



# Pointmaker

## GOING GLOBAL

How to make the UK the champion of worldwide entrepreneurship

JAMES SPROULE

The coronavirus pandemic is calling into question a wide range of previously settled assumptions. Among the most profound is the future of the dominant economic trend of recent decades: globalisation.

Between 2000 and 2019, trade in physical goods grew from \$6.8 trillion to \$18.9 trillion.<sup>1</sup> Many are now predicting this will go into reverse, as businesses consolidate supply chains or focus on a more regionalised form of trade.

But there is an alternative path, one in which the pandemic is a catalyst for a rapid evolution of globalisation – in which it becomes at least as much about trade in ideas and services as it has been about exchange of goods.

The dream for many of those who wanted to leave

the European Union, and a fair number of those who have come to terms with the fact that we have left, was of the United Kingdom being a vibrant, agile, outward-looking champion of free trade and enterprise. As Boris Johnson said in his Greenwich speech in February 2020:

‘We have the opportunity, we have the newly recaptured powers, we know where we want to go, and that is out into the world... We are re-emerging after decades of hibernation as a campaigner for global free trade... And frankly it is not a moment too soon because the argument for this fundamental liberty is now not being made... the notion [of free trade was] born here in this country, it has been free trade that has done more than any other single economic idea to raise billions out of poverty and incredibly fast.’



This paper sets out two distinct but interlocking proposals to help flesh out that vision. Taken together, they would put the UK at the heart of the global trade in services and ideas – and support and stimulate entrepreneurship in countless corners of the world. These are e-citizenship for individuals and e-businesses, which those individuals would have the right to establish.

The former would provide a definitive proof of identity, a transfer of established trust to those who can be trusted, a way for millions of people to more fully participate in an online world. The latter would give those trusted e-citizens a way to engage in trade, to establish companies, and to use global trust in English law and British corporate governance to build new businesses.

### **The market opportunity**

Even before the onset of the coronavirus, it was clear that the world around us was changing rapidly. Thanks to technological advances, new ideas and the lessons of practical experience can be communicated and disseminated more quickly and effectively than ever before. It took upwards of 40 years for the Industrial Revolution to spread from the North of England to the rest of Europe.<sup>2</sup> Today new ideas – and, unfortunately,

new diseases – can spread globally in a few days. Witness how Zoom went from a niche business product to as common a verb as ‘Google’.

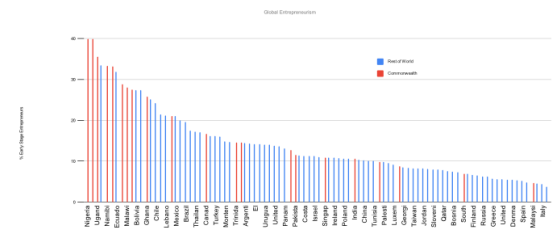
In 2002, fewer than half of those living in developed countries – with GDP per head of around \$30,000 – had mobile phones. By 2016, mobile penetration rates had hit two thirds of the population even in countries where average GDP per capita was less than \$2 a day.<sup>3</sup>

This communications revolution has gone alongside a revolution in entrepreneurship. In his 2000 book ‘The Mystery of Capital’, the Peruvian economist Hernando de Soto famously recounted how it took an entrepreneur in Lima over a year to legally register a company, without paying bribes. The result of this stifling bureaucracy was that everyone who started a company did so on the black market. This ensured that they would never grow their business to any scale as they had no bank accounts or access to formal capital markets – and would of course pay no taxes.

Professor de Soto’s findings were a catalyst to substantial reforms to bureaucracy around the world. World Bank data shows that the average time to start a business has declined from over 50 days in 2003 to less than 20 in 2018,



while the number and cost of business procedures have both declined by more than 50%.



Such measures – combined with the communications revolution discussed above – have led to an explosion of entrepreneurial behaviour in the last two decades. According to the Global Entrepreneurship Monitor, just 8.9% of the world’s population was involved in some sort of start-up business in the year 2001. By 2016, that figure was 14%. In the most entrepreneurial countries, often in sub-Saharan Africa, start-ups can employ up to 40% of the working age population. Globally, the number of early stage entrepreneurs had risen from 254 million at the turn of the millennium to 469 million by 2015/16.

Engaging in small-scale commerce teaches valuable lessons: how to market, the need to price goods and services appropriately, the financial and psychological benefits of being rewarded for hard work. Many of these businesses may eventually fail – even in the UK, where a more modest 8.8% of the

population is involved with a start-up,<sup>4</sup> only 40% of businesses make it to their fifth birthday.<sup>5</sup>

But as Edward Conard has said, it is from these start-ups that the next set of nationally and even globally significant companies will emerge.<sup>6</sup> Moreover, even where a business does not survive the tests of time and consumer preference, the entrepreneurs involved will take valuable experiences, aptitudes and attitudes into their next place of work.

The good news is that politicians, economists and the general public are ever more aware of the link between prosperity and entrepreneurship. There is an appreciation that successful societies need to strive to give the firms the best chance possible of success: from fostering entrepreneurs and the firms they found, to giving them the ability to trade, to providing all businesses with a framework of effective governance, to fostering the availability of finance.<sup>7</sup>

The bad news is that there are still far too many places where starting a company, and doing business generally, are far harder than they ought to be – where corruption or simply maladministration hobble businesses, where it is not possible to trade freely within a country, let alone outside it. And even where there



is honest government and competent administration, firms do not always have access to the capital or professional services that could see them meet their full potential. These barriers are particularly acute when firms seek to leave their home markets and expand across borders.

### **The case for e-citizenship**

In 2014, Estonia established the world's first programme of e-citizenship, a programme specifically targeted at entrepreneurs – including, these days, Britons who might want to continue operating in the EU post-Brexit.

As its website says, Estonian e-Residency is 'a government-issued digital identity and status to enable access to the country's e-services and transparent business environment. This access empowers entrepreneurs around the world to establish and manage a location-independent business entirely online'. In other words, you can be sitting in South Africa, or Somalia, or Singapore, and be running a business that operates within Estonian law, with an identity document backed by the Estonian state.

It is important to note that while the digital ID card provides access to online services – including document

signing, encrypted-document exchange, online banking, tax declaration and the management of medical prescriptions – it is not a valid form of physical ID and cannot be used as a travel document, let alone conferring any right of entry or residency to Estonia or the European Union.

To date, according to the Estonians, more than 62,000 people from more than 165 countries have applied for e-Residency, establishing more than 10,000 Estonian companies.

Kaspar Korjus, former managing director of the Estonian e-Residency programme, says that registering an Estonian business appeals particularly to 'internet entrepreneurs in emerging markets who don't have access to an online payment provider', and to start-ups from countries such as Ukraine or Belarus.

Indeed, nearby members of the former Soviet Union were the original target market, given the significant issues there with the rule of law and bureaucratic obstacles to doing business. The hope was to sign up millions of e-Residents – but in fact these impediments to entrepreneurship have proved so intractable that many of those original targets have chosen simply to migrate to more business-amenable countries,

rather than struggle on in the country of their birth.

But while the program has been slower to take off than hoped, it is also proving popular across a far wider range of countries than ever envisaged.



Source: Wikipedia

If e-Residency was a natural fit with Estonia's digital-first culture of government, an e-citizenship programme is an even better fit for Britain.

Britain's legal system, and its financial institutions, are among the most trusted in the world. We are the home not just to Europe's financial services and industry and its largest capital markets, but dominate in fields such as accountancy and legal services. The British common law system is such a blue-chip asset that overseas countries with aspirations for growth have taken to copying it wholesale, importing British legal experts to ensure the probity of their business ecosystem. Ours is also the international

language of business.

A British e-citizenship scheme would give overseas entrepreneurs access to UK services, to the benefit of English law, to UK financing and investors. Above all, they would be able to assure customers and creditors that they, and the company they represent, were trustworthy. We could also, going further than the Estonians, give those who had established successful companies extra points when it comes to immigration and visa applications – ensuring that the new regime really does attract the best and brightest.

#### The UK e-citizenship scheme envisaged in this paper would work as follows:

- Application for UK e-citizenship would be made online.
- Successful applicants would be granted a physical biometric UK e-citizenship identity card which could be used to establish a 'zero proof' online identity.
- UK e-citizens would be able to establish a UK-registered e-businesses.
- UK e-citizens would be granted the ability to open an international UK bank account, which could be used for electronic payments worldwide.
- UK e-citizens would be able to strike contracts stipulating the use of English law and enjoy the jurisdiction of British



- courts.
- UK e-citizenship card would act as a pre-qualification for a UK working visa, although visa fees would still apply.
  - UK e-citizenship could gradually lead to the accumulation of up to 10 points in the broader UK 'points based' immigration system.
  - Firms established by UK e-citizens, e-businesses, would qualify to be included in UK investment programs.
  - UK e-citizenship and UK e-businesses would not be resident in the United Kingdom, and therefore would not attract a tax liability.
  - UK e-citizenship would explicitly not grant right to UK residency or entitlement to state benefits.

E-citizen identity card – While some form of official identity will be required as a part of the process when applying for UK e-citizenship, many applicants will not have a form of identity that gives them international credibility from a business or commercial point of view. This is what UK e-citizenship aims to provide in both a secure online as well as physical sense. Ideally this would be a 'zero knowledge proof', so that a person's identity would be proved beyond doubt, although the person to whom it was being proved would not gain access to the basis of that proof. The ultimate objective and value of this program is to have entrepreneurs around

the world becoming e-citizens, and British suppliers and investors recognising what it means, and both investing trust in the UK e-citizenship and e-businesses systems.

Any application process would obviously have to be easy, low-cost, accessible globally and above all secure. If the decision to move forward with a UK e-citizenship program is taken, there is an immediate strategic question as to whether this system is built upon and integrated within the existing 'gov.uk' infrastructure, or built as a stand-alone system.

Careful consideration should be given to examples from other parts of the world of the introduction of widescale identity systems. One of the most ambitious has been in India, where in 2009 the Government introduced the national identity number system known as Aadhaar. Aadhaar numbers are used, among other things, to access a host of state services and have subsequently been linked to a biometric card scheme.

Registering millions of people in a country where the literacy rate is only 74% and people in many cases have only basic identity documents and limited access to online systems has clearly been a challenge, but one the Indian Government has been able to meet. The success of this



identification system in India indicates the feasibility of such online systems in other countries.

In the UK, additional UK e-citizenship security could be achieved through an online system of the sort used by the Financial Conduct Authority, which registers who is eligible to work in financial services firms. A similar database could be incorporated alongside a physical biometric card and/or facial registration software. Such steps would give significant security assurances not only to the holders of e-citizenship, but also to those with whom they were transacting business.

Bank account – While not a requirement of being an UK e-citizen, the granting of e-citizenship would entitle the recipient the right to open a UK international bank account. Legislation would be put in place which made it clear that UK regulated banks could offer such accounts and that account holders would agree to have their financial footprint monitored digitally, thus addressing the very legitimate concerns about fraud and money laundering. The potential benefit to UK e-citizens would be substantial, allowing them an easy and convenient way to internationalise their business, make payments and depending on local circumstances, to reduce currency and expropriation risk.

Pre-qualified for business visitor visa – Many developed countries enjoy easy and convenient visa arrangements with the United Kingdom, allowing visas to be obtained upon arrival, or at the very least with little difficulty before departure. But over one hundred developing countries do not have such arrangements in place.<sup>8</sup> UK e-citizenship would be appealing to business people from countries where obtaining a UK visa is bureaucratic and where success in gaining a visa far from assured.

The standards to which a businessperson will have to meet to qualify for UK e-citizenship, in terms of their identity and the bona fide nature of their business, would in all cases be higher than that necessary to qualify for a business visa. Thus e-citizenship would act as a pre-qualification for such a visa. The costs of the visa would still be set by the Home Office depending on the length of its validity. The Home Office may wish to consider the scale of such fees as there has been some criticism of the considerable profits that these present fees are thought to be generating, with a five-year visa costing £655.<sup>9 10</sup>

In the longer term, consideration should be given to supporting UK e-citizens with a strong track record of entrepreneurial success if they were to consider migration





to the UK. The Government has recently set out its plans for a longer-term immigration system, which awards points to potential immigrants across a number of areas, from the offer of a well-paid job, through to qualifications generally, and further points for qualifications in areas where there is an identifiable shortage of workers. The immigration system could recognise the affinity that e-citizenship entails, and the potential for economic contribution, by setting out that, after a qualifying period of time, e-citizenship could result in the award of up to ten points towards immigration into the UK (of the 70 that are needed to apply).

One important early decision to make would be regarding the level of fees for the e-citizenship application process. By way of comparison, Estonian e-residency generally costs €120, although the UK e-citizenship as set out in this paper envisages a greater scope of offerings and would in all likelihood be considered more valuable.

The eventual cost of applying for UK e-citizenship and the fees for the establishment of a UK e-businesses would have to be subject to further study and consultation. Ideally the UK e-citizenship program would be administered so that fees covered costs, rather than as a profit centre for the Home Office.

In considering how the e-citizenship and visa fees to entrepreneurs in select countries might be reduced, the Department of International Development might well decide to allocate funds to subsidise a number of deserving cases from particular developing countries.

### **UK e-business**

Once an individual's e-citizenship has been established, the other significant element of this programme can be undertaken: establishing a UK e-businesses.

What many entrepreneurial minds around the world naturally turn to over time is the ambition and desire to look beyond local markets, and it is here that establishing a UK e-businesses could be a natural next step.

Being a UK e-businesses would not be a substitute for registering a company locally: when in their own domestic jurisdictions, businesses would be bound by all local laws, including any tax liabilities. But trust in the legal and financial procedures of many emerging markets can leave much to be desired, even where the individual entrepreneurs and company directors are beyond reproach. A UK e-business could offer the ideal solution, an easy and straight forward way to bring firms within



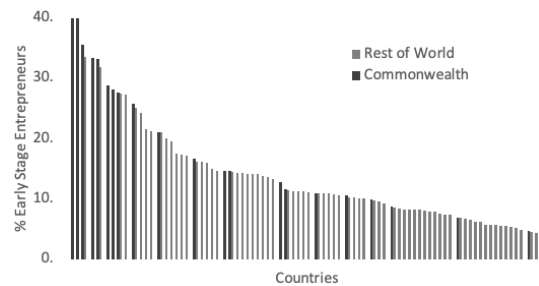


the remit of UK corporate law and giving all stake holders a heightened and justifiable degree of certainty and trust. This program would not be aimed exclusively at those wishing to do business in the UK, as is naturally the case with those foreigners who seek to register UK firms, its aim is to assist entrepreneurs around the world. That said, it would also help UK firms operate overseas, ensuring that their local subsidiaries meet the standards both of their local market and of the UK.

This is not the only way in which UK firms would benefit. Business services represents an area of significant comparative advantage for the United Kingdom, and the benefits to British business from this program would be considerable.

The next stage of development in many emerging markets is going to involve significant expansion in demand for a range of services: banking, insurance, accountancy, consultancy. If these services were being sought by a UK e-citizen operating a UK e-businesses, not only would the executives have established a personal degree of trust from, and a demonstrable affinity with, the United Kingdom, but the legal basis of the company would be British and the risks would be commensurately lowered.

British businesses would also be in the ideal position to supply goods and services to meet the growing demands of emerging market companies. The International Monetary Fund forecast in April 2020 (which explicitly considered the Covid 19 crisis) that developing markets will grow far more rapidly than developed economies over the next few years, experiencing a shallower recession and a more rapid recovery leading to an expected rate of growth of 3.2% vs an essentially flat 0.02%.<sup>11</sup> By extending its economic and political credibility to entrepreneurs around the world via a program of e-citizenship, the UK can put itself in pole position to have British firms help build, and share in, future global prosperity.



Source: Global Entrepreneurship Monitor

As a first step, the UK should consider targeting this programme to a range of Commonwealth countries where there is already significant entrepreneurial activity. There are almost 50 million entrepreneurs in the Commonwealth countries of sub-Saharan Africa alone<sup>12</sup>, and Nigeria,



Zambia and Uganda are proportionately the three most entrepreneurial countries in the world. Even small percentages taking up UK e-citizenship and launching e-businesses could rapidly result in tens of thousands of participants in the programme.

### **Finance and taxation**

Finance offers one of the key areas where UK e-citizenship could be of benefit to both new e-citizens and British business.

It is axiomatic that developing countries lack the significant domestic pools of capital necessary to invest in growing businesses. Of the \$360.6 trillion in global wealth estimated to exist by the end of 2019, 57% was concentrated in North America and Europe but only just over 1% in Africa.<sup>13</sup> The numbers may have changed as a result of the pandemic, but businesses in much of the developing world will still be having difficulty in raising capital from international sources, as investors are justifiably cautious about putting their money in places where the rule of law is weak and there needs to be a considerable investment of time to understand local legal complexities.

By having the UK e-businesses based in English law, which is well understood and widely trusted, the way would be open for investors to channel capital to places

and firms that had never before been considered.

If there are clear advantages to businesses in developing economies, there are equally significant advantages and opportunities for Britain. British investors and savers, like those in other developed economies, are facing a situation where yields on traditional investments have fallen to historic lows. Given ageing populations and unsustainable pension promises, there is an urgent need for ever-greater wealth accumulation.

Allowing safe and easy access to investing in UK e-businesses would provide professional investors with an opportunity to gain the higher returns available in developing markets, with a degree of investor trust (because of the use of English law and corporate governance rules) that would otherwise take a generation or more to otherwise establish. Once an international e-company had been established for a period of time, it could even qualify for inclusion in EIS and SEIS investment schemes, allowing a wider range of individual UK investors to participate in higher returning investments. There are several key concerns with regard to tax. Given that a UK e-citizen would not be resident in the United Kingdom, there would be no personal income tax liability. As for corporation tax, e-businesses'



earnings and profits would be generated outside the United Kingdom, meaning the tax liability would be subject to the tax regime of a firm's resident country. But it is vitally important to note that UK e-citizenship and UK e-businesses would not and could not be used to avoid or evade tax – and that the bank accounts of e-citizens and revenues of e-businesses would be reported to the appropriate resident tax authorities.

To give this situation added legal certainty, an explicit exemption should be included in the primary legislation establishing e-citizenship and e-businesses that no UK tax liability would be.

### **Legal issues**

UK e-citizenship offers a way for the growing number of global entrepreneurs and the firms that they establish to naturally consider and to easily access one of the world's most trusted legal systems: English law. A business does not have to be very big before it needs to enter into legal contracts, and the number, length and complexity of these contracts is only going to grow as a business expands.

English common law has long been used to facilitate commerce and trade, and it continues to dominate, with 27 per cent of all international contracts stipulating

English law and a further 20 per cent stipulating American common law, to which it is obviously a cousin.<sup>14</sup> Other studies confirm that English common law accounts for more than twice as many commercial contracts as German and French law combined.<sup>15</sup> Indeed, it is often used even where neither party has any connection with the United Kingdom or United States.

English common law is trusted to deliver speedy and efficient resolution of business and financial disputes, and so is arguably the world's most trusted commercial legal system. UK e-citizenship would build upon this confidence in and preference for English law in legal contracts. To make this attribute even more useful and cost effective, a series of easily adaptable standardised contracts could be made available for UK e-business firms to utilise.

If the technical challenges of e-citizenship appear to be surmountable, there is one area of ongoing and justifiable concern: fraud. As set out, much of the value of UK e-citizenship stems from the way it would extend the United Kingdom's reputation for good governance, granting easy access to services provided by UK businesses and access to finance.

But UK e-citizenship is a privilege, not – as with normal citizenship – a right. The



integrity of UK e-citizenship and any UK e-businesses would depend upon the high standards of individual and corporate behaviour expected in the United Kingdom being replicated in any international or electronic space.

The application process for both e-citizenship and e-businesses should therefore seek to establish if there have been any local convictions or previous involvement with fraudulent businesses, either of which would disbar a person from a successful application. Moreover, should a e-citizen be convicted, or engage in fraudulent business behaviour, their e-citizenship and/or e-businesses registration could and would be revoked.

## **Conclusions**

One of the great intangible benefits inherent in a successful and prosperous developed economy is cultural credibility. People do the jobs they have agreed to do, without further enticement; contracts are generally honoured; prices are usually fixed; an entrepreneur's political connections are not paramount to the success of a business.

In looking to champion free trade and foster global prosperity, the United Kingdom can give no greater advantage to would-be entrepreneurs around the

world than extending its economic and legal credibility. No other G7 nation offers them such an opportunity to trade, build businesses, establish trusted relationships and find finance.

However, the benefits would not just go to the entrepreneurs – because this system would also put UK-based firms in the best position possible to benefit from doing business with these growing parts of the world.

For optimists, the future for the United Kingdom is one full of possibilities. And nowhere are these possibilities more obvious than in looking at the potential for new global trading and business relationships.

Indeed, there could be no greater testament to the Prime Minister and United Kingdom's commitment to free trade than inviting entrepreneurs from around the world to benefit from the business culture of the UK – and few better ways of offering British companies a chance to help the most rapidly growing firms in the world to prosper.



## Endnotes

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- 2 <http://i.imgur.com/JMif2ak.png>
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## **About the Author**

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## **About the Centre for Policy Studies**

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*Founded in 1974 by Sir Keith Joseph and Margaret Thatcher, the CPS has a world-class track record in turning ideas into practical policy. As well as developing the bulk of the Thatcher reform agenda, it has been responsible for proposing the raising of the personal allowance, the Enterprise Allowance, the ISA, transferable pensions, synthetic phonics, free ports, and many other successful policy innovations. The recent Conservative manifesto drew heavily on CPS proposals, in particular its flagship policies on tax and housing.*