
Cornwall and Isles of Scilly	853	16.13	4.74	10.31	12.86	0.03	44.08
Devon	1636	16.45	7.65	10.06	12.99	1.86	49.00

Region	Services exports (£ million)	Economic Complexity	Connectivity (broadband)	Connectivity (distance to airport)	Education and skills	Higher education R&D	Total
West Wales and The Valleys	4509	15.84	6.58	NA	12.73	NA	35.14
East Wales	2926	16.95	7.91	NA	15.09	NA	39.95

Region	Services exports (£ million)	Economic Complexity	Connectivity (broadband)	Connectivity (distance to airport)	Education and skills	Higher education R&D	Total
Eastern Scotland	8571	17.11	9.06	NA	17.03	8.64	51.83
West Central Scotland	5556	NA	10.81	NA	16.89	5.53	33.21
North Eastern Scotland	3744	16.91	5.24	NA	17.95	1.01	41.10
Southern Scotland	2015	NA	7.50	NA	14.73	0.00	22.23
Highlands and Islands	1565	16.44	5.01	NA	15.12	0.38	36.95
South Western Scotland	NA	15.78	NA	NA	NA	NA	15.78

Region	Services exports (£ million)	Economic Complexity	Connectivity (broadband)	Connectivity (distance to airport)	Education and skills	Higher education R&D	Total
Northern Ireland	2502	15.84	7.66	NA	NA	NA	23.50



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