



Doubling exports by 2020: The role of cities, local support & SMEs

As the UK economy starts to recover, export activity will be critical to sustaining growth. Higher exports not only reduce the trade deficit, they also create international connections providing firms with access to a much wider pool of ideas and innovations. These can then inspire further economic growth, both internationally and domestically. This makes it unsurprising that the Government has been explicit about the need to grow exports: they aim to double UK exports to £1 trillion per year by 2020 and get 100,000 more companies exporting as part of the UKTI's National Export Challenge. But what does this mean for small and medium-sized enterprises (SMEs)?

Small and medium-sized enterprises (SMEs) are vital to the UK economy. Work that the Centre for Cities has conducted with the support of Zurich show that SMEs make up 99 per cent of businesses in UK cities and provide nearly half (47 per cent) of all private sector jobs. SMEs have also been growing faster than large firms: between 2005 and 2012, the number of urban-based SMEs increased by 37 per cent, compared to a 14 per cent increase in urban-based large companies. Yet just 1 in 5 SMEs are currently exporting their products. What does this mean for achieving the Government's target, and what role do Government, cities, local trade bodies and business support organisations, and SMEs need to play to help make doubling exports a reality?

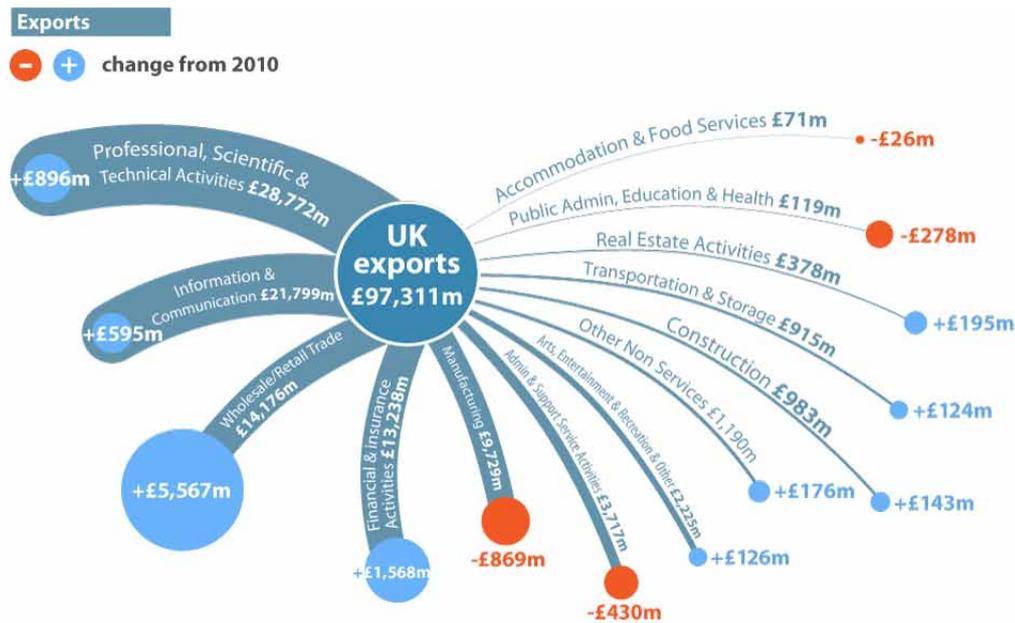
Recent trends in UK exports

Let's first consider whether the desired scale of export growth is likely given recent trends. If the Government is to reach its target by 2020, exports will need to grow by roughly 9 per cent each year. Yet, the average annual growth rate even during the boom years was 5 per cent per cent. Growth halted in 2009 as a result of the financial crisis. The first year of the recession saw the greatest fall in both the UK and global trade in recent history, despite the value of sterling declining by 25 per cent between 2007 and 2009, making UK prices more competitive in the international market.

The drop was predominantly because of the concentration of the UK's trade activity in financial services, although declining overseas demand has also played a role. All of the UK's major trading partners suffered a contraction in output during the recession and around 60 per cent of the UK's exports go to the Eurozone.

However, although export growth of 9 per cent each year will be tough to achieve, there are positive signs that the UK is in a good position to increase export growth overall. Despite recent trends, the UK's share of global services exports remains high, ranking third behind the US and Germany. While its share of global goods exports is lower than key competitors', export performance is relatively strong in innovative, high growth sectors such as pharmaceuticals and high tech machinery. There are also positive signs of growth as global demand had already recovered to pre-crisis levels by the first quarter of 2011 (with world trade 22 per cent on the previous year).

Figure 1: UK trade in services



Graphic by ONS Data Visualisation Centre

Source: International Trade in Services

Source: <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-276814>

Boosting the future export potential of SMEs

With this context in mind, what can be done to boost SME export levels in the years ahead?

First, underlying figures highlight the need for the UK to diversify its export activity as a whole, as well as expand it. This means reducing the UK’s reliance on the Eurozone and financial services – the UK lags behind international competitors in terms of connectivity to key growing markets in the developing world. It also means diversifying the sectors we export. Within the services sector, the UK account for 23 per cent of global exports in financial sectors but less than 6 per cent in computer and information services. Levels of diversity across markets and sectors will impact on the UK’s growth potential and its resilience in the face of future economic downturns. Targeted support for SMEs in all sectors seeking to reach international markets could help bridge this gap.

Second, the picture across the UK also highlights the need to support export activity in cities outside London. In London, for example, around 20 per cent of firms operate within international markets compared to just 4 per cent in Barnsley. And while nearly half of businesses in London export, just a third of businesses in Leeds trade globally.

Figure 2: International cities

10 cities with the highest proportion of firms operating primarily within international markets

1	London	20.8
2	Oxford	18.2
3	Peterborough	17.0
4	Reading	15.9
5	Aldershot	13.8
6	Northampton	13.7
7	Derby	13.7
8	Southend	13.4
9	Swindon	13.4
10	Cambridge	12.9

5 cities with the lowest proportion of firms operating primarily within international markets

52	Stoke	5.7
53	Bolton	5.7
54	Wakefield	5.7
55	Doncaster	5.5
56	Barnsley	4.2

Source: UKCES, 2011

Intervening to support SMEs

In order to overcome these barriers, and support SMEs and cities to increase exports, the Government needs to work more closely with local partners. Many small businesses are not aware of the support available: for example, only 13 per cent of SMEs are aware of the type of support available from UKTI.¹

LEPs could provide an important means of engaging with companies on the ground and Business Growth Hubs could potentially play a role in coordinating and signposting services to SMEs. To do so, they should seek to co-design support with SMEs so it is tailored to their needs. A significant proportion of businesses believe they have no export potential so it may also be necessary to look at the motivations and incentives for SMEs to innovate.

Alongside direct intervention with SMEs, it will also be important to ensure the wider business environment is conducive to business growth, and enables SMEs to access local, regional and national markets as effectively as possible.

Networks and supply chain links, social ties, immigrant links, global trade infrastructure and the industrial profile of an area all impact on the likelihood of firms exporting. And links to large global players matter too. There is a clear correlation between size of business and their propensity to export. LEPs could play a role in facilitating networks and collaboration between SMEs, multi-national companies and universities active on the global stage.

Of course, not all SMEs have export potential. Some businesses inherently rely on local customers for sales (for example, newsagents and corner shops), while others are tied into local business supply chains. This latter group could benefit more from government support to help them access other markets across the UK.

But to secure the national economic recovery in the years ahead, it is vital that those SMEs that have ambitions to expand their activities, increase profits or access knowledge from elsewhere are supported as they seek opportunities to grow their businesses.

1. Reform (2013) *Delivering the UK export ambition* -available from: http://www.reform.co.uk/content/31197/research/economy/delivering_the_uk_export_ambition

About the author:

Naomi Clayton is a Senior Analyst at Centre for Cities. Contact Naomi on: n.clayton@centreforcities.org / 020 7803 4314