

The UK-US Economic Corridor Is Strong but Could Be Even Stronger

The Transatlantic Confidence Index measures business confidence and priorities for companies operating in the US and the UK, and the Index makes a case for continued government attention to the transatlantic economic corridor.

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At a Glance

- ▶ The US and the UK continue to be a global model of bilateral trade and investment. Investors from both countries report moderate to strong levels of confidence in the transatlantic corridor.
 - ▶ In 2022, US investors operating in the UK are slightly less confident than they were a year ago—but they remain relatively positive. According to US companies, continuing challenges surrounding the UK-EU economic collaboration are the main issue affecting foreign direct investment confidence levels.
 - ▶ UK companies that are operating in the US reported high confidence rates. Companies are concerned about business mobility and the perceived lack of a global US trade agenda.
 - ▶ UK and US interest in a Free Trade Agreement (FTA) is currently being trumped by initiatives that can be pursued immediately outside the scope of an FTA such as improved business mobility, a data transfer agreement, and joint initiatives around sustainability.
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Since the first Transatlantic Confidence Index was published a year ago, the world has not become an easier place for businesses.

Companies everywhere are still recovering from the Covid-19 pandemic. The UK's exit from the EU introduced political tension and increased trade friction. The US is consumed by predominantly domestic issues, and the war in Ukraine accelerated global inflation and the supply chain crisis.

All these conditions—and others—influence investors' confidence in operating overseas. This report, the second annual Transatlantic Confidence Index, quantifies that sentiment. It also makes the case for a strong economic corridor between trusted partners, which is crucial in times of stress and uncertainty.

The economic partnership between the US and the UK has served as a global model of bilateral trade and investment. The countries have steadied one another as the world navigates change, providing each other with employment opportunities and addressable markets. More than 1.25 million people work for British companies in America, and over 1.5 million people work for American companies operating in the UK. Both countries invest billions of dollars in each other's economies annually through trade and direct investment, creating high-skill jobs that build and support healthy communities.

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To measure confidence in the relationship, BritishAmerican Business and Bain & Company surveyed 77 large or growing companies in April and May 2022. Fifty-four of the companies were US-based entities operating in the UK. This year, the survey was expanded to include 23 UK companies that are active in the US.

The survey reveals how confidently the companies feel about the relationship and future investments. It identifies key priorities, as well as each country's most attractive and unattractive qualities. This edition also offers comparisons from the prior year when they are available.

How US companies view doing business in the UK

US investors in the UK are marginally less confident than they were a year ago, but they still report relatively high confidence when it comes to doing business in the UK. On a scale of 1 to 10, the average confidence rating was 7.3 in 2022, down from 7.8 in 2021.

The rating was driven by long-standing attributes of the UK, such as its strong talent pool, the rule of law, and R&D incentives. Respondents said the UK has a “positive regulatory environment” and a “talented workforce.” US companies also appreciate that there's no language barrier.

One out of five respondents said their confidence in the UK is increasing. Although positive, this is fewer than in the prior survey. Last year, almost a quarter of companies believed their confidence would increase over the next two to three years.

The predominant reason for the UK confidence dip is the “progressive impact of the UK-EU split,” which respondents cited as one of the most unattractive aspects of doing business in the UK.

Based on the survey, the predominant reason for the dip is the “progressive impact of the UK-EU split,” which respondents cited as one of the most unattractive aspects of doing business in the UK. This comes as no surprise. Last year's report concluded that future confidence levels in the UK would be primarily affected by the UK's political and economic relationship with the EU. Challenges around the UK-EU relationship have persisted, reducing political and regulatory certainty.

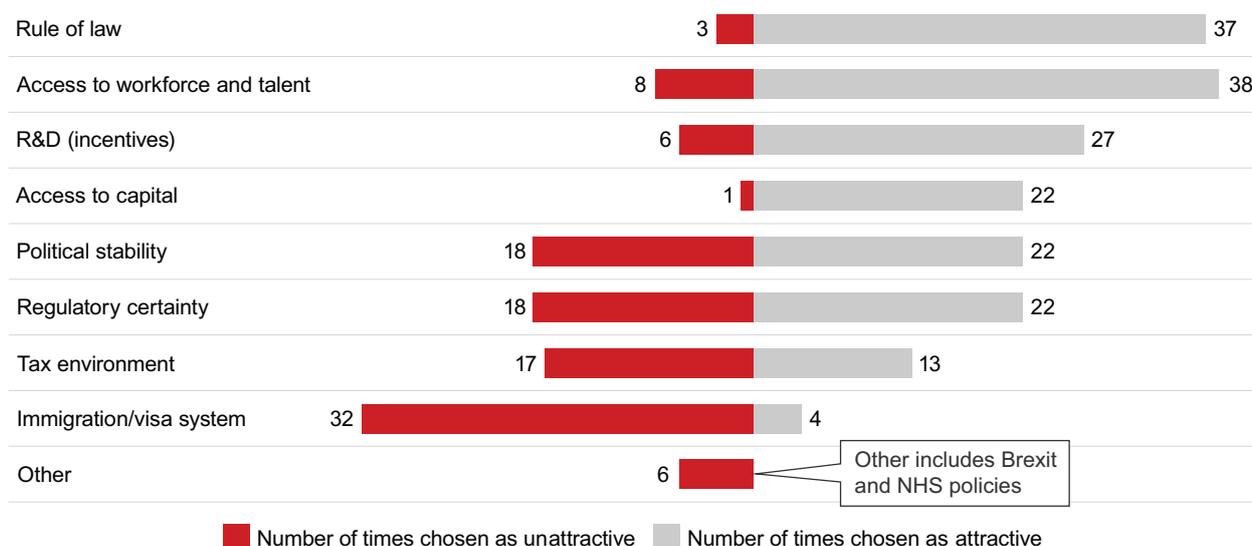
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US investors have two more top concerns: the prospect of a greater tax burden and difficulties attracting workers (see Figure 1). Despite the UK’s efforts to relax its immigration framework to allow more workers to enter the country, a significant number of US companies report ongoing labor shortages that they cannot fill locally. Increased concern around the tax environment is likely linked to the UK’s intention to increase its corporate tax rate from 19% to 25% in 2023. Concerns for a business-friendly tax environment are part of a longer-term trend and were also expressed in last year’s survey.

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Figure 1: Immigration, political and regulatory stability, and the tax environment are the biggest concerns for US investors in the UK

Which are the UK’s most attractive assets?



Source: BAB/Bain Confidence Index Survey, May 2022 (n=54)

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What US companies want is clear: To attract future investment, US investors want the UK government to repair its political and trade relationships with the EU (see Figure 2).

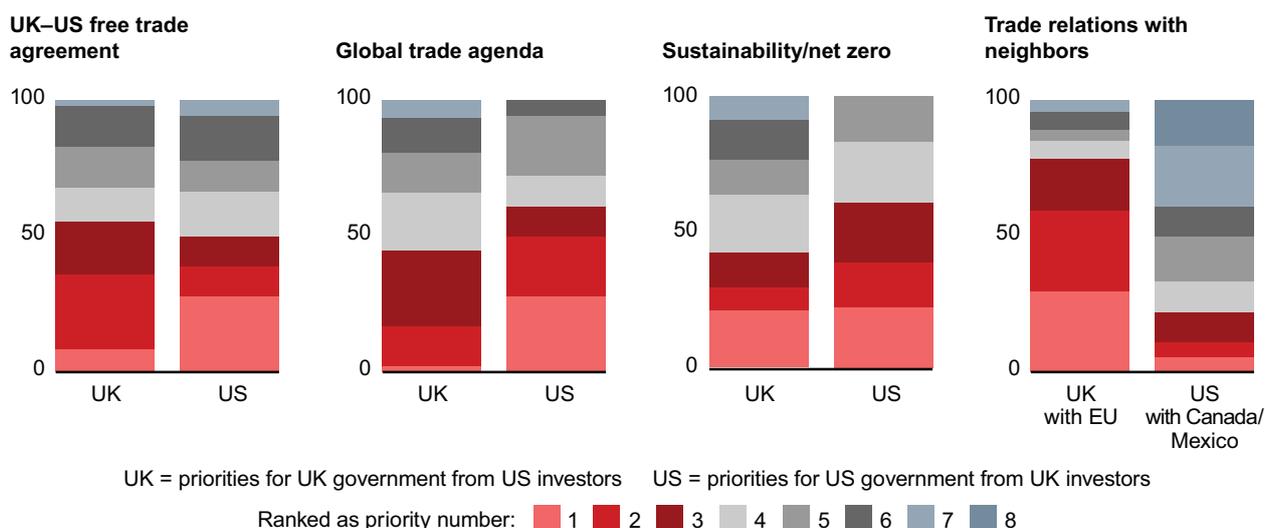
Pursuing a US-UK Free Trade Agreement (FTA) remains a high priority for US companies, although less so than last year. The decline may be a reflection of the current, unfavorable political environment. Instead, companies are more interested in solving immediate problems in the transatlantic corridor without an FTA. Specifically, companies are eager to improve business mobility and they want to pursue joint initiatives around sustainability that create new business opportunities. US companies would also like more clarity around the UK’s industrial strategy, and they support an expanded trade agenda with the rest of the world. The UK’s “Levelling Up” agenda was not seen as a priority for foreign direct investment attraction.

How UK companies view doing business in the US

UK companies have much higher confidence in the US as a place to conduct business than US companies do about the UK. On the same scale of 1 to 10, the UK’s average confidence rating in the US was 8.0.

Figure 2: The UK’s relationship with the EU and the absence of a global trade agenda in the US are critical issues for businesses operating in both countries

Which would you recommend to the UK or US government as top priorities to continue to attract inward investment? (1=top priority)



Notes: Other ranked priorities that did not rank high enough to show here include UK industrial strategy; levelling up; UK investment incentives; US infrastructure; Build Back Better; SelectUSA; and D&I
Source: Bain & Company

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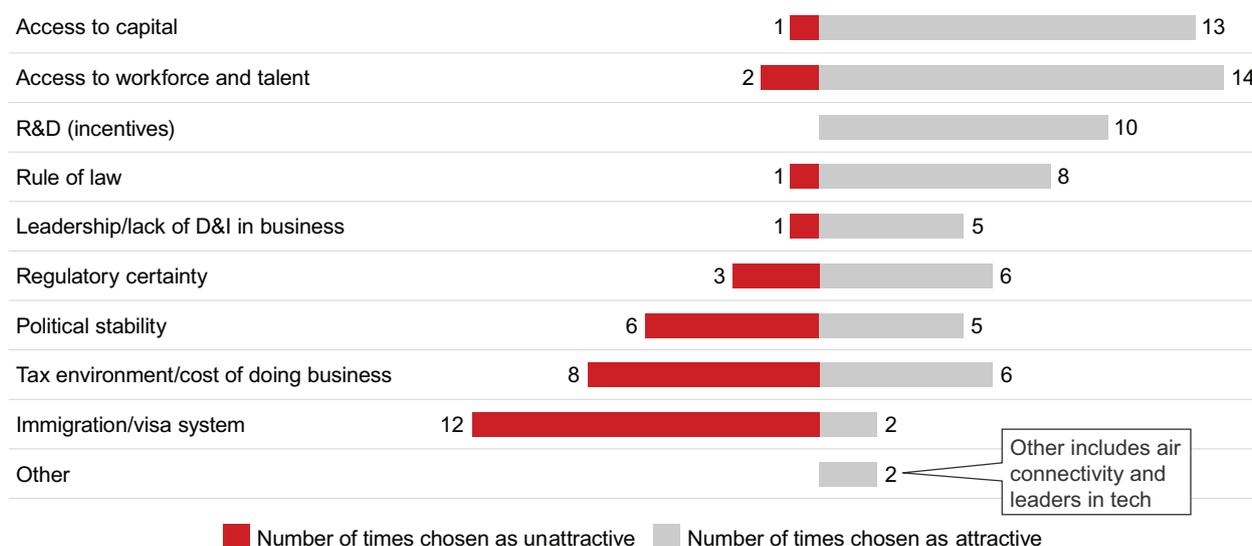
The result is not surprising given the long-standing economic relationship between the two countries. Still, it is encouraging. Since its exit from the EU, the UK has a renewed focus on the US. In particular, UK companies value the US for the size of its market for their products and services and for its access to capital and talent. UK companies hold the US in high regard, which warrants political attention.

Today, problems associated with business mobility are seen as the most unattractive aspect of the US.

However, UK companies struggle with the US immigration system and practical barriers to business mobility. Years before the pandemic, demand for business visas had already outpaced resources and accessibility. Today, problems associated with business mobility are seen as the most unattractive aspect of the US (see Figure 3). The US tax environment and political stability are also concerning to UK businesses.

Figure 3: UK companies are attracted to talent and capital available in the US but find the immigration system challenging

For UK companies operating in the US, which are the US's attractive assets?



Source: BAB/Bain Confidence Index Survey, May 2022 (n=23)

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UK companies have a straightforward request for the US government: To attract future investment, they want the US to recommit to a clear trade agenda. An overwhelming majority of UK companies want the US to relaunch a comprehensive global trade agenda. They also want the US to take the lead on issues around sustainability.

UK companies have rather moderate views of a “worker-centered” trade policy approach in the US, scoring it a 5.7 out of 10. Detailed responses suggest that respondents do not fully understand what the policy entails. At the same time, UK companies strongly desire US-UK trade talks to continue.

The transatlantic corridor is strong . . .

Overall, investors in the US and in the UK are both modestly positive. When asked about the health of the transatlantic corridor, the average score was 7.0 for US companies and 7.2 for those from the UK. This is unchanged from last year.

Business confidence is largely driven by core attributes that have shaped both the US and the UK and their relationship with one another over many years.

The index confirms that business confidence is largely driven by core attributes that have shaped both the US and the UK and their relationship with one another over many years. Similarity in the confidence levels suggests that both countries offer attractive climates for investment and are great economic partners.

. . . but could be even stronger

While the transatlantic economic corridor remains strong, companies on both sides of the Atlantic would like to see continued attention and collaboration on key issues, such as difficulties around business mobility and the increased tax burden on companies and employees.

In addition, transatlantic companies want more joint initiatives around sustainability, and they want UK-US data flow talks to reach a conclusion. Ambition for a US-UK FTA remains high, although the focus has shifted toward objectives that can be delivered outside an FTA framework.

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The UK's relationship with the EU and the absence of an outward-looking global trade agenda in the US are critical issues for businesses operating in both countries. Domestic barriers to trade and investment, as well as political tensions with other economic partners, must not erode the relationship or be seen as a reason to disengage.

The current geopolitical environment should motivate businesses to invest in the transatlantic corridor. Economic relations between trusted partners matter more than ever at times like this, when the global trading and investment landscape is defined by "re-shoring," "near-shoring," "friend-shoring," and sanctions.

The 2022 Transatlantic Confidence Index offers strong encouragement for the UK and the US to continue working toward formal trade collaboration. Solving issues that make both markets good destinations for business and investment will build strength and confidence overall.

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Methodology

This is the second edition of the Transatlantic Confidence Index report issued by BritishAmerican Business and Bain & Company. The index survey measured the confidence of US companies that are active in the UK. This year, it also measured UK companies' confidence in the US. When appropriate, data from the inaugural survey are also referenced for comparison.

Seventy-seven major companies responded to the survey (54 US companies and 23 from the UK). Together, they represent more than 4,000 years of activity and employ more than 288,000 people. The respondents are based in all four nations and major regions across the UK and in all 50 US states.

The respondents represent a range of sectors, including financial services, technology, healthcare, media, telecommunications, manufacturing, and others. While many factors influence confidence, our Transatlantic Confidence Index focused on overall confidence for investing and trading, short-term investment prospects, and the health of the US-UK relationship overall.



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About BritishAmerican Business

BritishAmerican Business is the leading transatlantic trade association incorporating the British-American Chamber of Commerce in the US and the American Chamber of Commerce in the UK.

We are committed to strengthening the economic corridor between the United States and the United Kingdom by supporting policies and actions that protect and enhance the environment for transatlantic trade and investment on behalf of our members.

We convene and serve a growing network of companies and business leaders through networking opportunities, bespoke programming, and marketing platforms.

We actively promote trade and investment and support those who make the transatlantic corridor part of their business growth ambition.

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