The future of UK exports

Britain will be more reliant on exports than ever in the painful post-recession era. To stand a chance of sustainable growth, we have to start selling more into growth markets

The government aims to double UK exports to £1 trillion a year by 2020 and get 100,000 more UK companies exporting by 2020, as part of the chancellor's strategy of rebalancing the economy from consumer spending to overseas demand.

'Since the Second World War our economy has essentially been driven by either consumer spending or government investment, neither of which is available at present, so growth has to come from business investment and exports,' says Chris Gentle, head of Deloitte Insight, co-author of Deloitte's *Winning in growth markets* report and member of ACCA's Accountancy Futures Academy.

However, the chancellor's hopes for strong UK exports have been dashed. According to the Office for National Statistics (ONS), British exporters put in an overall poor performance at the start of the year. The trade deficit for goods soared to £9.4bn in February; the trade surplus for services remained at £5.8bn. At the end of February, the volume of total UK exports had fallen by 7.5% since the start of the year.

The weak pound makes it cheaper to buy British goods and services, yet Britain's trade deficit with the rest of the world had increased to £14bn at the end of the first quarter, showing we were still importing more than exporting. It could be that we do not sell enough to markets outside Europe.

According to the ONS, exports to non-EU countries in 2012 overtook exports to the EU for the first time. UK exports to the eurozone fell further (by £0.1bn) in February 2013 and research from the independent think-tank Ernst & Young ITEM Club shows they are unlikely to recover before 2015. Yet HSBC's *Global Connections* report predicts that the top destinations for UK goods and services will stay exactly the same throughout the coming decades; Germany and France will still be among the top three buyers of our exports in 2030.

'It's easy to trade with the EU when the euro is strong and because there aren't so many barriers. When it comes to international trade, British businesses tend to look more for a quick fix than a long-term solution, but we've got to change this,' says Lesley Batchelor, director general of the Institute of Export.

Things are changing, but slowly. According to the ONS, UK exports to Brazil, India, China, Russia and South Africa – the so-called BRICS – have increased from £12.7bn in 2007 to £27.1bn in 2012. Exports to China alone more than trebled in this period, and exports to India increased by 83%. Yet the BRICS still account for only 5.6% of total UK exports.

Markets and sectors

To rebalance the economy, Britain must rebalance its exports towards growth and emerging markets. Deloitte's *Winning in growth markets* recommends that UK businesses focus on 20 high-growth markets identified by UK Trade & Investment, which currently account for a third of global imports of goods and services, but only 17% of UK exports. The report estimates these markets will grow to 35% of world GDP by 2020, accounting for £10 trillion in annual imports.

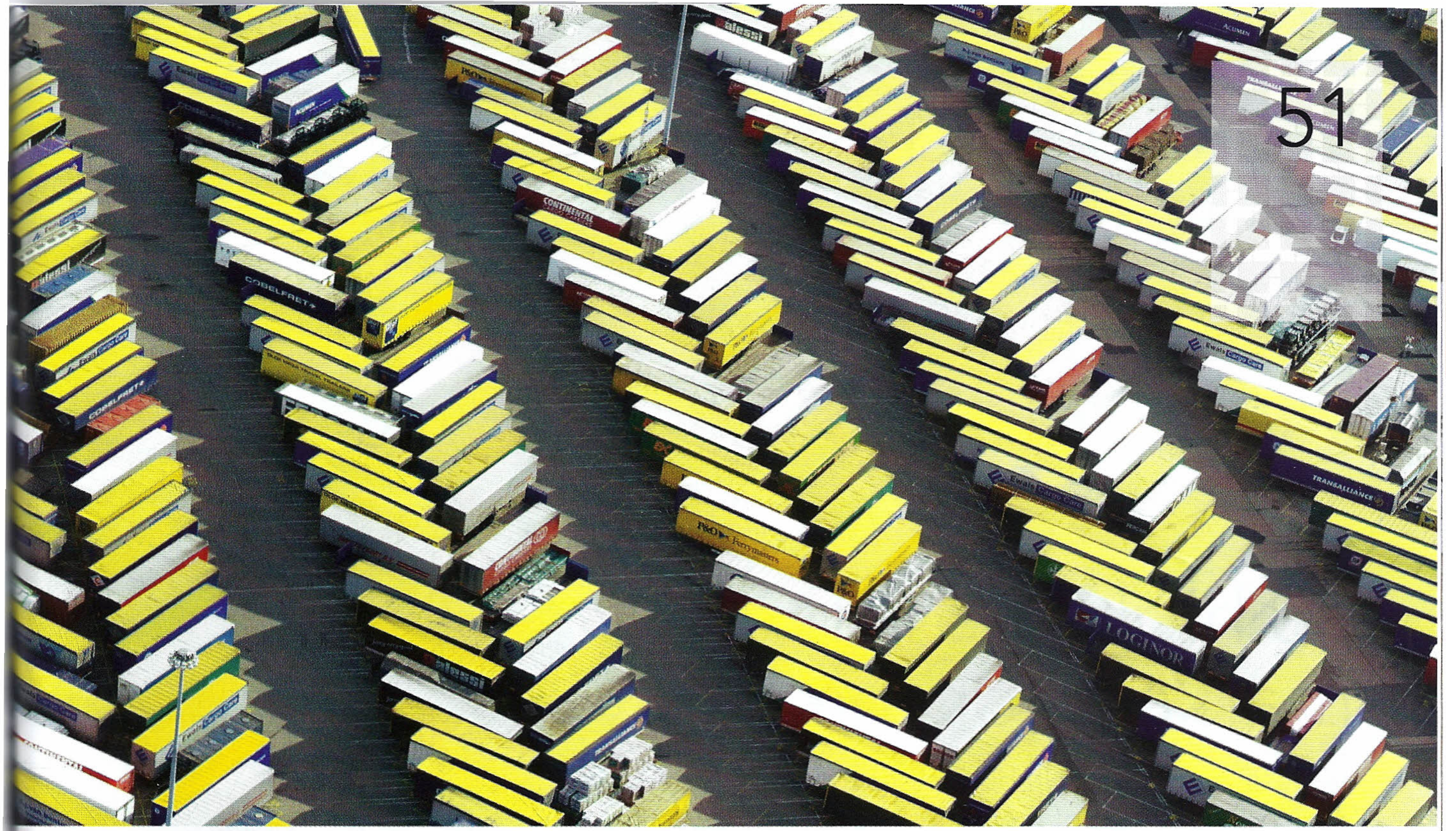
According to the report, the growth of the middle class across India, China and other fast-growing economies is arguably the most important trend in the coming decades. Turkey, Mexico, Colombia and Vietnam are witnessing rapid urbanisation and growth in their aspiring middle classes too. This means the current failure of UK exporters to penetrate these markets must change.

'We're also missing a trick in Africa, as we tend to create products for first-world countries,' says Batchelor. 'Granted, it's not the easiest of places to do business in, but Africa has much higher growth than even China.'

According to the Deloitte report, our exports underperform partly because the developing world has been importing heavy-manufactured goods, transport and physical assets such as equipment and machinery and the UK is not a big player in those sectors. 'However, we are good at engineering, aerospace and automotive,' says Batchelor. Indeed, if we maximise our existing strengths in these and in sectors such green technology and the creative industries, the Confederation of British Industry (CBI) estimates there is a potential for £30bn worth of export opportunities by 2020.

The Deloitte report says Britain could become a world leader in knowledge and technology-intensive services as the demand and appetite for more sophisticated, knowledge-based goods and services in the fastest-growing economies rises. 'One of the most rapidly growing marketplaces in the world is business-to-business services,' says Gentle. 'We estimate the top 500 firms may soon be spending up to £4 trillion every year on these.'

'WHEN IT COMES TO INTERNATIONAL TRADE, BRITISH BUSINESSES TEND TO LOOK MORE FOR A QUICK FIX THAN A LONG-TERM SOLUTION'



Orders from the services sector are already propping up British exports. In fact, according to the British Chambers of Commerce, they rose to an all-time high last seen in 1994 in the first quarter of this year. 'The challenge for British service businesses is to develop very tightly defined niches that will allow them to compete in local markets,' says Gentle. 'Retail financial services lead the way here, with the internet and mobile technology offering many niche opportunities.'

There are also big opportunities for consumer goods bearing a quality British badge. 'Two-thirds of middle-income consumers in India and China, the biggest two markets in the world, want to buy UK goods because of our fantastic heritage. Just look at Clarks shoes and their success in selling to the Chinese,' says Gentle.

Barriers to export

So why do we not export more? A recent survey from RSM Tenon found nearly 60% of small and medium-sized enterprises (SMEs) thought the government was failing to help them to export and more financial help could make a difference. 'Currently SMEs can get £3,000 to support attendance at trade fairs, but the government could also consider grants to train SME businesses to be fit for purpose in a global market,' says Neil Sevitt, head of SME at RSM Tenon.

'The skills gap in understanding how international trade works is also something that hampers UK exports,' says Batchelor. According to the Deloitte report, the challenge for larger companies, and for knowledge-intensive businesses in particular, is to create an international model of partnering, alliances and customer relationships. 'An eco system, if you like, where they use the power of their international network and the size of the organisation, while employing indigenous management who understand the context of a local operating environment, on the ground,' says Gentle.

Recent research also shows that up to 29% of London businesses view cultural and language difficulties as the most significant barrier to export success. Some larger companies, therefore, employ native speakers to assist them.

Speaking of which, accountants can play a part in helping to boost exports. 'The task of helping UK businesses to export has become critical. That challenge falls to the advisory community (including accountants), banks and government. And these groups – the equivalents of Olympic coaches, sports psychologists and sponsors – must ensure businesses are fully prepared before they compete,' said ACCA's Andrew Leck in the wake of the London Olympics.

However, to do that accountants must be fully prepared, too. 'A lot of people think that you can learn international trade "on the job", but it's just too complex,' says Batchelor, whose Institute of Export offers a range of courses and qualifications.

Iwona Tokc-Wilde, journalist

Empty cargo containers at Tilbury, Essex. Only 17% of UK exports go to the 20 high-growth economies that will account for 35% of world GDP by 2020

*LOCAL EXPERTISE A MUST

Rosana Mirkovic, head of SME policy at ACCA and author of the report *SME internationalisation in central and eastern Europe*, says: 'There are practical steps that can be taken, from helping SMEs to access networks and overseas partners to breaking down trade barriers.

'The limitations SMEs face are universal, and range from problems accessing finance to not being informed about new opportunities. But a major barrier is often the lack of connections to networks and local partners. Identifying and accessing local partners, who understand the realities and complexities of the market, is a major challenge for SMEs seeking to expand abroad.'

The *SME internationalisation* report is at www.accaglobal.com/internationalisation

20 high-growth markets for the UK

UKTI's 20 markets for UK businesses to target range from Mexico on one side of the globe to South Korea on the other

MEXICO
Its economy is predicted to be larger than the UK's by 2040. Mexico occupies a strategic global position, being the natural bridge between Latin America and the US and Canada.

EGYPT
Investment opportunities exist across a wide range of sectors within Egypt, including the likes of education and training, engineering, oil and gas, and ICT.

COLOMBIA
There was a time when the country was synonymous with drug cartels, but British companies operate in sectors such as financial services, beverages and environmental services.

SOUTH AFRICA
High value and infrastructure opportunities are valued at £90bn over the next four years within South Africa. These include diverse projects such as healthcare and acid mine drainage.

UAE
The United Arab Emirates is the UK's largest civil export market in the Middle East and North Africa. It is the UK's 13th largest export of goods market, valued at around £5.1bn.

BRAZIL
With a population of around 185 million, its GDP per head is greater than India or China. If a product or service is competitive in world markets, it is also likely to sell well in Brazil.

SAUDI ARABIA
As the UK's largest trading partner in the Middle East, its private sector is growing and efforts are being made to diversify the economy away from Saudi Arabia's dependence on oil and gas.

INDIA
India is the second-fastest-growing economy, after China, and business and opportunities are growing in the emerging cities of Pune, Nagpur, Ahmedabad, Chandigarh and Jaipur.

TURKEY
The Turkish economy will be the second-fastest-growing economy in the world by 2018, outstripping Italy and Spain in the next decade. Turkey is negotiating for full EU membership.

QATAR
British exports to Qatar have more than doubled in the last few years. In fact, Qatar has the distinction of having one of the highest rates of GDP per capita in the world.

RUSSIA
Russia is the UK's fourth-largest export market outside the EU, China and North America. Since 2001, UK-Russia trade has been growing by an average of 21% year on year.

CHINA
The great economic success story of the past 30 years. Businesses must keep up with the speed and depth of change and development in its large and complex market space.

HONG KONG
Having established itself as one of the most business-friendly environments in the world, Hong Kong is the UK's third-largest market in Asia, after mainland China and India.

INDONESIA
The largest economy in South East Asia and the world's fourth most populous country, Indonesia has a growing affluent middle-class numbering around 45 million.

THAILAND
As the second-largest economy in South East Asia, and with a growing population of 61 million, bilateral trade in goods and services in Thailand is valued at £5bn.

VIETNAM
Vietnam is an exciting and increasingly influential market, having joined the World Trade Organisation in 2007. GDP growth in the four years post-accession averaged 6.5%.

TAIWAN
In 2011 UK exports of goods to Taiwan were totalling a record £1.388bn. This represented a sizeable 24% increase from 2010 and an impressive 52% increase on 2009.

SINGAPORE
The UK's largest trading partner in South East Asia, and our 12th-largest goods export market outside the EU, Singapore is ranked top by the World Bank for 'ease of doing business' globally.

MALAYSIA
Our second-largest export market in South East Asia, after Singapore. The UK is also one of the largest investors in Malaysia, investing over £20bn in the past 30 years.

SOUTH KOREA
Despite the global economic slowdown, South Korea's economy grew by 3.6% in 2011, the fastest in the Organisation for Economic Co-operation and Development.