Department for International Trade

Made in the UK, Sold to the World: building an analytical framework

An analytical paper on the economic rationale and evidence to support the Export Plan

November 2021

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Foreword

Richard Price

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I am pleased to introduce this document as a companion publication to the Export Plan - Made in the UK, Sold to the World.

The last few years have been challenging for international trade. Global trade growth had slowed to 0.9% in 2019 and that was before the additional challenges of responding to the coronavirus (COVID-19) pandemic, with disrupted supply chains affecting businesses in almost all sectors[1].

However, global trade has proved to be both more resilient than most had feared, and integral to global prosperity. Global value chains (GVCs) have been a crucial part of that response, allowing businesses the opportunity to split production processes across countries to increase output and financial returns. In many cases, this has bolstered resilience through global diversification and demonstrated the importance and the benefits of allowing trade to flow freely across borders.

UK businesses continue to have comparative advantage in a number of areas such as Financial Services, Business Services and Transportation. As the global centre of trade moves eastwards, it is important that we understand how government policy can best support businesses to continue to grow and compete effectively in international markets. Ultimately this will help businesses continue to be integral and productive components of those GVCs.

The Department for International Trade (DIT) has a suite of trade and investment policy and promotion levers at its disposal to help further this aim. Indeed, DIT is unusual, internationally, in combining trade policy, including trade agreements, and trade promotion in a single body. This is something we consider to be a significant strength. DIT is able to combine our range of measures to tackle barriers to trade and to enable the business community to make the most of the opportunities that result. Evidence and analysis have a central role to play in understanding the global economic context in which DIT operates. It is also critical to understanding in what circumstances our policy levers can be effectively deployed.

This paper sets out some of the analytical building blocks for that understanding. It sets out the economic rationale which justifies why government should provide export promotion services and outlines a framework for thinking about how and where DIT should intervene. Its purpose is also to open up a conversation about the evidence underpinning trade promotion activities, and how we can improve it. This is an opportunity to think innovatively about how we use data. It is the chance to reflect

[1] IMF World Economic Outlook October 2021

on how we demonstrate the impact of government activity and how it connects to objectives on growth, Levelling Up and Net Zero.

I look forward to engaging with experts across the business community, academia and other thought leaders as we continue to improve evidence on what works best in developing trade opportunities for the UK.

Executive summary

The economic evidence for the benefits of trade is clear. Empirical studies generally point to a positive relationship between increasing trade openness and economic growth, the development of countries and direct contributions to poverty reduction. The overall impact of increased openness to trade is positive for consumers, firms and the wider economy. Consumers benefit from trade openness through lower prices and a greater variety of products. Trade encourages firms to specialise, provides access to new learning and innovation opportunities, and a greater variety of buyers and sellers.

The latest research suggests that exports supported around 6.5 million jobs in the UK in 2016, with 74% of those outside of London.[2] The evidence also points to important associations between trade and productivity, with a productivity premium of 21% for goods exporters.[3] Exporting firms also tend to pay higher wages on average than non-exporting firms.[4] This means higher-skilled, higher-paid jobs for people across the UK and a more competitive domestic economy.

These benefits accrue not only to those directly engaged in exporting but generate positive secondary effects. Demand along the supply chain is supported by access to international markets and exporting firms encourage productivity, enhancing competition across the industry.

Still, there exists a solid and diverse body of evidence on the barriers which constrain trade from reaching its economic potential. As such, there is a clear need for government to intervene to address these barriers.

While the most visible barriers to trade are in the form of tariffs, as global supply chains become increasingly integrated, the prominence of non-tariff barriers (NTBs) has risen. Differences in regulations, product standards, and customs controls may occur unintentionally and naturally, as a result of differences in institutional norms between countries. Yet they have the effect of directly restricting trade or acting as a discouragement for firms to enter the international marketplace.

Even in cases where NTBs can be reduced through agreements on harmonisation or mutual recognition, businesses may encounter challenges. This includes a lack of information about relevant opportunities, finding it difficult to access finance, particularly in riskier markets, or struggling to overcome the costs associated with trade. Indeed, despite ground-breaking progress in technology, the evidence shows that distance continues to have a significant impact on trade between countries.

In recent years the global landscape of trade has shifted, and the evidence suggests that despite the impacts of the pandemic, this is likely to continue in the years to come. Growth in emerging economies, expansion in the global middle class,

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[2] Fraser of Allander Institute (FAI) research on behalf of DIT: 'Estimating the relationship between exports and the labour market in the UK' (2021). Based on 2016 data.
[3] Office for National Statistics: 'UK trade in goods and productivity: new findings' (2018). Based on 2016 data
[4] Riker, D. (2015) 'Export-Intensive Industries Pay More on Average: An Update', Office of Economics Research Note, U.S. International Trade Commission.

technological advancement and increasing ‘servicification’ are set to coalesce over the next decade, generating new and exciting opportunities for UK businesses.

The UK economy is well placed to access these opportunities. We start from a broad base of strengths across many sectors, ranging from insurance and creative industries to emerging industries such as clean-tech, fin-tech and AI. New trading relationships will offer further opportunities for UK businesses to experience the benefits of exporting. Still, around 1 in 7 businesses, 15%, have never exported despite believing they have goods or services that are either suitable for export or could be developed for export.[5] Export Strategy sets an ambition to reach UK exports of £1 trillion per year faster than currently projected. We hope to mobilise government and businesses to tap into this potential and move decisively in areas of comparative advantage.

[5] DIT national survey of registered businesses' exporting behaviours, attitudes and needs 2020: wave 5 report

Introduction

The 2021 Export Plan - Made in the UK, Sold to the World sets out a vision for UK exports and builds on the actions and ambitions set out in the previous strategy published in 2018. It aims to create the conditions for businesses to internationalise and make the most of the opportunities secured through new FTAs and the government's broader efforts to remove market access barriers.

This document sets out the economic rationale and the supporting evidence which explains UK government action to help transform the exporting capability of the UK economy. We do not cover the importance of imports to the UK here, however we recognise their role in ensuring lower prices and greater choice for consumers. This is alongside their contribution to GVCs, with almost a sixth of UK exports in 2015 including imported content.[6]

This paper is structured around 4 guiding principles that underpin the development and deployment of policy levers in this space. These 4 principles inform and drive the delivery of public value for UK businesses and society at large.

They are:

1. Strategic alignment
2. Economic opportunity
3. Government impact
4. Continuous improvement

It is inevitable that trade-offs between these principles will exist, and it will be important that the evidence against each continues to deepen and remains up to date and relevant. This document provides an overview and introduction to the evidence that underpins each of these principles.

Strategic alignment

The UK has comparative advantage in many goods and services produced. There is scope to increase this further as only 1 in 10 registered businesses in Great Britain exported goods and/or services.[7] Meeting the ambitions of the Export Strategy will be a whole economy endeavour for business, government and business representative organisations. This is particularly the case for sectors of critical importance to delivering on cross-government priorities, such as Net Zero, Levelling Up, shipbuilding and securing our status as a science and technology superpower.

Economic opportunity

A central component of determining where government should focus its efforts is understanding where the economic opportunities might lie for UK businesses. Whether it be considering the implications of global trends and how overseas markets are developing, or understanding where the UK's current and potential capability lies in capturing parts of those markets. Prioritising business support in

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[6] DIT, Trade in Value Added, 14 May 2020 https://www.gov.uk/government/publications/research-on-trade-in-value-added
[7] ONS Exporters and Importers in Great Britain (Annual Business Survey): 2019

domestic sectors, and international markets with the highest potential, will ensure we harness these opportunities.

Government impact

This principle focuses on why and how government can help support businesses along their exporting journey, and where support will enhance, rather than replace, the private sector.

Continuous improvement

This principle recognises that while DIT has made progress in developing its approach to assess the impact of its longer-term export support activities, more can be done. Our approach includes mapping the UK export support system, determining the cost efficiency of our offer and assessing the value for money of what we do. We also survey our clients to understand the quality and impact of our services, and conduct bespoke evaluations where required. This ensures that data is being used to understand whether DIT is having a long-term impact on UK businesses and whether our services are being delivered as intended.

This document is the first in a series of analytical papers and research that explains our understanding of how export promotion activity has an impact on the wider economy. Each paper in the series will reinforce our ongoing commitment to the continuous development of the evidence in this area.

Part 1 – The strategic importance of exporting goods and services abroad

This section sets out the likely benefits of the Export Plan - Made in the UK, Sold to the World for businesses, workers, the wider economy and regions of the UK.

Trade is a central driver of economic growth, increasing competition, raising real wages, and boosting productivity and investment. Participation in international trade can generate substantial benefits for businesses, workers and consumers.

Exports are an additional source of income and can create new business and employment opportunities. Exporting offers UK businesses the opportunity to sell more of their goods and services to many more consumers abroad. This helps them to expand their production and make more efficient use of the materials, equipment, facilities, and labour they employ.

Benefits for businesses

New market opportunities

In 2020, UK businesses exported a total of £601.0 billion goods and services[8], of which 41.8% were exported to the EU and 58.2% to non-EU countries[9]. The top 3 goods exported were cars, medicinal and pharmaceutical products, and mechanical power generators (intermediate), making up over 20% of the total value of goods exports that year.[10] The top 3 services exported were other business services, financial services, and telecommunication, computer and information services, contributing to 70% of the total value of services exports.[11] The United States was the top destination for UK exports in 2020, followed by Germany and Ireland, as shown in Figure 1.

Many thanks to Brian Titley for his contributions to this section

[8] ONS UK Trade August 2021

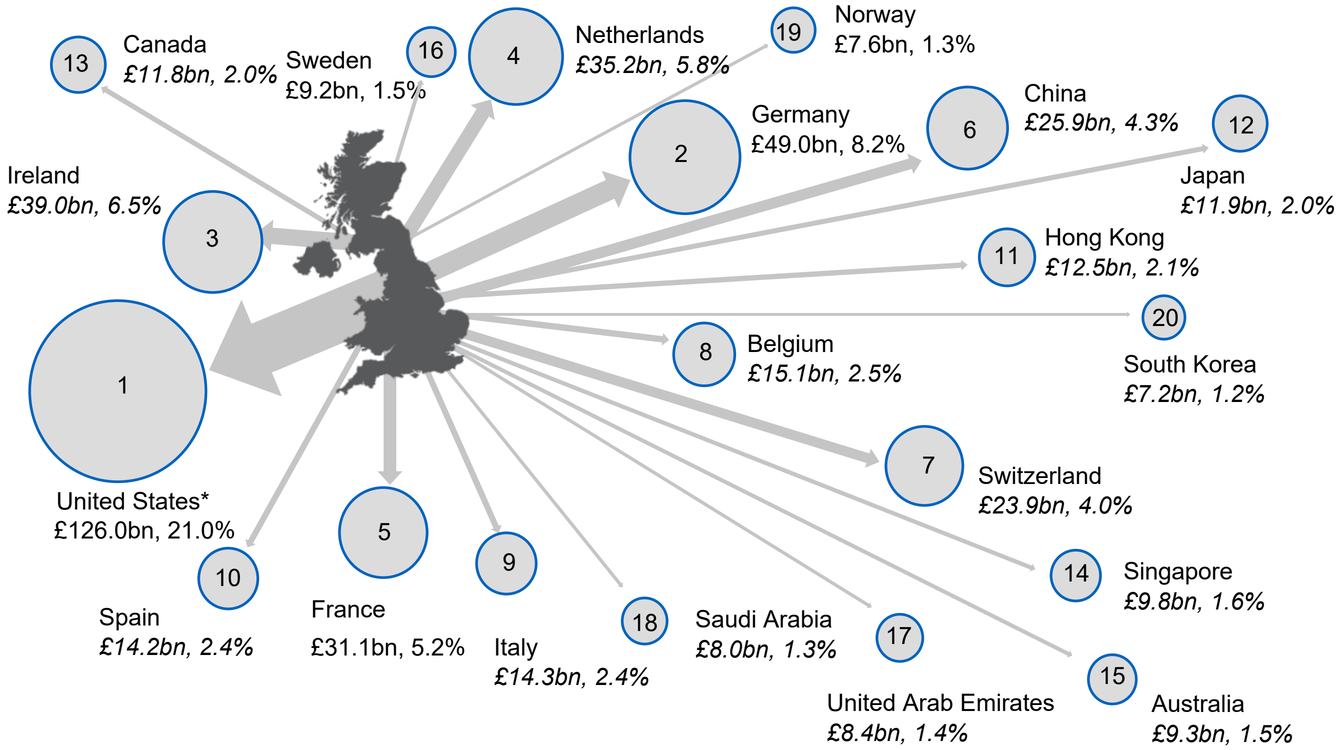
[9] ONS Balance of Payments Q2 2021

[10] ONS UK Trade August 2021

[11] ONS Balance of Payments Q2 2021

Figure 1: Destination of UK exports, 2020

Total UK[1] exports	Exports to the EU[1]	Exports to the Non-EU[1]
• *£601.0bn, 100.0%*	• *£251.3bn, 41.8%*	• *£349.7bn, 58.2%*



*Including Puerto Rico

Source: Non-seasonally adjusted 2020 data from UK trade, experimental quarterly trade in goods and services tables: April to June 2021 release.

KEY

Export market
UK export value £bn, % of total exports

Rank

UK exports

Removing barriers to trade opens up new business opportunities in international markets and in the associated supply chains. Organisations providing goods and services such as materials, distribution, finance and legal services to organisations engaged in trade also benefit when barriers to trade are removed.

Exporters are able to reach more consumers by expanding their sales internationally. A business that can sell its products to consumers in different countries mitigates the risk of falling demand in any one country, which could have a significant impact on its overall business operations and viability.

DIT has set out the ambition for 80% of UK trade to be covered by existing and new trade agreements by 2022. The Export Plan - Made in the UK, Sold to the World outlines ways in which businesses will be supported to make the most of new FTAs, including building capability through the Export Academy.

Increased efficiency

Through international trade, businesses may access better or cheaper sources of materials and equipment from producers in other countries for use in the production of their own goods and services.

The opportunity for businesses to expand their scale of production, use the resources they employ more efficiently, and reduce average production costs can improve productivity and profitability within exporting firms. Businesses that increase their productivity can produce the same or increased output with fewer resources, thereby reducing their total costs of production and improving their profit margins and competitiveness. Larger firms are able to spread their fixed costs such as salaries, advertising costs and administrative expenses over a larger output and also make better use of the resources they employ.

According to the Annual Business Survey (ABS), 10.2% of registered businesses in Great Britain exported goods and/or services in 2019 (245,200 businesses in total).[12] Figure 2 below shows the number of exporters by region in Great Britain.

[12] ONS Exporters and Importers in Great Britain (Annual Business Survey): 2019 These estimates do not cover all businesses. They only cover registered businesses (for VAT and/or PAYE) in the GB non-financial business economy which accounts for around two-thirds of the economy in terms of gross value added.

Figure 2: Number of businesses exporting and/or importing goods and/or services by GB region, 2019[13]

	Exporters	Importers	Businesses that both export and import
Great Britain	245,200	238,600	141,900
England	228,900	220,200	132,100
North East	3,900	3,400	2,300
North West	24,600	23,700	16,000
Yorkshire and The Humber	13,200	12,500	5,700
East Midlands	14,800	12,600	8,600
West Midlands	22,000	28,400	17,700
East of England	26,900	29,200	15,500
London	53,000	45,400	26,800
South East	48,800	40,000	25,100
South West	21,600	25,000	14,300
Wales	3,900	4,500	2,600
Scotland	12,400	13,800	7,100

Source: ONS Exporters and Importers in Great Britain (Annual Business Survey): 2019

Benefits for workers

Jobs supported by exports

Increasing international sales can create a higher demand for goods or services bought by exporters in the supply chain. This creates additional indirect demand for labour in those sectors. Exporting businesses are able to expand their scale of production, increase their productivity and boost their profitability, which can benefit workers. They can expand their labour requirements, create employment opportunities and offer higher wages[14] to attract and retain employees.

It is estimated that UK exports supported around 6.5 million full-time equivalent (FTE) jobs, or 23% of all UK FTE jobs, in 2016.[15] Around 58% (3.8 million) of these jobs were in exporting industries (jobs supported directly by exports) and 42% (2.7

[13] ONS Exporters and Importers in Great Britain (Annual Business Survey): 2019 These are experimental statistics and covers registered businesses in Great Britain only; businesses in Northern Ireland are excluded from the survey.
[14] Office of Economic Research, U.S. International Trade Commission (2015), 'Export-Intensive Industries Pay More on Average: An Update'
[15] Fraser of Allander Institute (FAI) research on behalf of DIT: 'Estimating the relationship between exports and the labour market in the UK' (2021). FAI estimates presented are experimental estimates, based on modelling, and should be interpreted with a degree of caution. They should be seen as central estimates with moderately broad confidence intervals, and not as highly accurate point estimates – see FAI report for more detail. The estimates cover 2016 only so pre-date and do not cover the impact of COVID-19 and EU Exit.

million) were in the UK supply chain of exporting industries (jobs supported indirectly by exports).[16]

The sector whose exports support the largest number of jobs was ‘Manufacturing’. The sectors most dependent on exports (in terms of absolute number of jobs) are the ‘Professional, Scientific and Technical services’ and ‘Admin and Support services’ sectors.

Levelling up the country through creating better quality jobs and more sustainable growth is at the heart the Export Plan - Made in the UK, Sold to the World. While over a quarter of FTE jobs currently supported by UK exports are estimated to be in London, as seen in Figure 3 below, the Export Strategy aims to support exporters across all parts of the UK. This can help spread the economic gains from trade across the country.

Figure 3: UK jobs supported by exports, 2016 [17]

Part of the UK	FTE jobs supported by exports	% of region's population	% of all FTE jobs supported by exports
North East	168,000	6.4%	2.6%
North West	630,000	8.7%	9.7%
Yorkshire and the Humber	418,000	7.7%	6.4%
East Midlands	384,000	8.1%	5.9%
West Midlands	511,000	8.8%	7.8%
East of England	563,000	9.2%	8.6%
London	1,717,000	19.6%	26.3%
South East	914,000	10.1%	14.0%
South West	430,000	7.8%	6.6%
Wales	196,000	6.3%	3.0%
Scotland	468,000	8.7%	7.2%
Northern Ireland	129,000	6.9%	2.0%
Total	**6,528,000**	**9.9%**	**100.0%**

Source: Fraser of Allander Institute (FAI) research on behalf of DIT, 2021

Evidence shows that support of Small and Medium Sized Enterprises (SMEs) is important in reducing regional disparity. For example, UNCTAD (2019) ‘Trade

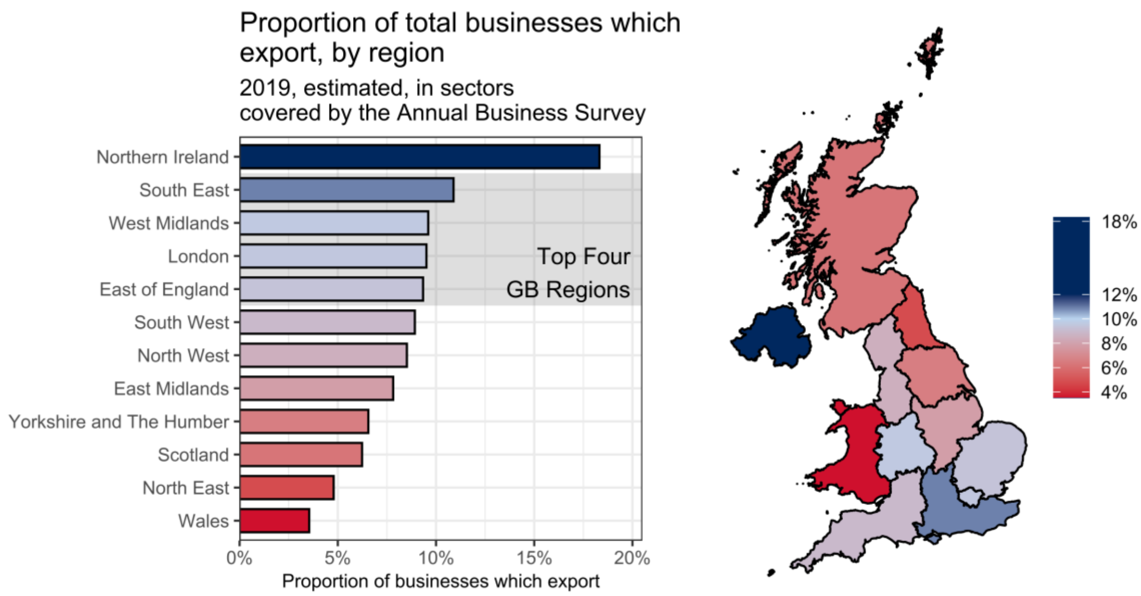
[16] The FAI report focuses on the ‘direct’ and ‘indirect’ effects of exporting on UK jobs. However, the analysis also enables estimation of jobs supported due to the wage spending of those employed directly and indirectly in UK exporting sectors and their UK supply chains. When adding in these ‘induced’ effects, the number of FTE jobs supported by exports rises to 11.3 million, or 39% of FTE jobs in the UK.

[17] Fraser of Allander Institute (FAI) research on behalf of DIT: ‘Estimating the relationship between exports and the labour market in the UK’ (2021).

Policies for Combating Inequality' recommends that SMEs should be supported to reduce regional inequalities.[18]

Figure 4 shows estimates of the proportion of UK businesses which exported in 2019. Northern Ireland and the South East have the highest proportion of businesses exporting in 2019, while the North East and Wales had the lowest shares.

Figure 4 – Proportion of total businesses which exported in 2019.[19]



Source: DIT calculations, based on: ONS, Annual Business Survey importers and exporters by regional breakdown, 2019 [GB]; NISRA, Broad Economy Sales and Export Statistics, 2019 [NI]; ONS, UK Business: activity, size and location, 2019

There are opportunities for the Export Strategy to contribute to Levelling Up by directing support services to specific parts of the UK.

For example, the UK Tradeshow Programme will be promoted across the UK, with a particular focus on Levelling Up areas. In addition, the Export Academy can be delivered digitally, helping SMEs from across the country to access learning.

[18] "Trade policies for combating inequality: equal opportunities to firms, workers and countries" - Olarreaga, M. (Marcelo); Nicita, Alessandro; Milet, Emanuel; UNCTAD, 2019 [Trade Policies for Combating Inequality - UNCTAD]

[19] DIT calculations, based on: ONS, Annual Business Survey importers and exporters by regional breakdown, 2019 [GB]; NISRA, Broad Economy Sales and Export Statistics, 2019 [NI]; ONS, UK Business: activity, size and location, 2019. Figures represent the estimated number of exporters from the ABS/BESES divided by the number of local business units on the Inter-Departmental Business Register. ABS/BESES figures are subject to uncertainty, due to coverage limitations, sampling methodology and reduced response rates related to Covid-19. The ABS/BESES excludes businesses in sectors including agriculture and financial services accounting for approximately a third of the UK economy by gross value added.

Benefits to the national economy

As highlighted above, trade is a central driver of economic growth. As well as supporting economic output in the short term, trade can have significant impacts on the long-term development and structure of an economy.

Specialisation

International trade enables countries to produce, at scale, those goods and services in which they have a relative cost and/or quality advantage over producers in other countries. This advantage may be derived, for example, from their natural, human and other productive resources. Specialisation can therefore result in higher levels of national output and income than would otherwise be achievable. Businesses are able benefit from the wider economic returns of trade by splitting production across many countries. Part 2 of this paper follows on to show the importance of GVCs to the UK.

Innovation

Many businesses can 'learn by exporting' to improve product quality and the productivity of their resources by competing with rivals in other countries. Exposure to new production techniques can generate ideas and innovation that can 'trickle down' through domestic supply chains to other sectors of the national economy. Interactions between foreign and domestic firms in buyer-seller relationships and international supply chains allow new technologies and knowledge to move more freely around the world, benefitting more firms and people globally. This creates new markets for innovations, thereby increasing potential returns to investments in new research and development.

Improvements in productivity, the expansion of employment and business opportunities, increased investment and more dynamic competition can combine to boost national output, income and living standards. It is important, however, to manage potential risks around these gains. Specialisation requires a reallocation of resources, such as capital or workers, which may not be able to transition to new sectors or firms quickly. New industries may also face strong international competition. Domestic policies can help counter the effects of trade liberalisation that are not distributed evenly across regions and sectors.

Literature on the economic impact of export promotion

There is a sizable body of international evidence that shows that export promotion interventions, such as encouraging businesses to trade and informing them of opportunities, are successful at increasing businesses' exports.[20]The literature, however, generally finds that the impact of export promotion is not constant over time, it builds up over a number of years.[21] This points to the need for careful service design and targeting.

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[20] See, for example, Sousa and Bradley 2009: Effects of Export Assistance and Distributor Support on the Performance of SMEs

[21] Haddoud et al. (2017) 'Export promotion programmes and SMEs' performance: Exploring the network promotion role'

There is consistent evidence of a positive relationship between international trade and productivity.[22] For example, one study comparing UK exporters to non-exporters found that exporters show significantly higher productivity growth.[23] DIT will support UK business, including Small and Medium Sized Enterprises (SMEs), to take full advantage of trade opportunities. We will be able to help support jobs, building capability with a view to increase skills and human capital, and increase firms' productivity and productive capacity.

Export promotion is shown to be most effective at improving the economic outcomes of small firms with no previous experience of exporting.[24] The literature does show that export promotion has a positive effect on firm-level outcomes, including employment[25], productivity[26] and growth[27]. Yet there is mixed evidence on how these effects differ by firm type.

The importance on ensuring that government intervention to support exporting activity creates 'additionality' is discussed in Part 3.

Analysis of the Export Strategy ambition

'Race to a Trillion' ambition

The Export Strategy sets out a bold ambition of reaching UK exports of £1 trillion per year faster than 2035 as projected, as a means of mobilising efforts across government and business. The 'Race to a Trillion' will be the means to marshal the exporting community behind a shared, high ambition for our economy.

The Office for Budget Responsibility (OBR) has produced UK export projections out to 2025, which suggest that UK exports in 2025 will be 10% lower in real terms than their 2019 level. This is a slower rate of recovery than the 4% real terms decline predicted by the International Monetary Fund's forecasts. To create a neutral UK export forecast that avoids any judgement about the efficacy of UK policy, the projections in the Global Trade Outlook[28] assume UK exports grow in line with the OBR's long-term GDP projections.

These projections imply that UK nominal exports could reach £0.8 trillion by 2030, and £1 trillion by the mid-2030s, as seen in Figure 5 below. There is a wide band of uncertainty around these figures. A central source of uncertainty is the impact of UK policy. These projections assume the status quo continues, but UK trade policy and DIT's trade promotion activity, supported by wider domestic policy levers that seek to improve UK productivity, could unlock faster growth. Another source of uncertainty is UK business behaviour. UK exports could be higher than anticipated if UK businesses capitalise on favourable trends in income growth overseas and the gradual shift in global import demand towards UK sectors of comparative advantage.

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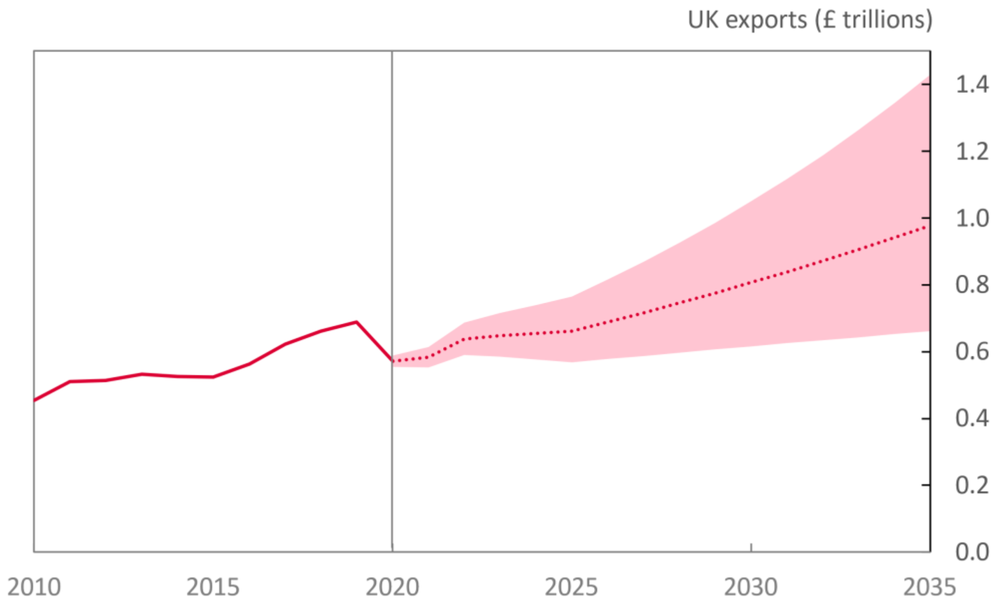
[22] Stone, S. and B. Shepherd (2011), "Dynamic Gains from Trade: The Role of Intermediate Inputs and Equipment Imports", OECD Trade Policy Papers, No. 110, OECD Publishing, Paris
[23] Harris, R. and Li, Q.C., 2008. Evaluating the contribution of exporting to UK productivity growth: some microeconomic evidence.
[24] Broocks and Biesebroeck, 2017, The impact of export promotion on export market entry
[25] Munch and Schaur, 2018, The Effect of Export Promotion on Firm-Level Performance
[26] Munch and Schaur, 2018, The Effect of Export Promotion on Firm-Level Performance
[27] Rincon-Aznar et al. 2015, Evaluating the impact of UKTI trade services on the performance of supported firms
[28] The Global Trade Outlook, Department for International Trade, September 2021

Equally, if UK businesses fail to innovate quickly enough or fail to adapt to shocks, exports could be lower.

Figure 5: Nominal UK export projections, 2020 to 2035[29]



Source: The Global Trade Outlook, Department for International Trade, September 2021

'The Race to a Trillion ambition' is therefore focusing the potential for meeting £1 trillion in the value of exports per year faster than current projections might suggest.

Future research

DIT's monitoring and evaluation framework can help assess the success of Export Strategy in its ambition to support all parts of the UK. This includes using data on participation by businesses by their characteristics or location. Other areas for potential future research include modelling regional impacts of these services, sourcing more local data on the export opportunities and understanding the relationship between exports and other measures of regional inequality.

Developing a deeper understanding of the structure of global markets and trade flows over time will allow DIT, and the wider UK government, to better target interventions. In doing so, this will ensure that British businesses build upon existing areas of expertise and develop new ones whilst providing partner countries with the goods and services they need to prosper.

[29] "Notes: Data to 2025 refer to nominal exports (and GDP) from the Office for Budget Responsibility's forecasts. From 2026, UK nominal exports are assumed to grow in line with nominal GDP. The uncertainty bands are DIT calculations and represent one standard deviation around nominal growth outturns for the 2010-2019 period."

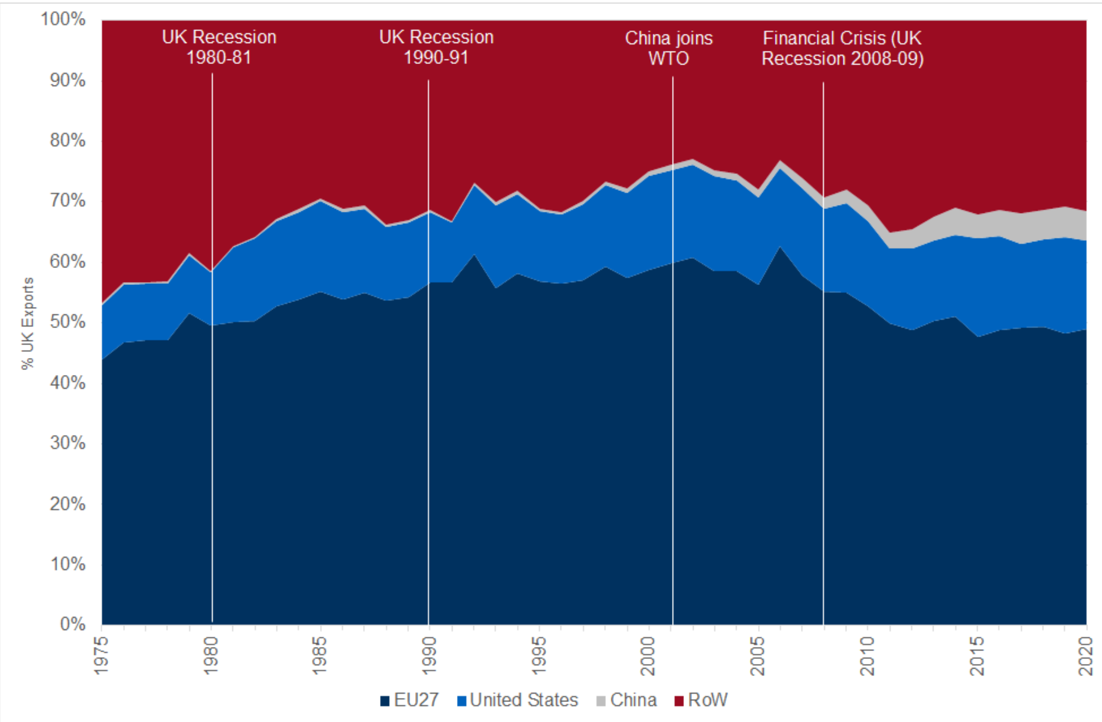
Part 2 – Economic opportunities for UK businesses

A central component in determining where government should focus its efforts is understanding where the economic opportunities might lie for UK businesses. This involves considering the implications of global trends, how overseas markets are developing and building understanding of the UK's current and potential capability. Prioritising government support in domestic sectors and international markets with the highest potential will help the UK to harness these opportunities.

The importance of exports to the UK economy has risen since the 1970s, with countries in North America and Europe consistently among our closest trading partners. Between 1970 and 2019, UK exports as a proportion of GDP rose from 21.0% to 31.0%, before falling to 27.9% in 2020 during the COVID-19 pandemic.[30] The US has been a significant trade partner across this time period accounting for 21.0% of UK total exports in 2020[31]. The European Union (EU) has also been an important trading partner, but its role has been diminishing with emerging trading opportunities elsewhere. While over half of the UK's exports were directed towards the EU in 2000, this had fallen to 41.8% in 2020.[32]

Figure 6 below shows UK goods exports by destination. The EU-27 and the US have been the UK's top export markets for goods since the 1970s but partners in the Indo-Pacific region have become increasingly important.

Figure 6: UK exports of goods by destination, 1975 to 2020.[33]



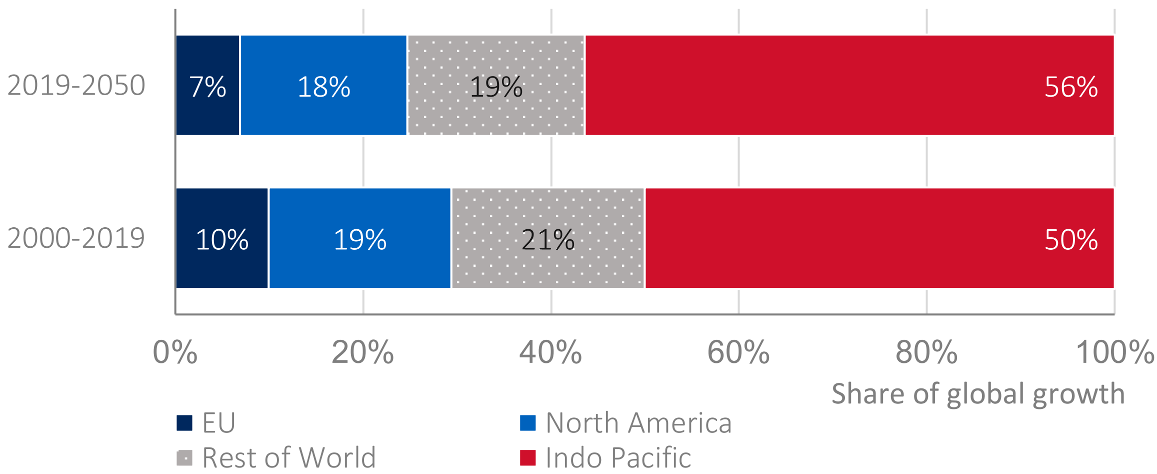
Source: UNCOMTRADE and DIT analysis, October 2021

[30] ONS Quarterly National Accounts April to June 2021
[31] ONS UK Economic Accounts April to June 2021
[32] ONS Balance of Payments April to June 2021
[33] UNCOMTRADE and DIT analysis, October 2021

Future trends in the global trading system

The world's centre of economic gravity is shifting eastward due to growth in the Indo-Pacific[34]. The Indo-Pacific accounted for half of global economic growth between 2000 and 2019 while the EU contributed 10%,[35] as seen below in Figure 7. This trend is expected to continue with South Asia's contribution, driven by India, expected to rise over time.

Figure 7: Regional economic drivers of growth in real terms.[36]

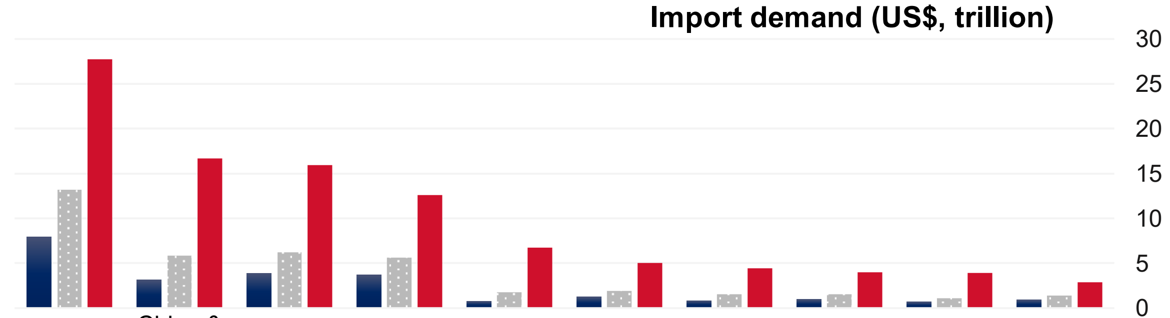


Source: IMF World Economic Outlook April 2021 and DIT calculations, September 2021

The role of emerging economies in the global trading system will rise over time, consistent with their growing weight in the global economy. By 2050, the value of global trade is expected to be worth around $100 trillion, up from $24 trillion in 2019.[37] As shown in Figure 8, Europe is still likely to be the world's largest regional import market with demand increasing from $8 trillion to $27.7 trillion. However, its share of global trade is expected to fall because of faster economic growth in the Indo-Pacific pulling the axis of global trade further East.

[34] The Indo Pacific region is defined as 3 DIT HM Trade Commissioner regions: South Asia, Asia Pacific and China & Hong Kong.
[35] Global Trade Outlook, Department for International Trade, September 2021
[36] World Economic Outlook
[37] Global Trade Outlook, Department of International Trade, September 2021

Figure 8: Import demand (US$, trillion).[38]



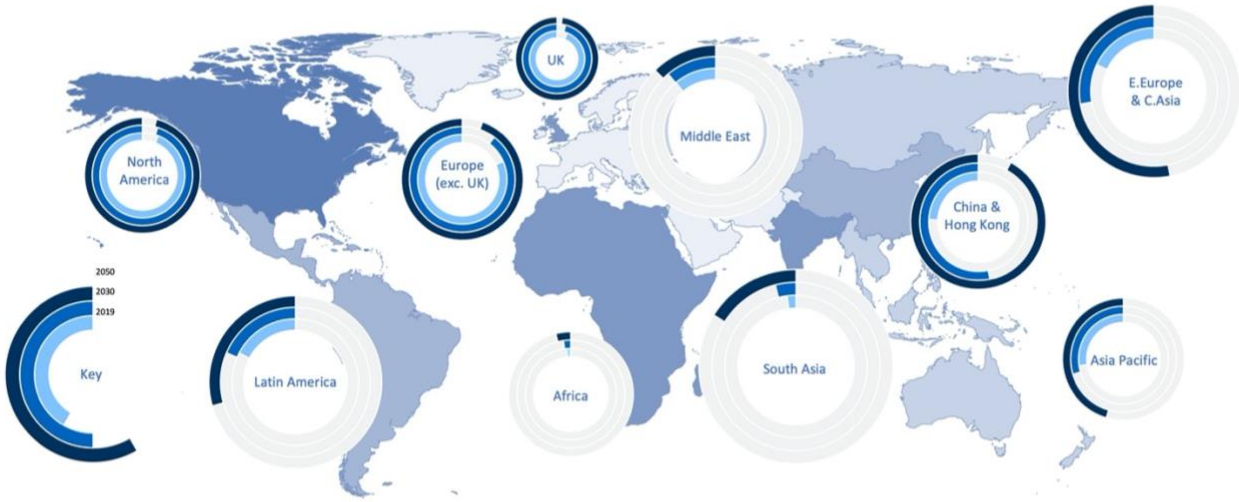
	Europe	China & Hong Kong	Asia Pacific	North America	South Asia	Latin America	E.Europe & C.Asia	Middle East	Africa	United Kingdom
2019	8.0	3.1	3.9	3.7	0.8	1.2	0.8	1.0	0.7	0.9
2030	13.2	5.9	6.2	5.6	1.8	1.9	1.5	1.5	1.1	1.4
2050	27.7	16.7	15.9	12.6	6.7	5.1	4.5	4.0	3.9	2.9

Source: IMF World Economic Outlook April 2021, UNCTAD and DIT calculations, September 2021

According to DIT's Global Trade Outlook, the number of people classified as middle class is expected to increase from 1.7 billion in 2019 to 3.5 billion by 2050.[39] Over 70% of this increase is expected to come from the Indo-Pacific region. Sizable increases in middle class populations are also expected in the Eastern Europe and Central Asia, and Latin American regions, as Figure 9 below shows.[40] The growing middle class could create further opportunities for UK businesses as they tend to be more specialised at producing goods and services that are tailored to high income markets.

[38] World Economic Outlook
[39] Defined as those earning greater than $12,535 pa
[40] The Global Trade Outlook, Department for International Trade, September 2021

Figure 9: Regional Trends in the Size of the Middle Class[41], proportion of regional populations with a per capita income above $12,535 per year (in 2019 prices).



Region	2019	2030	2050
Africa	2%	2%	4%
South Asia	2%	4%	15%
Middle East	11%	11%	12%
E. Europe & C. Asia	18%	27%	52%
Latin America	17%	18%	28%
Asia Pacific	27%	29%	45%
North America	94%	95%	96%
China & Hong Kong	24%	52%	91%
Europe (exc. UK)	81%	89%	94%
World (total)	22%	27%	37%

Source: IMF World Economic Outlook April 2021, UN World Income Inequality Database, World Bank World Development indicators and DIT calculations, September 2021

Africa and the Middle East are forecast to have the largest increase in their working population, highlighting potential opportunities derived from increases in their productive capacity. From 2020 to 2030, Africa and the Middle East's working populations are expected to increase by over 30% and 20% respectively.[42] This is in stark contrast to ageing populations in China and Europe, which could weigh on economic growth and the composition of trade in both regions. Whilst lower income economies in Africa and the Middle East may capitalise on their demographic booms and grow quickly, they may also be hampered by gaps in education, infrastructure,

[41] Source: IMF World Economic Outlook April 2021, UN World Income Inequality Database, World Bank World Development indicators and DIT calculations, September 2021
[42] The Global Trade Outlook, Department for International Trade, September 2021

and employment activities. The UK may be well placed to deepen trade and investment relationships in these sectors given they are areas of UK strength.

Impacts from COVID-19 may weigh on global and UK trading performance in the near term.

Following the onset of the COVID-19 pandemic, the global economy contracted 3.1% in 2020 with the UK seeing a record fall in GDP of 9.8%.[43] The UK saw experienced a steeper decline than the average for advanced economies (in 2020, 9.8% compared to 4.5%).[44] This was due to a particularly severe outbreak of COVID-19 alongside simultaneous impacts from exiting the EU. During 2021, annual UK trade flows have largely been lower than in previous years, driven by factors associated with COVID-19, global recession, and EU Exit. There has been variation across imports and exports, commodity and service types and partner country. Some effects reflect global trends whereas others are specific to the UK. It is not yet possible to conclude definitively the impact of specific underlying drivers of these changes, to disentangle COVID-19 and EU Exit factors, and whether these are permanent or temporary.[45] Changes to customs handling procedures and trade data collection processes (resulting from EU Exit) complicate this further. As more robust data becomes available, continued development of our understanding of trade patterns with the EU and other partners will be needed to understand the challenges UK businesses face.

There is uncertainty about long-term recovery prospects and the impact of future waves of COVID-19 on the global and UK economy. The IMF predict, however, that the UK is expected to grow faster than advanced economies in 2021 (6.8% compared to 5.2%) and 2022 (5.0% compared to 4.5%). This is due to a successful vaccine rollout, a strong monetary and fiscal policy response and a deeper downturn in 2020.[46]

The divergence of recoveries between advanced and emerging economies presents risks for UK and global trade. The impacts of COVID-19 have been uneven. Advanced economies are expected to regain their pre-pandemic trend path in 2022 and exceed it by 0.9 % in 2024. Emerging market and developing economies (excluding China) are expected to remain 5.5% below the pre-pandemic forecast in 2024. The outlook for low-income development countries has worsened due to the highly transmissible Delta variant, limited vaccine availability and tighter financing conditions.[47] Uncertain global recovery prospects, particularly in emerging markets, could weigh on the new trading opportunities they host for UK business.[48]

Harnessing opportunities from future global market trends

To reach exports of £1 trillion per year faster than projected, the UK must maintain its close trading relationship with Europe and the US while seizing opportunities

[43] IMF, World Economic Outlook,October 2021
[44] IMF, World Economic Outlook,October 2021
[45] ONS, The impacts of EU exit and the coronavirus on UK trade in goods, May 2021; ONS, The impacts of EU exit and the coronavirus on UK trade in services, July 2021
[46] IMF, World Economic Outlook, October 2021
[47] IMF, World Economic Outlook, October 2021
[48] IMF, World Economic Outlook, October 2021

presented in emerging economies. Over 80% of the growth in global import demand for sectors in which the UK is specialised in comes from just 29 countries. This demand is predominately located in the North America, Europe and Asia Pacific regions as well as the emerging giants of China, and India.[49]

Global Value Chains

GVCs highlight the importance of importing and exporting, and opportunities for the UK's dominant services sector. According to OECD's Trade In Value Added data[50] 15% of all UK exports in 2015 included imported content, meaning our ability to successfully export is intrinsically linked to our ability to source imports from our trade partners. Relative to the OECD average of 26%, however, the UK's use of foreign inputs in its own exports is low. This partly reflects the UK's relative specialisation in services exports which tend to have lower import content relative to manufacturing exports. In contrast, almost a quarter of UK gross exports were used as inputs in overseas production to make exported goods and services in 2015, above the OECD average of 19%. This highlights continued opportunities for the UK service sectors and that our ability to export also depends on the success of other countries.

Bilateral trade relations

UK trade policy tools, including FTAs, aim to support businesses in harnessing opportunities overseas. The UK government aims to secure agreements with countries accounting for 80% of the UK's trade. So far, the UK government has secured agreements with 69 countries plus the EU, equivalent to 64% of trade in 2020[51].

The UK government aims to strengthen trading relations with economic and strategic partners across the Indo-Pacific, Middle East, Africa, Americas and Europe regions. In the Indo-Pacific, DIT has implemented an agreement with Japan and has reached Agreement in Principle with Australia and New Zealand. This could deepen UK trade with these markets according to DIT's published economic assessments[52] and furthers the UK's ambition to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Work is also underway to commence trade negotiations with India and the Gulf Cooperation Council. We are also seeking opportunities to review our existing agreements - starting with our FTAs with Canada and Mexico - to strengthen trade relationships in the Indo-Pacific, Middle East and the Americas. Maintaining close ties to Europe is another priority; the government will support businesses trading under our new relationship with the EU.

Harnessing opportunities from growing sectoral expertise

Services sectors

Global trade is expected to gradually shift over the coming decades from goods to services. This is due to the impact of rising incomes in emerging markets, which will

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[49] Global Trade Outlook, Department of International Trade, September 2021
[50] DIT, Trade in Value Added, 14 May 2020
[51] ONS UK total trade: all countries April to June 2021
[52] See DIT publications related to trade agreements here: https://www.gov.uk/business-and-industry/free-trade#policy_and_engagement

shift spending patterns, and the increased 'servicification' of sectors across the economy.[53] Figures 10 and 11 below show the sectors of the economy where the UK has a comparative advantage and their global import demand growth.

This anticipated transition in the composition of global trade bodes well for the UK, given its expertise in exporting services. In 2019, the UK held 6.8% of the global market for trade in services, making it the second largest services exporter. The United States is the world's leading services exporter, accounting for 14.3% of global services exports.[54] The UK's strengths in the services sector are even more marked when trade is measured in value added terms due to the high services content of exported goods. Measured on a value-added basis, the services sector was responsible for 69% of total UK exports in 2015 (ten percentage points higher than if measured in gross terms)[55].

Other Business Services and Financial services are the UK's 2 largest services exports[56]. It was estimated that 870,200 FTE jobs in the Financial and insurance activities sector were supported by exports in 2016.[57]

By 2030, service sectors, including intellectual property, recreation & media, financial, digital and transport services, are expected to account for 77% of global GDP, up from 75% in 2019[58]. The global shift in trade composition from sectors where the UK does not have a marked comparative advantage to those where the UK does, will likely increase the proportion of UK GDP derived from exports.

There is, however, potential for more firms in these sectors to export. In 2020, only 25% of firms in the financial and insurance sector had exported in the previous 12 months, but a further 11% that hadn't exported had products that were suitable or could be developed to be exported.[59] Similarly, in the professional and services sector, 40% of firms had exported in the previous 12 months, and 13% had products that were suitable for or could be developed for export but hadn't exported.

DIT's Export Strategy will help UK exporters take advantage of opportunities created by the opening up of international markets. This is through the signing of FTAs and other bilateral and multilateral activities that are seeking to reduce or remove barriers to international trade. The UK has a clear and continuously growing revealed comparative advantage in primarily services-based sectors although, of course, has particular strengths right across the economy, as seen in Figure 10.

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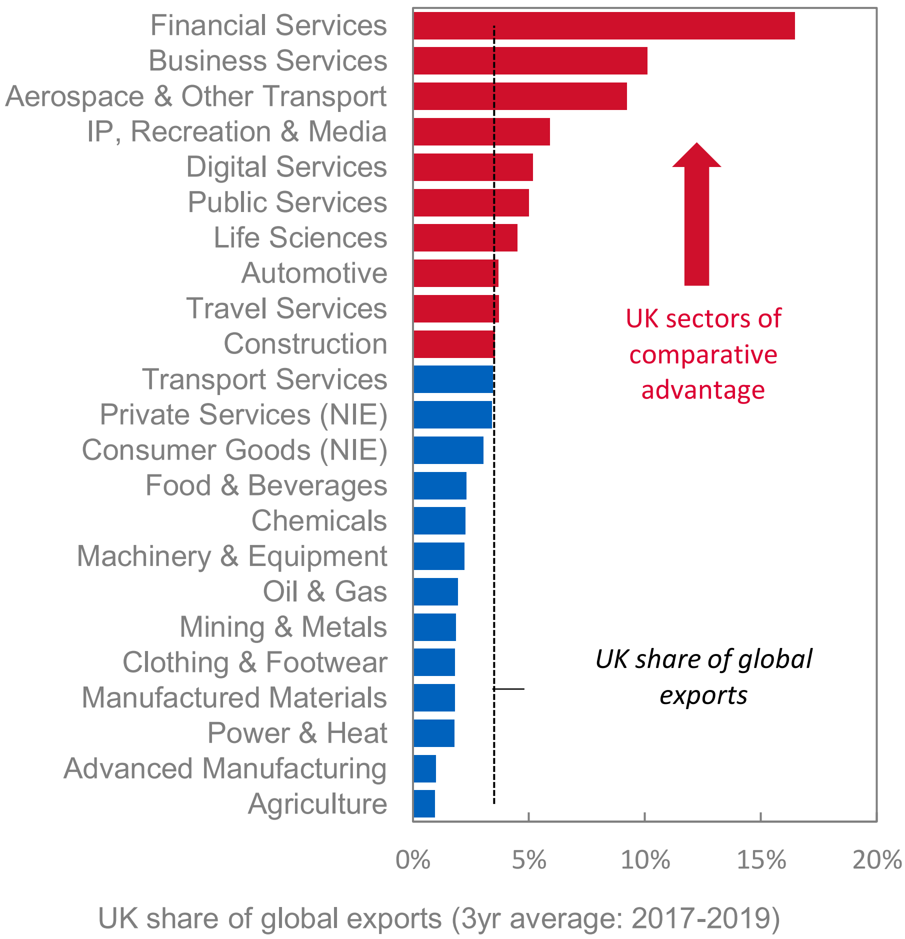
[53] Servicification – refers to a sector being increasingly relying on services, whether as inputs, as activities within firms or as output sold bundled with goods.
[54] DIT calculations, based on UNCTAD Trade in services database, September 2021
[55] DIT, Trade in Value Added, 14 May 2020
[56] ONS Balance of Payments April to June 2021
[57] Fraser of Allander Institute (FAI) research on behalf of DIT: 'Estimating the relationship between exports and the labour market in the UK', 2021.
[58] DIT, Global Trade Outlook, September 2021
[59] DIT, National Survey of UK Registered Businesses' Exporting Behaviour, Attitudes and Needs 2020, June 2021

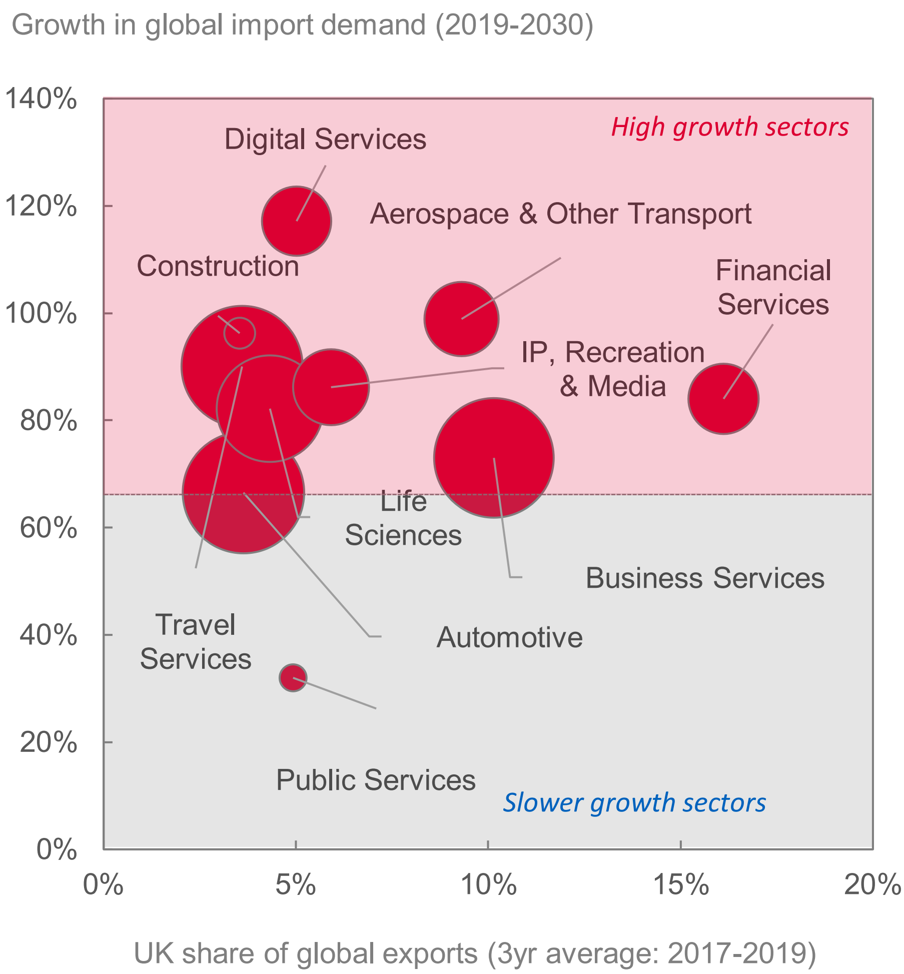
Figure 10 – UK sectors of comparative advantage.[60]



Sources: UNCTAD, Office for National Statistics and DIT calculations

[60] DIT, Global Trade Outlook, September 2021

***Figure 11 – Global import demand growth for UK sectors of comparative advantage.*[61]**



Sources: IMF World Economic Outlook April 2021, Oxford Economics, UNCTAD Statistics and DIT calculations

Notes: Projections are for nominal imports converted into US dollars at time-varying market exchange rates. Bubbles indicate 2019 sector size.

Manufacturing sectors

Within the manufacturing sectors, the UK has a relative specialism in the automotive sector. Cars are the UK's largest exported good by value with £21.5 billion of exports in 2020, 7% of the UK's total goods exports that year.[62] Moreover, exports from the manufacturing sector supported 1,507,900 jobs in 2016, both directly and indirectly, making it the sector whose exports support the largest number of jobs.[63] As shown by Figure 11 above, global import demand in the automotive sector is expected to grow at a similar rate to the global average across all sectors between 2019 and 2030 (67%).

[61] DIT, Global Trade Outlook, September 2021
[62] ONS, UK Trade: August 2021, October 2021
[63] Fraser of Allander Institute (FAI) research on behalf of DIT: 'Estimating the relationship between exports and the labour market in the UK', 2021.

Survey data from 2020 shows that 47% of businesses in the manufacturing, raw materials and energy sectors had exported in the preceding 12 months.[64] An additional 10% of businesses in the sector had exported previously, but not in the past 12 months. A further 16% of businesses had products that were suitable for export, but which had yet to be exported. This suggests that there are opportunities for targeted DIT interventions to reduce barriers to international trade within the sector.

Agri-foods sector

Within the agri-foods sector, the UK is specialised in beverages and tobacco products. The UK exported £6.4 billion worth of beverages in 2020.[65] Beverages are also an important export for Scotland where £3.6 billion worth of beverages was exported to the world in 2020, 56% of the UK total.[66] The export strategy can help businesses make the most of new opportunities created by upcoming FTAs and increase exports in this sector.

Emerging sectors

New technologies can create new opportunities for businesses. There are opportunities across the digital sector, with emerging technologies such as Artificial Intelligence (AI), Distributed Ledger Technology (DLT) and quantum computing. It has been estimated that AI could add an additional £630 billion to the UK economy by 2035.[67] UK tech GVA increased from £104 billion to £149 billion from 2010 to 2018, and grew by an average of 7% annually in the three years since.[68] The cyber security sector also has potential for growth, with the number of active firms in the sector increasing by 21% from 2019 to 2020, to 1,483 firms.[69] Furthermore, the UK already has about 30 individual digital clusters with Bristol, Manchester, Cambridge, and Oxford among Europe's Top 20 cities for tech investment in 2019.[70]

The UK also specialises in digital services, and the information and communication sector is an area in which there is opportunity to increase exports. In a 2020 survey, 66% of firms in the information and communication sector reported that they had exported in the previous 12 months with a further 7% having exported more than 12 months ago.[71] An additional 17% of businesses in the sector reported that they had products that were suitable for export, or that could be developed for export, but had yet to be exported.

For businesses in more traditional sectors, digital trade is likely to create further opportunities. In 2019, digitally delivered trade accounted for 65% of all UK services exports to the world.[72] In 2020, the UK was the second largest exporter of digitally

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[64] DIT, National Survey of UK Registered Businesses' Exporting Behaviour, Attitudes and Needs 2020, June 2021
[65] HMRC, UK overseas trade in goods statistics: August 2021, October 2021
[66] HMRC, UK regional trade in goods statistics: second quarter 2021, October 2021
[67] Newsroom Accenture, 'AI poised to double economic growth rate', 28 September 2016
[68] Tech Nation (2021), The future UK tech built: Tech Nation Report 2021
[69] Atlas VPN, 'UK's cybersecurity firms hit over $12 billion in 2020 revenue', 23 February 2021
[70] Tech Nation (2020), UK tech for a changing world: Tech Nation Report 2020
[71] DIT, National Survey of UK Registered Businesses' Exporting Behaviour, Attitudes and Needs 2020, June 2021
[72] ONS, Trade in services by modes of supply, November 2020

delivered services, exporting $286.7 billion worth.[73, 74] Future FTAs will include cutting-edge digital trade provisions to reduce barriers to digital trade, facilitate the co-ordination of GVCs, and help connect businesses and consumers, to maximise opportunities across the UK economy.

The clean growth and clean energy sectors are emerging sectors within which UK businesses are expected to have opportunities. Through high levels of innovation and ambitious policy support the UK's low carbon sectors with the largest potential could unlock £60 billion of GVA in the UK.[75] In the offshore wind sub-sector, the UK has a target of a fivefold increase in exports to £2.6 billion per annum by 2030 (as of 2018).[76] As the global maritime sector transitions to a zero-carbon future it is likely that export opportunities for UK businesses will emerge[77].

There are also opportunities in the green economy within other sectors, such as for green finance. The global green bond market has grown substantially in recent years, with $257.7 billion total green bond issuance in 2019, up 51% from the 2018 figure of $170.6 billion.[78] The UK is positioned to become a world leader in both green finance and low carbon sectors, providing opportunities for UK businesses across the green economy.

A further area of specialism for the UK is the IP, recreation, and media sector. Global import demand for this sector is expected to grow by 86% between 2019 and 2030, faster than the global average, as shown by Figure 11. Experimental statistics from the Annual Business Survey estimate that in 2019, 24.5% of businesses in the creative, arts and entertainment activities sub-sector were exporters, a much higher proportion of exporters than in the economy as a whole (10.2%).[79] There could, however, still be more opportunities for UK businesses in this sector to export. For example, the UK computer games industry GVA has grown from £442 million in 2013 to £2.7 billion in 2018, offering potential for greater export revenues.[80] The export strategy can support businesses in these sectors through initiatives such as export campaigns to promote British products.

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[73] These estimates capture types of services that can predominantly (potentially) be delivered digitally. These are not all necessarily delivered digitally.
[74] UNCTAD, International trade in digitally-deliverable services database, September 2021
[75] BEIS analysis based on the methodology used in the Energy Innovation Needs Assessments. BEIS (2019), 'Energy Innovation Needs Assessments'
[76] Offshore Wind Industry Council (2018), A Sea of Opportunity: UK growth and investment in offshore wind
[77] Frontier Economics (2019), Reducing the Maritime Sectors Contribution to Climate Change and Air Pollution
[78] Climate Bonds Initiative (2020), 2019 Green Bond Market Summary
[79] ONS, Exporters and importers by industry breakdown (Annual Business Survey), August 2021
[80] DCMS, Economic Estimates 2019: Gross Value Added, February 2021.

Part 3 – Developing an export promotion system to deliver the most impact

This section focuses on why and how government can help support businesses along their exporting journey and where support can enhance, rather than crowd out, the private sector.

The types of businesses most likely to benefit from support

Evidence suggests that export promotion services are most effective at helping small, inexperienced businesses that lack the internal resources and skills they need for exporting.[81] Medium and large sized businesses, however, tend to have the most potential to expand and sustain exports.[82] In 2019, these businesses accounted for 70% of the total value of goods exported from the UK. DIT is uniquely placed to support larger businesses to export to hard-to-access and under-served markets. It can leverage its government to government (G2G) relationships to arrange trade missions, overcome cultural and regulatory market access barriers and provide intelligence and lobbying to help large businesses win contracts.[83]

Segmenting businesses by size alone may not create the most impact on the economy. By concentrating the dedicated and more resource-intensive support on High Export Potential (HEP) businesses we can focus on businesses of all sizes but more intensely on those more likely to win larger overseas contracts. DIT's definition of a HEP business is one with a turnover of over £500k per year and a product or service ready to export. This captures approximately 256,000 businesses across all employment size-bands.[84]

Taking account of this evidence, DIT will therefore continue to offer its services to businesses of all sizes in need of support and advice. We will also target more intensive in-person support to HEP businesses with the capacity to expand exporting activities in new and existing markets.

The barriers businesses face when exporting

Exporting for the first time can be intimidating for many businesses. Even experienced exporters can face new and difficult issues trying to expand into new territories. The challenges of exporting are many and for some may be overwhelming, from attempting to raise additional finance to understanding rules and customs procedures in other countries.

Additionally, some countries may impose trade barriers. These may include additional taxes or tariffs on foreign goods, physical limits or quotas on volumes and excessive standards, labelling requirements, customs documentation, and fees to increase costs and cause delay.

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[81] The impact of publicly funded export promotion services: A systematic review prepared for the Department for International Trade, 2019
[82] UK Trade in Goods by Business Characteristics 2019, HM Revenue & Customs (2019),
[83] Large business export barriers, support and needs and the role of DIT, qualitative research findings, June 2021
[84] National Survey of UK Registered Businesses; exporting behaviours, attitudes and needs' DIT (2020)

DIT’s National Survey of UK Registered Businesses suggests the challenges shown in Figure 12 below prevent a significant proportion of UK businesses from exporting. These challenges may come through overestimating the additional costs and risks of doing so, or underestimating the likely demand for their products overseas.

Figure 12: Challenges faced by UK exporters

Challenges	Examples	Evidence from DIT's survey[85]
Trade costs and trade barriers	Exporting exposes businesses to additional costs and bureaucracy. For example, shipping costs, transit insurance premiums and exchange rate risks, and the payment of customs charges and tariffs at the border. Documentation and customs compliance requirements, lengthy administrative procedures and other delays clearing customs can also increase transaction costs.	57% of businesses reported cost as being a moderate or strong barrier to exporting.
Lack of knowledge	Businesses can lack the specialist exporting knowledge they need, including how to develop an export plan, where to go for finance, how to complete the necessary paperwork and how to comply with standards and regulations.	52% of respondents reported lack of knowledge as a moderate or strong barrier to exporting.
A perceived or actual lack of capacity	Many businesses may lack or believe they lack the financial and other resources including the skills they need to successfully expand into exports and to compete effectively internationally.	45% of respondents reported capacity as a moderate or strong barrier to exporting.
Gaining access to the right contacts, customers, or networks	Building relationships with foreign intermediaries and customers is essential to establishing exporting capability. Social and professional networks are central vehicles through which businesses gain information about new business opportunities and find buyers, agents and other business partners internationally.	59% reported that gaining access to customers and contacts was a moderate or strong barrier to exporting.

Source: DIT's National Survey of UK Registered Businesses, 2020

The variety of businesses means the nature and prevalence of the barriers they face varies. The scale and impact of barriers on businesses depends on their size, export experience, where they are on their exporting journey, the destination market and product/service.

[85] National Survey of UK Registered Businesses; exporting behaviours, attitudes and needs' DIT (2020) This survey focuses on businesses with a turnover of over £500k

The exporting journey itself can also be both complex and iterative, the typical exporting journey is shown below in Figure 13. Businesses will face the 4 barriers, shown in Figure 12, at different stages of the exporter journey. They will also go through different parts of the exporter journey every time they export to a new market or grow within their existing markets.

Businesses need to develop their export capabilities, but they may have limited awareness of their needs. To build their capabilities, they would need to use private sector support. Where this is inadequate or missing, however, businesses would instead need support from government.

Figure 13: The export journey

Stages in a typical exporting journey

1. Trigger	2. Discovery	3. Development	4. Preparation	5. Win Business	6. Fulfill and deliver
• Factors that lead business to consider the exporting opportunity	• How business explore their options around exporting e.g. researching potential opportunities and seeking advice	• Business firmly establish their intention to export, develop relationships with central players and decide on a route to market	• Businesses finalise their export strategy and review the market-specific requirements and resource implications of exporting	• Securing the contract to supply goods overseas	• After winning an overseas contract, a business will need to produce the product nad deliver tis to the customer, navigating logistics, e.g. transportation, ensuring they get paid on time

The barriers and concerns highlighted by the NSRB findings provide credible evidence that there are underlying market failures that prevent businesses undertaking a more optimal stance on exporting. These market failures (as outlined in Figure 14 below) can have a material impact on a firm's ability to make a decision on whether or not to start or grow their exporting position. For example, often the information required to help a firm estimate the potential costs and benefits of exporting is costly and time-consuming to acquire and cannot always be recovered later. This presents a significant barrier to entry, especially for SMEs. Furthermore, where private sector solutions and support are inadequate or missing, this can compound the barriers facing companies making that judgement about the relative risks and rewards of investing in the ability to export. Finally, a private sector company may only consider the private costs and benefits that will accrue to it in its decision-making process. For example, it may naturally not consider wider societal impacts such as the potential wider productivity gains or jobs or wages impacts and therefore will undervalue the full benefits of exporting.

Figure 14: Market failure framework

Information Failures	Positive Externalities	Co-ordination Failure	Missing Markets
• Inconplete information • Asymmetric information (firm-specific information)	• Public goods (general information) • Demonstration effects • Productivity effects	• Business reluctant to come together for mutual benefit	• Where a government intermediary is needed to act through government-to-governmnet dialogue

These market failures will affect individual companies differently. They can, however, mean that a company's perception of the risk/report profile of exporting will lead to them to a sub-optimal, for them or for wider society due to economic inefficiency. As such, there is a clear justification for government to intervene and provide services that can target, and hence mitigate, the impact that these market failures have.

How the export strategy will deliver support for businesses and deliver

The actions set out in the export strategy will target the full spectrum of market failures experienced by business and can help businesses to overcome these significant upfront barriers to exporting. While individual levers can target particular components of the problem, it is necessary to act on the system as a whole. It is essential to understand the role of individual services within the system as well as the effectiveness of the system as a whole.

DIT will use the variety of levers at its disposal to support businesses and target barriers at all stages of the exporter journey. Figure 15 highlights the important levers DIT uses and are incorporated within our service offer to businesses.

Figure 15: Levers available to DIT

Trigger Exporting

- To encourage firms start exporting, or export more to existing or new markets.

Provide Information & Advice

- To provide firms with sufficient information on foreign markets and the process of international trade to allow them to make an informed decision as to which opportunities and markets to investigate in more depth.

Build Export Capacity

- To provide firms with specific information to allow them to improve their export capabilities and operate effectively in particular foreign markets or sectors.

Matchmaking

- To put firms in contact with those they need to work with to put a deal in place- this includes buyers, agents, finance providers and intermediaries.

Enhance Competitivenes

- To Increase the competitiveness of UK goods and services in a particular market or sector and make a successful deal more likely. This includes the reduction of barriers to export, provision of competitive export finance and encouraging foreign consumers and businesses to buy British.

Support Fulfilment

- To support firms in arranging for goods or services to be supplied to a particular foreign market. This includes both services such as the provision of export licenses and putting firms in contact with third party specialists in shipping, payment or regulations.

For example, the International Trade Advisers provide tailored in-person upskilling advice to businesses to build export capability and trigger exporting. Through matchmaking, ITAs support businesses to access the Internationalisation Fund and UK export finance, and also refer businesses to the private sector for appropriate support.

The Export Academy helps businesses to improve exporting capability by providing specific information and advice to SMEs through multi-attendee events, while triggering exporting through explaining the wider benefits of exporting for a business.

Sector Academies provide sector specific advice, triggering exporting for businesses in target sectors.

The UK Tradeshow Programme predominantly supports businesses by triggering exporting, providing information and advice, building export capability and matchmaking. By attending the world's largest tradeshows businesses are able to meet potential buyers, and break into new markets. The pre-show educational modules focus on informing and building capacity so businesses are prepared for the tradeshows and can get the highest impact from their attendance.

The Enhanced International Support Service provides overseas in-market export support for high potential SMEs seeking to enter into or grow in new markets. It provides one to one advice to trigger exporting, as well as matchmaking, connecting businesses to specialist support to help them continue their exporting journey.

DIT's overall strategy for business support services is to take a proportional approach to service delivery to increase additionality by balancing the impact to the business with the impact to the wider economy. Different businesses are at different stages of the exporter journey, and so the services provided can be tailored accordingly to maximise impact.

Part 4 – Implementing the export strategy and monitoring its impact

The rationale for investing in monitoring, evaluation, and learning DIT is working to ensure that a high-quality evidence base underpins all our activity, allowing us to communicate the impact and value for money of what we do. Having a comprehensive approach to monitoring and evaluation (M&E) across the full range of DIT activities is a core element of good policy-making, as it supports accountability and learning.

The National Audit Office (NAO)[86] noted that DIT has made progress in developing its approach to performance measurement, but that more can be done to assess the impact of some of its longer-term export support activities.

DIT has already developed a robust monitoring and evaluation framework for its existing export promotion activities. This includes, annual client surveys, bespoke evaluations and a value-for-money model to help assess the cost and benefits of its services. Evaluation evidence is shaping the new export strategy to modernise and target the support to meet a range of business needs, maximise DIT's impact and improve value for money for the taxpayer.

Furthermore, data sharing legislation within the new Trade Act will allow DIT to monitor and evaluate the outcomes of the interventions set out in the export strategy and improve our understanding of the exporter landscape. This includes identifying areas of the UK and sectors that need the most government support

The approach

Our approach to M&E has 6 elements and covers the wider UK export support system. We use it for determining the cost efficiency of our offer, assessing the value for money of what we do, surveying our clients to understand the quality and impact of our services, and conducting bespoke evaluations where required. The final elements will bring all the evidence together to ensure that this data is being used to understand whether DIT is having a long-term impact on UK businesses and whether our services are being delivered as intended.

1. **Theory of change**: The starting point is to develop a logic model of export promotion services. This enables us to build a coherent theory of change on how funding for exporters can deliver economic impact, and the contribution of individual services within this. Individual export promotion services operate as part of an interconnected export promotion ecosystem, making it challenging to isolate the impact of individual services which led to an export outcome.

[86] https://www.nao.org.uk/wp-content/uploads/2020/07/Department-for-International-Trade-and-UK-Export-Finance-Support-for-exports-Summary.pdf

Figure 16: Illustrative logic model

2. **Cost data**: A harmonised set of cost efficiency measures will be developed for each product and services such as cost per lead generated. This will include learning about what works to maximise activity or output for a given level of cost.
3. **Business satisfaction**: We collect data on the quality and reported impact of our activities directly from our client firms via the Export Client Survey. This monthly survey reports on the number of companies supported by DIT, the reported impact of this support, the quality of the advice and support, and the firm's satisfaction with the service received. The survey provides harmonised metrics for monitoring the performance of DIT export promotion services. The findings from the survey support the development of cost model and value for money indices for DIT's export promotion services.
4. **Value for money model**: We assess the value for money of export promotion products and services using a HM Treasury (HMT) Green Book compliant Value for Money calculator. This is an NAO and Aqua Book compliant business-critical model which estimates the attribution of DIT export promotion products and services. This represents a step change in improvement over the existing DIT Value for Money methodology, which relied on decentralised, self-reported financial impacts.
5. **Evaluation research**: Where required, we are commissioning bespoke evaluation research alongside other workstreams, in line with the HMT Magenta Book. This will enable a greater understanding of what is and is not working and why. The evaluation research will use a mixed methods evaluation approach, incorporating process evaluations to understand how the services are being implemented as well as impact and economic evaluations to understand their additional effect on businesses who use them.
6. **Holistic metrics**: We will develop scorecards for individual products and services to allow for regular updates on all monitoring and evaluation work, to facilitate better decision making. For example, by developing metrics which present a better understanding of the holistic picture, and the case to continue or change a service. Value for money estimates will be considered alongside a balanced set of other metrics and monitoring and evaluation findings. This is because export promotion services operate as part of an interconnected export promotion system and so changing the way one service is delivered could have unintended consequences on others.

The framework therefore adopts a mixed methods approach. It uses bespoke evaluations to understand what works for individual services, econometric analysis to understand the value for money of services, data, and a systems model approach to look at the contribution effect. These elements in combination create a comprehensive M&E framework for DIT's export strategy, covering all elements of the intervention logic model.

DIT's Value for Money Model

The model was designed to enable the department to have a better understanding of the costs and benefits of delivering different types of export support to businesses. The model is used as a basis to inform and guide strategic spend decisions to maximise the net economic impact of each pound spent and improve exporting outcomes and the productivity of UK businesses. The model is underpinned by a standardised framework to derive Cost Effectiveness and Cost Benefit measures for individual services offered by DIT to support business exports.

The model is at the frontier of appraisal techniques to address the appraisal challenges facing DIT. The model covers appraising the impact of individual export promotion services and integrating a systems approach to estimate the contribution effect of individual DIT Export Promotion products and services. It focuses on the client-facing export promotion services provided by DIT which are more transactional in nature. The model is based on robust, high-quality data and evidence and allows for sensitivity analysis around the central parameter inputs.

Integrating a systems approach was essential, as we know businesses use different services as they progress along their exporter journey and DIT's delivery model is designed to support businesses at each stage of the journey.

Department for International Trade

Analysis

The UK's Department for International Trade (DIT) helps businesses export, drives inward and outward investment, negotiates market access and trade deals, and champions free trade.

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