Is government helping exports?

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Adam Smith Institute 2014
EXECUTIVE SUMMARY

The IMF has drawn attention to Britain’s urgent need of more exports and investment but is UK Trade and Investment (UKTI), a net hindrance or help to exporters? UKTI can surely point to successes but could its expenditure of over £400M p.a. (up 70% since this government took office) be better spent?

The 2013 research into UKTI commissioned by Daniel Kawczynski MP is important, valuable and deserves more attention. It provides insights into the strengths and weaknesses of UKTI as it now is and suggests useful improvements. This critique, however, shows that it may not be radical enough. The ten recommendations in this critique would, if adopted, be a major step forward.

1. Cutting the HQ from 500 to 50, or so, is a necessary move, not because it is ultimately the right answer but because it is the only path to discovering how big an HQ is really necessary.

2. UKTI should become a stand-alone executive agency, as recommended by the Kawczynski report but with UK regional staff integrated with Chambers of Commerce in a similar way to overseas staff integration with FCO posts.

3. Inward investment is largely a matter for overseas posts and should be driven from there.

4. The UK [potential] exporters and receivers of inward investment should be put in charge. They should be asked what help, and especially contacts, they want, as distinct from being told how to do their business. These should be communicated directly to overseas posts.

5. Overseas posts should communicate back to the originators what action has been taken or why it has not.

6. UK based trade counsellors should work with [potential] exporters and inward investor recipients to improve the quality and clarity of their requests and should be copied in to the outgoing requests and inward replies as distinct from being separate, and fallible, links in the chain.

7. OMIS and other statistical reports and surveys should be scrapped. Successful exporting and inward investment are a matter of personal contacts, not paperwork.
Measuring UKTI performance by the number of contacts allegedly made, and/or number of exporters, should also be scrapped. The only metric that matters is how much trade has been added, whether directly or indirectly.

Any new government IT initiative can only be proposed with some diffidence given the government’s dismal track record in this area. It is crucial that it begins small, i.e. one small area and a laptop, and expands only as it is proven.

UKTI can use this information to determine how many staff are needed in overseas posts and the UK and dynamically adjust resources accordingly.
Is government helping exports?

1 INTRODUCTION

“We are from Head Office. We are here to help you.” The experienced executive knows that these words presage more hindrance than help. The IMF has drawn attention to Britain’s urgent need of more exports and investment but is UK Trade and Investment (UKTI), a net hindrance or help? Could its expenditure of over £400M p.a. be better spent? Should the government spend it at all? Maybe the private sector should take care of itself, simply calling for specific departmental help, e.g. ministerial trade visits, when it considers them to be needed. Alternatively UKTI may be structurally right and merely require more or less funding and other fine tuning. The paper will mostly focus on the exports and outward investment side of UKTI although the recommendations also address inward investment.

In 1999 the Blair government, recognising the weakness and infighting between the Foreign and Commonwealth Office and the then DTI, created two dedicated quangos to maximise exports and inward investment and then merged them in 2003 as UKTI which reports jointly to FCO and BIS. No prizes for guessing the calibre of the civil servants the two parent departments thought they could do without. The MOD merged their export arm, apart from Saudi Arabia, into UKTI in 2008. China has a separate quango, 50% funded by the FCO. My personal experience, over about 10 years, of the China-Britain Business Council (CBBC) is wholly positive, not least because it is driven bottom up by the needs of exporters as distinct from top down on the basis of what Whitehall thinks they need. The CBBC has lessons for UKTI but is not otherwise considered in this paper.

The last UKTI accounts 2012/3 are the source of the numbers in this paper unless referenced otherwise. The expenditure net of charging for market information reports (£8M) was about £320M in each of the two years to 2013 but an additional £70M was approved for 2013/14 taking the total cost up about 70% since the government took office.

Table 1: UKTI 2012-13 Costs

<table>
<thead>
<tr>
<th>£m</th>
<th>UKTI</th>
<th>BIS</th>
<th>FCO</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas trade and investment</td>
<td>59</td>
<td>37</td>
<td>140</td>
<td>236</td>
</tr>
<tr>
<td>Inward investment</td>
<td>34</td>
<td>14</td>
<td>33</td>
<td>81</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>51</td>
<td>173</td>
<td>317</td>
</tr>
</tbody>
</table>

Source: UKTI 2012-13 Annual Report
The MOD seems to be excluded from these costs so it would appear that UKTI is costing the UK taxpayer well over £400M – 50% more than the £270M that has sometimes been quoted e.g. by Wikipedia based on the 2009/10 accounts.

**Table 2: UKTI 2012-13 staffing**

<table>
<thead>
<tr>
<th>Personnel Numbers</th>
<th>Outward</th>
<th>Inward</th>
<th>HQ</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>UKTI — UK</td>
<td>102</td>
<td></td>
<td>498*</td>
<td>600</td>
</tr>
<tr>
<td>UKTI — overseas</td>
<td>1,282^</td>
<td></td>
<td></td>
<td>1,282^</td>
</tr>
<tr>
<td>Private sector contracted and seconded</td>
<td>320</td>
<td>130</td>
<td></td>
<td>450</td>
</tr>
<tr>
<td>Total</td>
<td>1,704</td>
<td>130</td>
<td>498</td>
<td>2,332</td>
</tr>
</tbody>
</table>

Source: UKTI 2012-13 Annual Report

* Includes 50 MOD staff and staff that maybe working on exports and/or inward investment but not directly with the [potential] exporters or investors.
^ Staff in overseas FCO posts work on both outward and inward trade and investment.

The nine English regions have, on average, 41 export advisers and Scotland has 48.

The independent contractors, e.g. PA Consulting are required to “deliver a certain level of service” but the Annual Report does not reveal what that is.

One must start by asking why government should provide this service at all. To the extent it is profitable to the [potential] exporters they would pay for it themselves either upfront or from the later stream of increased profits. Note that UKTI is purely advisory; the EU prohibits the subsidy of exports although other countries are believed to have found ways of doing it. Seed funding for neophyte exporters has much to commend it but we are lead to believe that UKTI does not do that.

The research commissioned by Daniel Kawczynski MP provides important insights into UKTI’s strengths and weaknesses.
2 THE KAWCZYNISKI REPORT

The report into UKTI was based on interviews with a wide range of senior UKTI staff and advisers, [potential] exporters, trade association, UK politicians, foreign and UK diplomats and informed academics, 68 of whom were prepared to be identified. This was clearly a convenience rather than an academic sample but the broad conclusions chime with my experience of advising the Department of Trade and British Trade and Investment (BTI), the predecessor of UKTI, between 1994 and 2002. Little seems to have changed.

The report’s main findings were:

- UKTI targets are tick-box quantities, of the number of contacts with [potential] exporters and the total number of exporters rather than additional exports. For example, UKTI proudly reports a 25% increase in SMEs “assisted” (it actually means contacted) in 2011/12 when exports fell by 1.1%. UKTI has recently recognised the artificiality of their metrics and are now seeking to introduce measures of value added, i.e. how much extra export business can be attributed to UKTI. This called “Trade Growth Value” but it seems the original contacts and number of exporters will remain the main metrics.

- The marketing of UKTI to its “customers”, i.e. [potential] exporters, is inadequate. “81% of large companies that export and 69% of SME exporters are not familiar with UKTI.” The report sees that as a problem to be rectified but it may not be right. Firstly, if UKTI was to do, for those unaware of its services, the same as it does today for the aware, it would need to be three times bigger. One suspects that if the UK government really had built the proverbial better mousetrap. The private sector would be beating a path to its door. The fact that this is not happening makes it more likely that the product is wrong rather than its promotion being to blame. The report is not short of criticism of UKTI which indicates the product either needs to be improved or withdrawn before more funds are wasted on its promotion.

- UKTI can show case studies of successes due to their intervention and of course they have many hard-working and effective staff. On the other hand, respondents “believed there is a general deficiency of the business acumen among UKTI employees.” A major problem is the lack of follow up. An over-worked export adviser in Grimsby may try to make contacts with local employees in overseas diplomatic missions in different time zones who report, de facto, to the ambassador, not BIS and still less to our man in Grimsby. As this report astutely points out: one can tell loyalties by the affiliations on personal business cards. In the UK it is BIS and overseas it is FCO. So calls are not returned, emails are unanswered and the man in Grimsby has many other contacts to make before remembering the first one. Part of the problem is undoubtedly using contacts (perhaps just a phone call) as the key performance measure.
• A similar story applies in reverse. When an overseas UKTI advisor finds a local opportunity, how does it get meaningfully communicated to the UK [potential] exporter or investor? The short answer is that it does not. Opportunities are put on website but they are so vaguely worded as to be ineffective and how many busy CEOs of SMEs have time to be trawling opportunity websites? It would be better if the overseas UKTI adviser phoned the most appropriate SME directly but, sitting in Gabarone for example, how would they know who to ring?

• UKTI seeks to charge for its services when it can, partly to avoid EU complaints that exports are being subsidised. The Overseas Markets Information Service (OMIS) has been running for at least 20 years and is inherited from BTI. The idea is that a potential exporter is considering, say, Malaysia as a market for his products. Via his UK advisor the UKTI staff in Kuala Lumpur then prepare a report on that category in the market and the prospects for the new entrant. No doubt UKTI can find an example or few where this has proved beneficial but overall it is a dreadful idea because:

• The UKTI local staff know nothing about the particular sector in that overseas market and do not get out of their offices to find out.

• They know nothing about the [potential] exporter or its products. If there were determined to find out about the market, blundering ill-informed into the offices of potential customers would do more harm than good, not to mention alerting the competition.

• The reports take ages to produce; time that the [potential] exporter could have used to find out for themselves.

• The charges are too high for SMEs to bear.

One example will illustrate, but not of course prove, the point. In the late 1990s, I sat in the UKTI office in the UK embassy in Peking. An OMIS report was being prepared to an engineering firm in the Midlands. The “research” was limited to extracting the names addresses and phone numbers from the city’s English language Yellow Pages. This took a few hours to do but it had to be delayed to give the illusion that they had spent a considerable amount of time on it. The objections are obvious:

• No description of the market or competitors or the extent of the opportunity.
Beijing is just one city: which part of China would have been best? The Peking staff in question had a very limited knowledge of the rest of China.

In this www age, the [potential] exporter could have checked the Yellow Pages for itself.

The Peking staff were using out-of-date Yellow Pages and Chinese business move around pretty fast. They did test a few of the numbers and discovered that no contact could be made but the editing on that score was limited.

In China, if you do not have some guanxi, however limited, with the person you are trying to contact, you do not exist.

The Kawczynski report recommends outsourcing OMIS reports to British Chambers of Commerce and the private sector but as the BCC has no local staff and international consultants charge even more, this would be even worse. As this paper will discuss below, exporting and overseas investment is a matter of personal contacts, not statistics or economics. OMIS should be scrapped.

The report has a long section on “The ethos of UKTI staff” but it mostly adds to the points on the tick-box culture and assessment on the number of contacts made, i.e. quantity rather than quality, as related above. The UKTI Chief Executive attributes the problems to understaffing, but then he would, would he not? It would clearly be better to focus the resources on getting a limited number of good outcomes rather than spread them so wide as to get little or no positive outcomes. In other words, it is down to UKTI to get the best results from the resources they have, not spread them so widely that they get none.

In a similar vein, the report finds that the national export effort is being fragmented between UKTI Catalysts, trade associations and parliamentarians whose overseas visits could be more export productive if better coordinated. “Catalysts UK” is yet another UKTI initiative under which 282 senior private sector executives are asked to notify their travel plans and then speak at UKTI events. A flaw in this initiative is that FCO posts have never heard of the Catalyst initiative or the individual catalysts so their travel plans fail to register. One has to have some sympathy with these overseas UKTI staff who already have to cope with Trade Ambassadors, and visits by ministers and parliamentarians. Part of the problem is that all this is the wrong way round: visits are not chosen and prioritised according to the needs of [potential] exporters but by the FCO and visitors themselves deciding where they would like to go and then trying to tag exports on as an afterthought. The Kawczynski report concludes this section by welcoming all this “working with” as a means to market UKTI to SMEs. As noted above, this is
simply the wrong way round. More committees issuing more instructions, veiled as “marketing” to SMEs can only make things worse for SME exports. It reminds one of Gerard Hoffnung’s “Concert for Solo Violin and Massed Conductors”.

- The next main section of the Kawczynski report deals with the interrelationship between BIS, FCO and UKTI. That should have been extended to the MOD. The research indicates divided loyalties between the staff’s original departments, FCO, BIS (and presumably MOD) and UKTI itself. This has a negative impact on communications through the network, the raison d’être of UKTI. “Although much has been done already to ensure a commercial ethos is infused with the FCO’s work it is of concern that some – especially at the ambassadorial level – view trade as an undesirable aspect of their job.” This too chimes with my own experience of most, but by no means all, overseas posts. London Business School used to run courses for ambassadors-to-be to give them some idea of business. Marketing was omitted from the course and when I asked why, the ambassadors-to-be were horrified that marketing could even be considered.

- The budget similarly arises from the two parent departments as well as UKTI directly. This may be causing biases. The addition £70M was added in the 2012 Autumn Statement as a political, top down, gesture to show a commitment to growth as distinct from evidenced needs bottom up. The report dismisses this as “one-off politicking” – politicking the boxes maybe.

- The report’s main conclusion is that UKTI should be removed from the FCO and BIS (and presumably MOD) coat tails and become a stand-alone executive agency. The subsidiary conclusions address the divisions revealed in 8 and 9 above. UKTI should have full control over all its budgets and over all its staff and contractors.
3 ARE THESE CONCLUSIONS ENOUGH?

The report is strikingly like those written for the National Health Service. The mantra may be “patient first” but the reality is a top down organisation complicated by different budgets and loyalties. It would not be too bad if the upper echelons of UKTI and government knew how to become a successful exporter but too much of the thinking is simply wrong. Successful exporting is simply a matter of making the right contacts, not micro-analytic market assessment.

The 1996 doctoral thesis of my then student, Chris Styles, compared two theoretical exporting paradigms: the prevailing orthodoxy (research overseas markets, choose optimal, prepare plan) with the then recent “relational” approach which is not to do any of those things but network personal contacts. The latter is akin to the guanxi approach used by the Chinese. Using that structure it turned out that SME’s using the relational approach were far more likely to be successful than those using the textbook orthodoxy.

The DTI in the early 1990s were most helpful with the contacts, data and financing of this research and professed themselves well pleased with the outcome. Did that change what they recommended to SMEs? Not a jot. UKTI’s current advice is still the disproved orthodoxy.

UKTI marketing to its “customers”, i.e. [potential] exporters, is not ineffective because the budgets are too small but because it is wrongly targeted with the wrong advice. If the customers liked their UKTI experience they would tell others about it. The fact that they don’t tells its own story.

The 500 person London HQ is too big and taken with all the VIP and ministerial trade visits and parliamentary tours, the whole enterprise is top heavy. All these people are well intentioned but the reality is that trade is being used to justify the visits they wish to make as distinct from being driven by the help that [potential] exporters really want. Many of these tourists are senior business people some of whom doubtless recognise that things are not as they should be but, faced by a monolithic culture, are reluctant to rock the gravy boat.

Bureaucracies are like rose bushes: they need to be heavily pruned occasionally to ensure future growth is productive. The most obvious relevant case history of cutting HQ by 90% is BP from 1985 to 1995 under Bob Horton. It made him unpopular but he was proved right.
Making UKTI a stand-alone executive agency, as recommended by the Kawczynski report would improve budgeting and staff loyalties should flow from that, even though it will not of itself change the modus operandi or ethos. The UKTI culture and understanding of exporting is not going to be corrected by tinkering, such as the new Trade Growth Value metrics, however sensible those measures are in themselves.

An alternative is to scrap the UK end of UKTI altogether, apart from the London HQ, and handing all UK regional matters over to the British Chambers of Commerce network, with UKTI funding. That does have attraction and should be considered but implementation of such a scheme would most likely be patchy and the executive agency model is preferred.

Bringing these two proposals together leads to the recommendation below that all UKTI should be responsible to UKTI itself but UK regional staff should be embedded with Chambers of Commerce in much the way UKTI overseas staff are embedded with FCO posts. That should ensure closer cooperation and improved contacts with SMEs.

Apart from making overseas staff more convincingly part of UKTI and changing the culture of overseas posts, from ambassador down, towards inward and outward trade,. Trade is not demeaning. Staff need to switch their time from preparing reports to establishing contacts for the UK partners. The Irish overseas posts, and CBBC, are models of how this can be done. No great change of headcount is likely to be necessary. On the other hand, the recruitment of talent and the weeding out of poor performers do need to be enhanced.

The most important change is to put the UK [potential] exporters and receivers of inward investment in charge. They should be asked what help, and especially contacts they want, as distinct from being told how to do their business. It would not require much administration, in this digital age, to ask, say once a year, shuffle the requests into countries and pass them on to those overseas posts. From that the overseas posts should be able to assess

- What they can do directly.
- What trade fairs are needed.
- What high level visits are needed and by whom.
- Some indication of potential UK outward and inward value added, and its likelihood, so that the London HQ can determine the priorities and allocate resources accordingly.
Overseas posts obviously cannot meet all requests but they should communicate back directly to UK [potential] exporters, with copies to UK counsellors, what requests they have been able to meet and the situation on the others.

Assessing UKTI performance by the number of UK contacts made and/or the number of exporters is patently nonsense. The “contact” may be no more than an unreturned phone call. The quality of contact is far more important than the quantity. 10 hours could be spent with 10 potential exporters or one. If the 10 exporters achieve nothing but the single one does, the latter is the better outcome.

Similarly some exporters are bigger and more current than others. If I sold one copy of a book overseas five years ago, does that make me an “exporter”.

The bottom line seems to be that the UK’s export market share is declining pro rata to the increasing UKTI budget. Yet UKTI can point to its annual surveys of its customers which indicate their great satisfaction. Perhaps that mirrors our common restaurant experience with waiters after a poor meal. On being asked if everything was to the diners’ satisfaction, we say “yes, thank you” but only to make the waiter go away.
5 TEN RECOMMENDATIONS

• Cutting the HQ from 500 to 50, or so, is a necessary move not because it is ultimately the right answer but because it is the only path to discovering how big an HQ is really necessary.

• UKTI should become a stand-alone executive agency, as recommended by the Kawczynski report but with UK regional staff integrated with Chambers of Commerce in a similar way to overseas staff integration with FCO posts.

• Inward investment is largely a matter for overseas posts and should be driven from there.

• The UK [potential] exporters and receivers of inward investment should be put in charge. They should be asked what help, and especially contacts, they want, as distinct from being told how to do their business. These should be communicated directly to overseas posts.

• Overseas posts should communicate back to the originators what action has been taken or why it has not.

• UK based trade counsellors should work with [potential] exporters and inward investor recipients to improve the quality and clarity of their request but they should be copied in to the outgoing requests and inward replies as distinct from being separate, and fallible, links in the chain.

• OMIS and other statistical reports and surveys should be scrapped. Successful exporting and inward investment are a matter of overseas personal contacts, not paperwork.

• Measuring UKTI performance by the number of UK contacts allegedly made and/or the number of exporters should also be scrapped. The only metric that matters is how much trade much trade has been added, whether directly or indirectly.

• Any new government IT initiative can only be proposed with some diffidence given the government’s dismal track record in this area. It is crucial that it begins small, i.e. one small area and a laptop, and expands only as it is proven.

• UKTI can use this information to determine how many staff are needed in overseas posts and the UK and dynamically adjust resources accordingly.
6 CONCLUSION

UKTI is not delivering the exports we need. The UK’s share of exports is declining whilst the cost of UKTI soars. It requires drastic overhaul. The Kawczynski report is important and valuable. It provides insights into the strengths and weaknesses of UKTI as it now is and suggests useful improvements but more drastic change is needed. The ten recommendations in this critique would, if adopted, be a major step forward.