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ideas for economic growth

Reversing Britain's ever declining share of global exports is essential, both to rebalance the economy towards manufacturing and to reignite growth in an era of depressed domestic demand. However, exporting is a risky business and without active government engagement British exports are unlikely to rise. The coalition recognises this rhetorically but has failed to implement effective policies. Instead, the trade deficit has increased to record levels. Meanwhile, Germany's strong growth performance in 2010 and 2011 was driven by exports. It is not a coincidence that the German government has been very active in promoting exports, particularly to key markets like China. The coalition should increase credit guarantees to exporting firms – especially SMEs, reverse funding cuts to the Foreign Office and UKTI, and create a well organised series of trade delegations to key emerging markets.

Developing a Proactive Export Policy

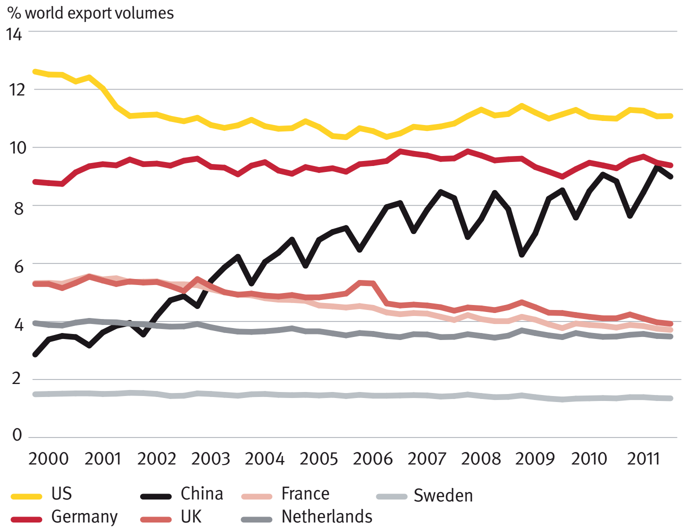
Kaveh Pourvand

The government has commonly talked of an 'export-led' recovery. Indeed, soon after entering office, Chancellor George Osborne was forecasting that exports would 'play a greater role' in the British economy in the years ahead. Reality, however, has not kept up with rhetoric. The current account deficit reached a record £20.8bn in the second quarter of 2012.[1] Despite this failure, the rhetoric was along the right lines. Increasing exports will both reduce the trade deficit and drive growth in an era of depressed domestic demand. Strong export growth has been a critical factor behind Germany's superior economic performance. While the German economy contracted between 2008 and 2009, it grew by 3.6 and 3.1 per cent in 2010 and 2011, before slowing down to a still positive 0.75 per cent performance last year. Meanwhile, exports reached $1.34 trillion dollars at the end of 2012, up four per cent on 2011.[2] Much of Germany's export growth has been in fast-growing BRIC countries, particularly China. Six per cent of Germany's 2010 exports were to China, a figure that Société Générale estimates will be 15 per cent by 2020. One key reason for Germany's export success is the German government's proactive approach. As our current account deficit indicates however, Britain's export performance has been, to say the least, lacklustre.

Strong export growth has been a critical factor behind Germany's superior economic performance

Chart 1 makes for sobering reading. The UK's share of world exports has fallen from 5.3 per cent in

Chart 1: Britain's ranking in world exports (Goods and Services)



Source: Oxford Economics/CBI

2000 to 4.1 per cent in 2010. It is true that this is partly explained by the emergence of developing countries, chiefly China, while France and the USA have experienced similar declines. However, Germany's share increased from 8.9 to 9.3 per cent over this period while Sweden and the Netherlands have seen much smaller declines. The latter two have captured sizeable portions of global exports despite having significantly smaller populations than the UK. The statistics, therefore, do not support fatalism. The UK can do better. It should be noted that the record on goods and services is mixed. The UK's service performance has been strong, accounting for 9.1 per cent of global service exports in 2010. It is in goods exports where the UK has underperformed, accounting for only 3.1 per cent of 2010 global goods exports. In the light of this, this essay aims to suggest ways the government can be more proactive in boosting goods exports in particular.

> **A review of the UK's policies shows that much more remains to be done to improve our export support infrastructure.**

The story behind the data

Exporting is a risky business. Export firms often have to adjust to new markets with different regulations, tax systems and cultures from what they are used to. The credit risk of a customer not paying is often higher when exporting. There is also exchange rate risk to consider because it cannot be known with certainty what the value of a future foreign currency payment will be when it is converted into domestic currency. For all these and other reasons many capable firms, and especially SMEs, may be quite rationally discouraged from exporting. On the other hand, a strong export sector can provide for stronger productivity growth and a healthier balance of payments. Many countries, including the UK, therefore institute measures designed to aid exporters. A review of the UK's policies shows that, while there are positive aspects, much more remains to be done to improve our export support infrastructure.

The Exports Credits Guarantee Department (ECGD) is the UK's export credit agency (ECA), responsible for providing financial support to firms seeking to export. Historically, the UK has performed poorly in this area, particularly in the range of financial products it offers. Competitor country ECAs have been more adept in offering a diversified range of products that better match a particular firm's financing needs. The government has taken proactive steps in addressing this issue by launching three new trade products: a bond support product, an export working capital product and a foreign exchange credit support scheme. Furthermore, the Export Insurance Policy compensating exporters in case of non-payment has been expanded to consumer as well as capital goods and a special scheme has been introduced offering short-term finance lines of up to £1m to SMEs.[3]

While this product diversification is welcome, a key problem that remains unaddressed is the small scale of the ECGD's operations, especially when compared to our American and German competitors. The CBI alleges that 'the mass market rhetoric of the ECGD is not backed up in either resources or intention'. They note that 'a comparison with the German ECA, Hermes, illustrates the gulf between their capacities. In 2010, Hermes administered €32.5bn worth of business, 73 per cent of which went to SMEs; by comparison, the ECGD administered a total of €3.3bn (£2.9bn), with almost no SME coverage and dominated by the aerospace sector'.[4] Moreover the US has a plethora of well-financed schemes to aid exporters. For example, The US Export-Import bank is on track to meet its target of doubling its annual lending to small businesses to $9 billion by 2015.[5] Furthermore, since 2005 the Small Business Administration (SBA) has supported over 15,000 new loans related to international trade worth over $4 billion.[6]

Many countries use their diplomatic service to strengthen the commercial opportunities available to their exporters. Here too the government has initiated a number of welcome measures. The Foreign and Commonwealth Office (FCO) and UK Trade and Industry (UKTI) are combining to provide UK businesses with support and local intelligence on high value contracts such as the Delhi-Mumbai industrial corridor and high speed rail in the United States.[7] The government is also setting up a network of attachés in key emerging markets such as China and India to provide support to exporters. However, at the same time, it is cutting the FCO budget by £240 million. Most of the FCO's budget relates to buildings and staff. It is perplexing that the government is seeking to build a network of support staff while simultaneously cutting their funding. It is worth noting that Germany has an extensive system of diplomatic support for its businesses, consisting of 229 diplomatic missions, 120 posts of the German Chamber Network (AHKs) and delegations and representative offices of the German economy in 80 countries.[8] The government is also cutting the budget of UKTI by 17 per cent over the next four years. This department primarily acts as an information and advisory service to UK businesses and evidence suggests it is successful. The CBI reports that, in 2010, 23,000 additional UK businesses benefited from its services, reaping around £6 billion in additional profit.[9] The budget of Germany's export advisory service, on the other hand, was nine per cent higher in 2011 than in 2009.[10]

Trade delegations are also a useful means to increase exports. Angela Merkel has made six visits to China during her Chancellorship, twice last year alone. During her last visit in August 2012, she was accompanied by German cabinet members and also several dozen of the country's top business executives. During one visit in 2010, $5bn worth of new deals was secured. Similarly, then French president Sarkozy secured €15 billion worth of new trade deals in a visit to China during November 2010. During the same month, Cameron only managed to secure £1.4bn worth of new trade deals.[11] The CBI reports that 'business involvement in political trade delegations remains haphazard – visits are often arranged at short notice and get cancelled'. They go on: 'without this advanced planning, the value and potential outcomes of the delegation are undermined – particularly for first-time exporters building new relationships'. It is not just Germany or France which have good systems in place: Denmark has 'partial funding available for businesses to conduct pre-delegation scoping visits and to follow up after the delegation', while Spain 'has a rotating system of 12 monthly priority countries – currently Russia – during which the trade minister visits four or five times [and] the prime minister visits one or two times'.[12]

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To be fair to the government, there was a concerted effort to use the Olympics as a staging venue to win deals for British business. During the Olympics, a BIS press release said that senior cabinet members had 'welcomed around 3,000 business leaders and global figures… to 12 Global Business Summits at Lancaster House in London as part of an 18-day programme'. The government claim that this 'legacy could be worth £13bn to the UK economy in future years'.[13] While the government is yet to provide further details of how this rather large figure was calculated, it is nonetheless welcome that they tried to take advantage of the one-off opportunity that the Olympics presented. The government should now focus on creating well-planned trade delegations, with input from business to create strong relationships in key emerging markets. There are pre-existing structures that the government could use to its advantage. Since 2008 there has been the Business Ambassadors Group within UKTI, made up of high profile business leaders who are supposed to work with the government to identify trading opportunities abroad, particularly for small and medium-sized businesses. This is the sort of group the government should be working very closely with in advance of trade delegations to critical emerging markets.

Conclusions

The government is on the right track in some areas. However, its strategy overall has lacked both consistency and ambition. There are three core policy initiatives that could help rectify this:

- Aim to expand the ECGD's financing scheme so that it can genuinely become a mass-market organisation. Germany's export credit agency Hermes supported three per cent of Germany's total exports in 2010. ECGD supported one per cent. We should aim to make this at least three per cent in the future, with the increase allocated predominantly towards SMEs. Concurrently efforts should be made to increase awareness of ECGD services among UK businesses.
- Reverse the cuts at the FCO and UKTI to ensure that UK firms have access to high-quality market intelligence from government contacts abroad and can obtain good advice at home. Spending on these institutions should be seen as investments for future growth, rather than consumption adding to the national debt.
- Take the initiative to involve business substantively in well planned trade delegations and focus on key markets that match the UK's strengths.

Finally, this essay has focused on the contribution that government can make at the 'micro' level in making it easier for individual businesses to secure contracts abroad. It would be remiss not to also mention the importance of the wider economic framework. Any serious effort to increase goods exports in the long-term would also involve consideration of an exchange rate target, a more effective system of bank finance at home and possibilities for import substitution.

Notes

1 ONS Statistical Bulletin, Balance of Payments, Second Quarter 2012, [Online]: http://www.ons.gov.uk/ons/rel/bop/balance-of-payments/2nd-quarter-2012/stb-bop-q2-2012.html

2 Spiegel Online 2012, [online]: http://www.spiegel.de/international/business/new-record-for-german-exports-expected-for-2012-despite-euro-crisis-a-876296.html

3 HM Treasury and BIS, *The Plan for Growth*, March 2011, p59 – 60, [Online]: http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf

4 CBI and Ernst & Young, *Winning Overseas: boosting business export performance*, p51, [online]: http://www.cbi.org.uk/media/1168506/exports_report_a4_final_indd___2_.pdf

5 Export-Import Bank of the United States, Small Business Global Access: Your competitive edge [online]: http://www.exim.gov/smallbusiness/

6 The White House, National Economic Council, *The Small Business Agenda: Growing America's Small Businesses to Win the Future*, May 2011, p38, [online]: http://www.sba.gov/sites/default/files/Small%20Business%20Agenda%20NEC.pdf

7 *The Plan for Growth*, p59.

8 *Winning Overseas*, p45.

9 IBID.

10 See Germany Trade and Invest Annual Reports at: http://www.gtai.de/GTAI/Navigation/EN/_Meta/About-us/agency-profile.html

11 *Winning Overseas*, p45.

12 *Winning Overseas*, p44.

13 BIS, 'Business leaders join Ministers to hail Olympic boost for UK economy', 11 August 2012, [online], http://news.bis.gov.uk/Press-Releases/Business-leaders-join-Ministers-to-hail-Olympic-boost-for-UK-economy-67e94.aspx

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55 Tufton Street, London, SW1P 3QL

Tel: 020 7799 6677 ■ E-mail: books@civitas.org.uk ■ Website: www.civitas.org.uk