Access all areas: Markets

How the government can empower small businesses to broaden their horizons and trade with the rest of the world.

Enterprise Nation | ten THE ENTREPRENEURS NETWORK

Foreword

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This report makes the case for why we must pull out all the stops to unleash an export boom for UK SMEs as key plank of any growth plan.

We must reignite the UK's appetite to export and ensure that Britain's SMEs have the best conditions possible to flourish on the international stage.

We know that exporting, whether it be a product or a digital service, is a key driver of productivity and growth. For example, firms that export introduce more innovation and develop more products. We must ensure SMEs have all the information, support and skills they need to join the dots and see exporting for what it is - a clear route to growth.

The UK is lagging behind other G7 countries, and this is impacting our business community's ability to innovate and plan for the future.

I strongly urge the Government to consider everything we've put on the table in this report such as Export Vouchers and increasing the export knowledge of the UK's business leaders via existing schemes such as Help to Grow: Management and via private sector schemes such as Go Global. Many small firms have never heard of the UK Export Fund (UKEF) so there's a clear piece of work that needs to be done to market that scheme more widely together with more accessible information.

Small firms are run by busy people. We must make it easier to find the information in the first place.

Finally, perhaps the single most important thing the Government can do is to champion British businesses at home and overseas, at every level from the top down. Without this metaphorical high five, this exporting life is much harder for SMEs.

Introduction

International trade has occupied an important place in many economies' histories, but Britain can rightly boast a particularly distinguished record. For centuries, British thinkers – from Adam Smith, to David Ricardo, to Richard Cobden – have eloquently espoused the virtues of free and open trade between nations.[1] With France, the United Kingdom brokered what some regard as the first modern-day trade agreement, and which triggered a wave of trade liberalisation across Europe in the mid-19th century.[2] Following the Second World War, British diplomats played an instrumental role in orchestrating the General Agreement on Tariffs and Trade, a precursor to the World Trade Organization (WTO).[3]

During and following the 2016 Brexit referendum, interest in international trade has intensified markedly. Politicians of different stripes have weighed in on what our future trade agenda ought to look like – with some believing that greater opportunities lie further afield, and others keen to stress the importance of staying close to our existing trade partners. Regardless of the merits and demerits of either view, as this short report sets out, one thing is clear – international trade is critical to the British economy, and will play a key role in the future success of firms both big and small.

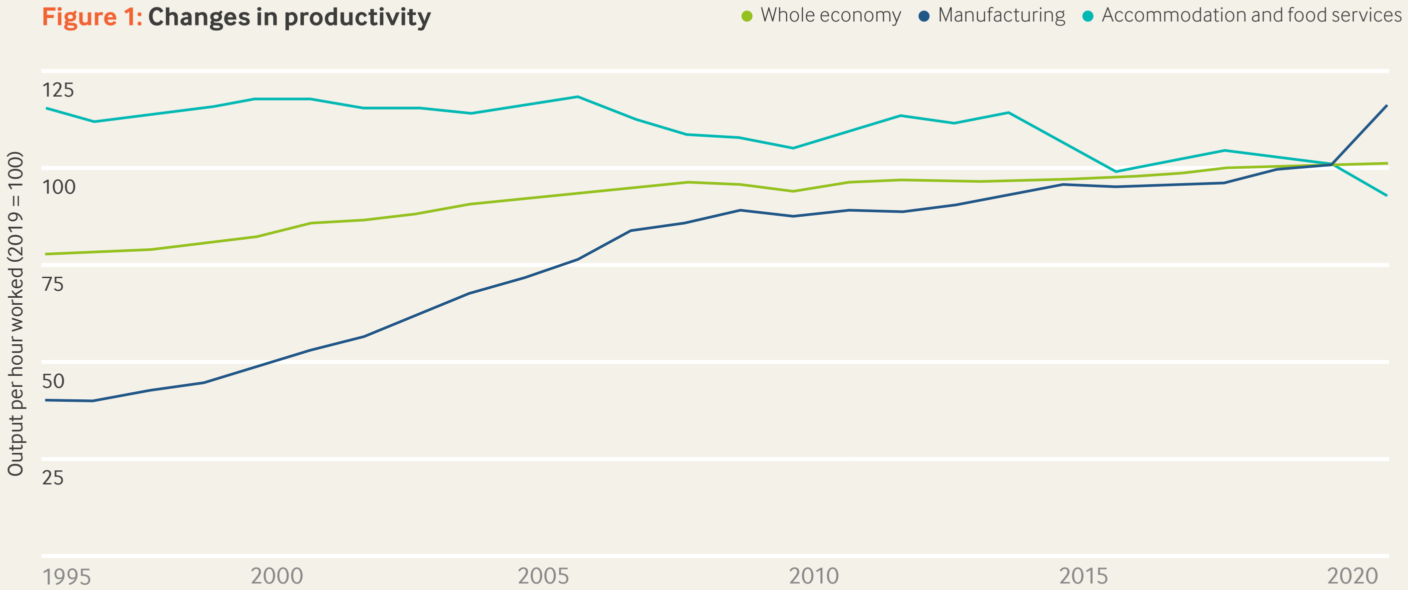
Why international trade is important

All instances of voluntary trade – whether within or across borders – are necessarily welfare-enhancing. Trade is simply the act of individuals exchanging things they deem less valuable for ones they deem more valuable. When carried out at an international scale, across a variety of goods and services, the gains that stand to be made from trade are vast.

Trade brings economic benefits in a more dynamic sense too. Perhaps popularised most famously by the economist Adam Smith in *The Wealth of Nations*, trade permits 'specialisation' within an economy.[4] When we trade, we no longer need to make everything we require for ourselves – if indeed we ever could – meaning countries can concentrate on producing a smaller array of goods and services, and subsequently exchange them for other goods and services from other countries, in the form of imports. By focusing productive efforts on just a select handful of goods or services, economies can learn to get better at what they do and benefit from agglomeration effects, as they have deeper pools of talent, more employers, and economies of scale for specialised regions.

1. Smith, A. (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*; Ricardo, D. (1817). *On the Principles of Political Economy and Taxation*; Cobden, R. (1870). *Speeches on Questions of Public Policy*.
2. World Trade Organization (2011). World Trade Report 2011.
3. World Trade Organization (2022). United Kingdom and the WTO.
4. Smith, A. (1776). An Inquiry into the Nature and Causes of the Wealth of Nations.

Figure 1: Changes in productivity



Source: Department for International Trade (2022). UK trade in numbers.

When replicated the world over, and abstracted over the course of years and decades, this process of specialisation leads to the cornucopia of goods and services we know today – all being produced far more efficiently, and inexpensively, than the case could ever be if economies tried to sustain themselves entirely on their own. Indeed, a country's 'trade openness' and its overall economic performance, across many metrics, are often intimately correlated.[5]

That's a very succinct overview of the theory explaining the economic blessings that flow naturally from international trade, but reams of academic evidence can be found in support of it too.

Exporting businesses, for instance, are key drivers of productivity growth within economies – and, to invoke the language of economist Paul Krugman, while productivity isn't everything, in the long run, it's almost everything.[6] There are different hypotheses for why exporting seems to lead to productivity growth, but a leading reason is because firms that export are generally more 'receptive' to innovations – both in the extent to which they can innovate, and because there are more pressures on them to innovate, in order to stay competitive against global competition.[7] Some have argued that the act of exporting also allows firms to learn from each other in how to boost productivity.[8] The WTO has noted that: "Export participation enlarges the size of a firm's market, allowing it to exploit economies of scale, to absorb excess production capacity or output."[9]

The effects of this show up clearly in productivity data. Figure 1 plots labour productivity data in the UK between 1995 and 2021. Across the economy as a whole, we can see that labour productivity increased by 31% during this period – but this masks great variation between sectors. In the manufacturing sector – characterised by relatively high levels of exports – labour productivity grew by 196% (an effective trebling in productivity). But in the accommodation and food services sector – generally not characterised as an exporting sector – labour productivity actually shrank, by 9%.

5 Organisation for Economic Co-operation and Development (2022). Why open markets matter.
6. Krugman, P. (1994) The Age of Diminishing Expectations.
7. Atkin, D. and Jinhage, A. (2017). Trading up: The benefits of exporting for small firms.
8. De Locker, J. (2007). Do exports generate higher productivity? Evidence from Slovenia.
9. World Trade Organization (2016). Levelling the trading field for SMEs.

Other data from the Office for National Statistics shows that UK businesses that declare international trade in goods can be around 70% more productive on average than non-traders.[10] Even when controlling for important factors (such as firm size, industry and ownership status), research suggests that businesses that report goods exports or imports were still around 21% and 20% more productive respectively than businesses that don't trade.[11]

These figures are roughly corroborated by a paper by Martin Falk and Eva Hagsten, who looked at a dataset of around 110,000 firms over 19 different countries to investigate the link between exporting and productivity.[12] They fund that the level of labour productivity of exporting small and medium-sized enterprises (SMEs) was not only 13 percentage points higher than that of non-exporting ones in a given industry and country, but also that SMEs that export to both the European and non-European markets exhibit a 19% higher level of labour productivity than non-exporting firms.[13]

The economic benefits of exporting extend beyond productivity. Survey evidence of SMEs across 33 European countries found that small firms that export are more than three times as likely to introduce new products or services than those that don't.[14] The same survey also found that businesses which are internationally active experience significantly higher employment growth.[15]

We can also look to more specific examples to get an understanding of how exporting and economic performance are related. In one well-known study of small businesses, economists David Atkin, Amit Khandelwal and Adam Osman conducted a randomised control trial to understand the impact exporting can have on individual companies.[16] Using a sample of several hundred rug producers from Egypt, they randomly matched a subset of firms with foreign buyers who were willing to buy a set number of rugs – with the potential for further orders if the firms fulfilled the buyers' expectations. Compared to firms which were not randomly assigned to foreign buyers, the exporting rug producers reported "16–26% higher profits and [exhibited] large improvements in quality alongside reductions in output per hour relative to control firms."[17]

The importance of international trade to businesses, including smaller ones, is clear. Ensuring they have the ability to trade on the international stage ought to be, therefore, a key government objective.

And indeed it appears that it is. In the following section, we will take a look at the main contours of international trade policy in the UK, especially that which has come following the decision to leave the European Union in 2016.

10. Office for National Statistics (2018). UK trade in goods and productivity: new findings.
11. Ibid.
12. Falk, M. and Hagsten, E. (2014). Exporter productivity premium for European SMEs.
13. Ibid.
14. European Commission (2010). Internationalisation of European SMEs.
15. Ibid.
16. Atkin, D., Khandelwal, A.K. and Osman, A. (2017). Exporting and Firm Performance: Evidence from a Randomized Experiment.
17. Ibid.

International trade policy in the UK

Rhetorical support for international trade hasn't been in short supply of late. According to the Business and Trade Secretary, Kemi Badenoch, free trade is "integral to our growth".[18] In a speech made at the start of this year, she outlined her priorities for Britain's trade policy – namely removing trade barriers; growing exports; attracting more inward investment; securing new trade deals; and defending the principle of free trade itself.[19]

International trade is an area of overall government policy which has recently been subject to dramatic changes. Most obviously, the vote to leave the EU has ushered in a radical reimagining of the UK's trade agenda. Without doubt, it means new opportunities are in play – but equally, it means existing ones have ceased to be.

In the years since the referendum, the specific shape of the decision to leave the EU has slowly emerged. Most notably, Britain left the European Single Market on 31 December 2020. After this, British trade relations with the EU have been governed by the EU-UK Trade and Cooperation Agreement, which applied provisionally from 1 January 2021, and was fully ratified to enter into force on 1 May 2021.

In terms of government ambition and objectives with respect to trade policy, we've seen machinery of government changes – in 2016, the Department for International Trade (DIT) was established, which was then merged into the Department for Business and Trade (DBT) earlier this year – as well as a series of speeches, strategies, and other documents published.

In September 2021, the government issued its digital trade strategy.[20] This recognised the significant and growing importance of digitally enabled trade, and sought to address what it saw as the main barriers to digital trade – including the regulation of data flows, opposing duties levied on electronic transmissions, and digitising the process of trade in general.[21]

In March 2021, the reconstituted Board of Trade – a government body first established in the 17th century – published the first of five reports to date on trade issues.[22] This was a general scene-setter on the benefits of international trade,[23] but subsequent reports have looked at more specific areas, namely green trade,[24] digital trade,[25] maritime trade,[26] and the life sciences sector.[27]

And in November 2021, *Made in the UK, Sold to the World* – the government's 12-point export plan – was published.[28] Perhaps the most comprehensive and tangible recent encapsulation of the government's approach to international trade, it committed to lifting the value of exports to £1 trillion a year by working to support exporters, achieve access to new markets, and campaign for British businesses abroad.[29]

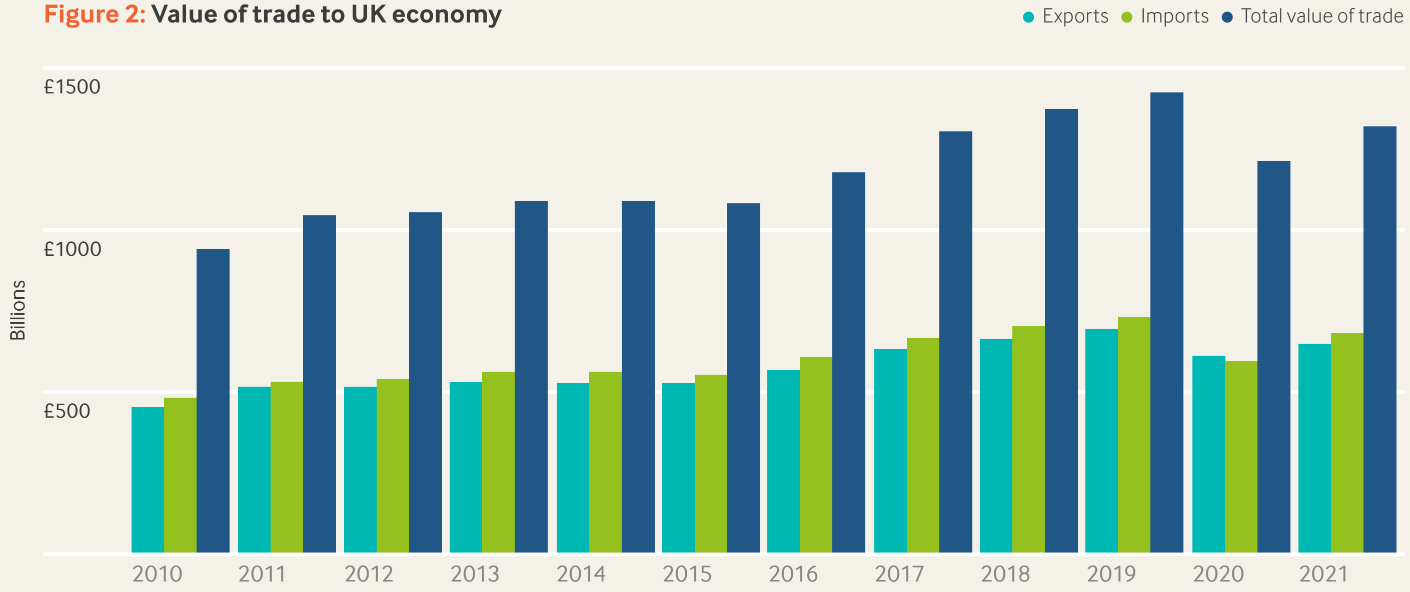
18. Badenoch, K. (2022). Trade Secretary speech at the Atlantic Future Forum in New York.
19. Badenoch, K. (2023). Trade Secretary: My top five priorities for trade.
20. Department for International Trade (2021). Digital trade - our approach.
21. Ibid.
22. Board of Trade (2022). UK Board of Trade reports.
23. Board of Trade (2021). Global Britain, Local Jobs.
24. Board of Trade (2021). Green Trade.
25. Board of Trade (2021). Digital Trade.
26. Board of Trade (2022). Embracing the Ocean: delivering the trade benefits of the National Shipbuilding Strategy Refresh.
27. Board of Trade (2022). Life sciences: what next for this top UK sector?
28. Department for International Trade (2021). Made in the UK, Sold to the World.
29. Ibid.

UK international trade in numbers

As we can see in Figure 2, the value of trade – combining the value of both imports and exports – has stood at over £1 trillion for the UK since 2011, and reached a peak of almost £1.44 trillion in 2019. This understandably took a hit during 2020 owing to the Covid-19 pandemic, which caused many international supply chains to grind to a halt, but it has begun to creep upwards once again.

It's also worth noting that, 2020 aside, the UK has run a trade deficit – whereby the value of imports outweigh the value of exports in a year – in the time series used. This isn't necessarily a positive or negative, but simply shows the profile of our trade patterns.

Figure 2: Value of trade to UK economy



Source: Office for National Statistics (2022). UK trade: September 2022.

As illustrated by Figure 3, the composition of UK trade is skewed towards trade in goods (as opposed to services). Since 2016, the value of imported and exported goods has accounted for around three-fifths of UK international trade. We can also see how imported goods in particular consistently represent the biggest chunk of total trade by value.

Figure 3: Composition of UK trade

Source: Office for National Statistics (2022). UK trade: September 2022.

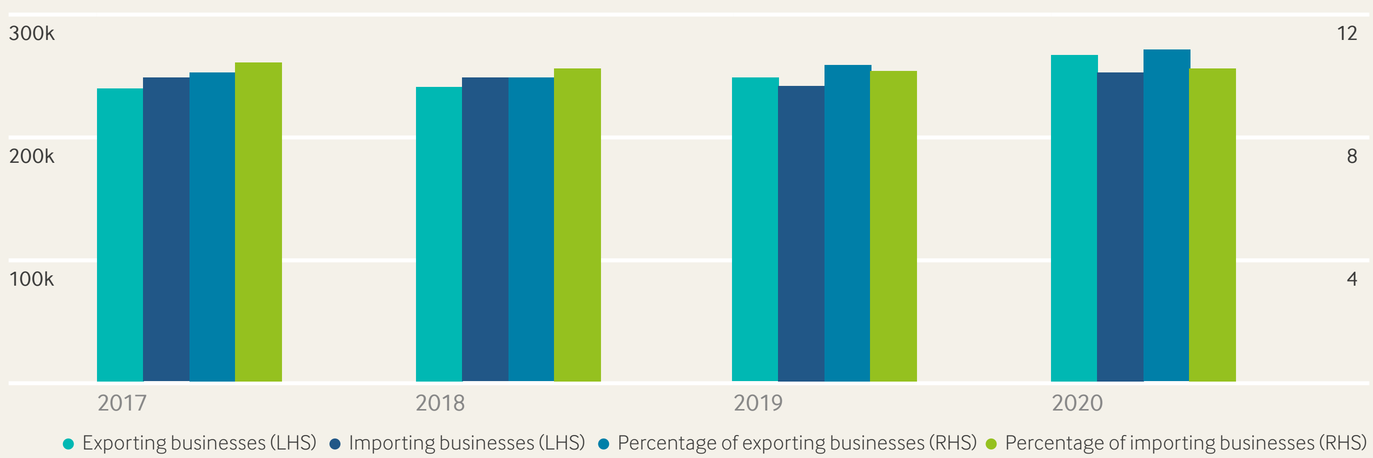
Looking in even more granular detail, we can see which specific sectors represent the largest contribution to UK trade volumes. Table 1 shows the top-five traded goods by value in the 12 months to September 2022.

Table 1: Top traded goods by value, 12 months to September 2022

Imports	Exports
Gas (£46.9 billion)	Mechanical power generators (£27 billion)
Cars (£33.9 billion)	Crude oil (£25.9 billion)
Crude oil (£30.7 billion)	Medicinal and pharmaceutical products (£24.5 billion)
Medicinal and pharmaceutical products (£29.2 billion)	Cars (£22.9 billion)
Refined oil (£25.5 billion)	Non-ferrous metals (£18.6 billion)

Figure 4 shows the number of businesses trading internationally in the four years between 2017 and 2020. As we can see, the picture has remained reasonably constant – over 230,000 businesses either export or import (or do both) each year, accounting for roughly 10% of all businesses in the UK. Contrasting 2017 with 2020, however, we can observe a reasonable jump in the number of businesses exporting (up 23,900, or slightly over 10%).

Figure 4: Internationally trading businesses in the UK



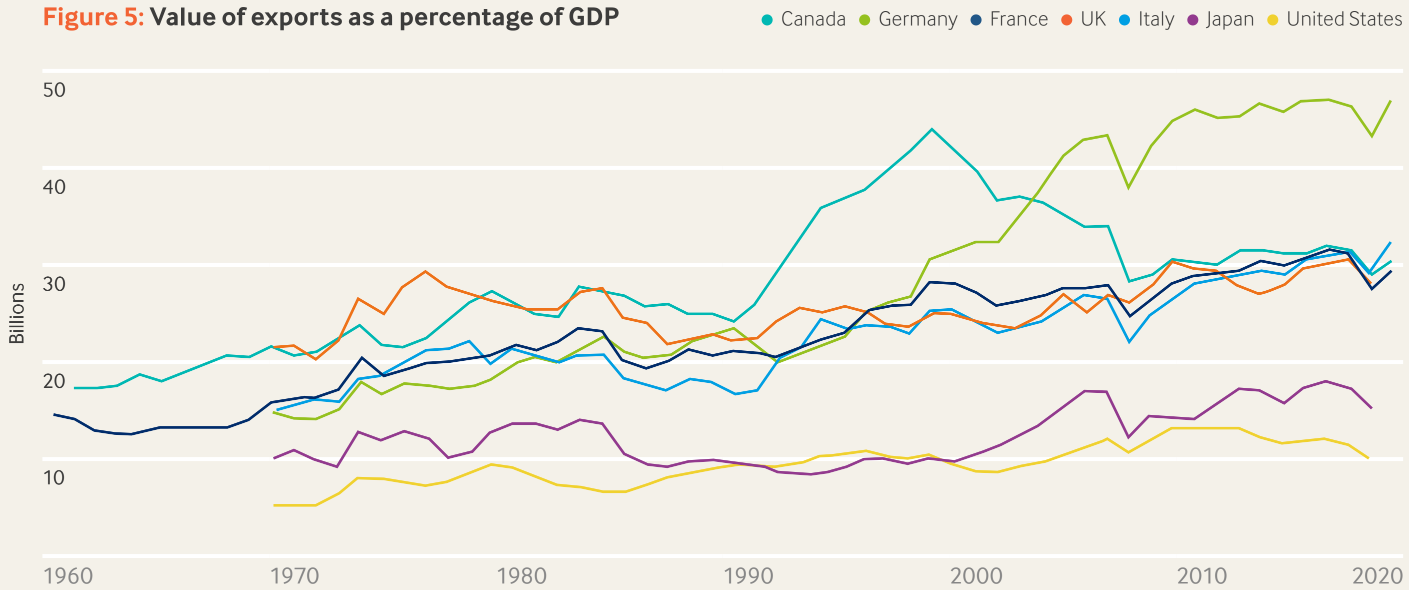
Source: Office for National Statistics (2022). Annual Business Survey exporters and importers.

The UK has trade links with just about every other country around the world. But some are obviously more important than others. In terms of exports, the single country the UK does the most trade with is the United States – selling them £133 billion of exports in 2021, and accounting for over a fifth of all British exports by value.[30] Next came Germany (£47.3 billion), the Netherlands (£43.3 billion) and Ireland (£41.6 billion). Taken as a collective, the UK exported £267.4 billion of goods and services to the European Union – or 42% of total exports – in 2021.

With regards to imports, the picture is similar. The US occupies the top spot, with the UK importing £81.6 billion of goods and services from America. This is followed by China (£65.9 billion), Germany (£62.4 billion) and the Netherlands (£36.4 billion). Again, however, when taken as a whole, the most important trading partner for imports by value is the EU – with the UK importing £292.2 billion of goods and services from the trading bloc, equivalent to 44.7% of all imports.

Relative to other G7 nations, the UK occupies a rather middling position in terms of exports as a percentage of its economy – as shown in Figure 5. In 2021, it exported goods and services to the value of 27% of its gross domestic product (GDP) – broadly similar to, though lower than, each of Italy (32.7%), Canada (30.7%) and France (29.9%). It was a reasonable degree ahead of both Japan (15.6%) and the United States (10.2%), but a long way behind renowned exporting powerhouse Germany – which exported goods and services to the value of nearly half its total output (47.5%).[31]

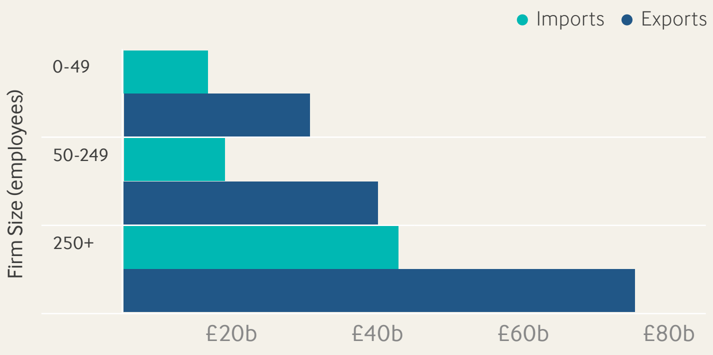
Figure 5: Value of exports as a percentage of GDP



Source: World Bank (2022). Exports of goods and services (% of GDP) - United Kingdom, United States, Japan, France, Italy, Germany, Canada.

30. Office for National Statistics (2022). UK trade: September 2022.
31. World Bank (2022). Exports of goods and services (% of GDP) - United Kingdom, United States, Japan, France, Italy, Germany, Canada.
32. World Bank (2022). Exports of goods and services (current US$) - United Kingdom, United States, Japan, France, Italy, Germany, Canada.

Figure 6: Value of trade services (2018)



Source: Office for National Statistics (2020). UK services trade by business characteristics: 2016 to 2018.

Other recent data points to a particular weakness among UK firms with respect to exporting. As mentioned earlier, the Covid-19 pandemic had an enormous impact on trade between nations, as many supply chains shuddered to a halt – and the value of exports of goods and services from the UK was over a tenth lower in 2020 than 2019.[32] Most comparator countries bounced back to relative normalcy in 2021 as their economies reopened and exports began to flow across borders once again. But that wasn't the case for the UK – which actually exported 2% fewer goods and services by value in 2021 than it did even in 2019. Exports from Germany, on the other hand, were over 10% higher in 2021 than 2019, and across the rest of the G7 (excluding the UK), the average increase was around 5.2%.[33]

If we were to crudely estimate what the value of exports might have been if the UK had rebounded on this metric as strongly as Germany, British firms would have exported around $111 billion more in goods and services than it actually did. If the UK simply matched the average for other G7 economies, it could have exported $46 billion more. (Of course, this is an extremely simplistic calculation, with many other variables not taken into consideration, and so should be taken with a sizeable pinch of salt. But it nevertheless gives an indication that the UK could be doing better – perhaps much better – with respect to exporting in the post-Covid world.)

So far, we've looked at international trade from a whole-economy perspective. But we can also examine the relative contributions of big businesses and smaller ones.

With regards to trade in services, the latest official data available looks at 2018 figures. It's also an experimental dataset, so should be treated with caution. Nevertheless, we can infer some key findings.[34]

Not surprisingly, large businesses (those with 250 or more employees) dominate the picture. As shown in Figure 6, large businesses exported £70.5 billion and imported £37.7 billion of services in 2018, while medium businesses (those with 50–249 employees) exported £34.8 billion and imported £13.7 billion, and small businesses (those with 0–49 employees) exported £25.6 billion and imported £11.5 billion. Large businesses therefore accounted for just over half of services exports by value, and almost three-fifths of services imports by value.

33. Ibid.
34. Office for National Statistics (2020). UK services trade by business characteristics: 2016 to 2018.

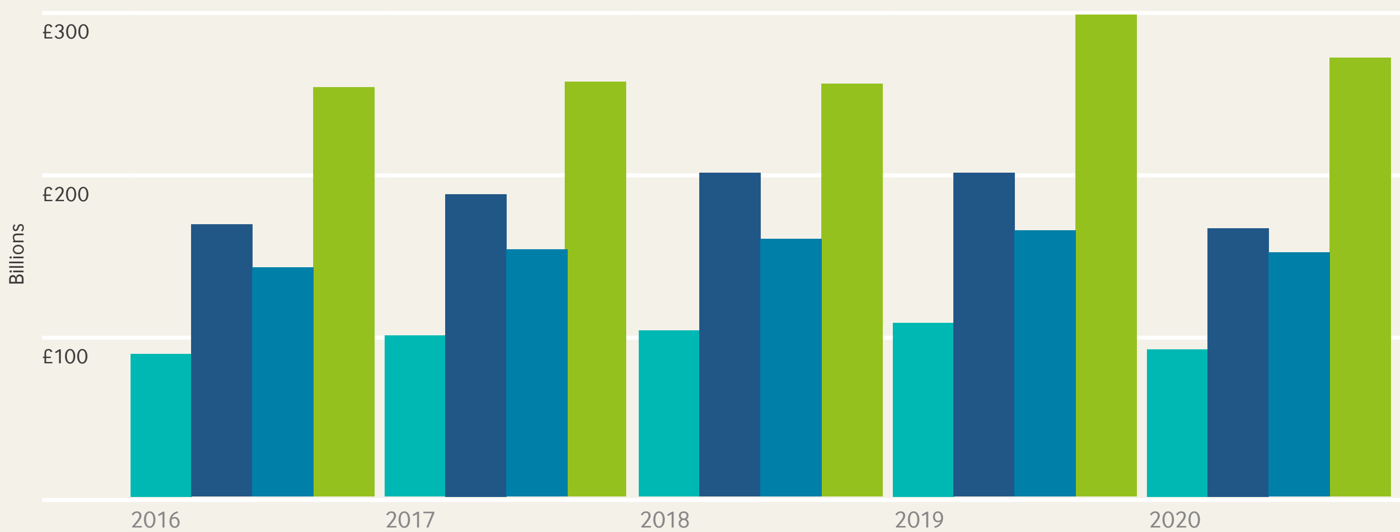
In terms of imports and exports of goods, the best data is slightly more recent – from 2020.[35] The data for goods is also a lot richer and more granular than it is for services.

The headline picture, however, is similar – with large companies accounting for the lion's share of total trade volumes. In 2020, large businesses exported £166 billion of goods, and imported £273 billion. Smaller businesses on the other hand exported £91 billion of goods, and imported £151 billion. Large businesses therefore made up nearly two-thirds of both exports and imports of goods by value in 2020.

The data on trade in goods also stretches back further in time, allowing us to identify broad trends – as shown in Figure 7. The most noticeable thing about the data here is that 2020 saw a drop-off in both imports and exports for both large and smaller businesses. As mentioned earlier, this is perfectly understandable, given the effect which Covid-19 had on global supply chains. However, in the years prior, the value of international trade in goods was gradually increasing. For SMEs, the value of goods exported increased by over 20% between 2016 and 2019. Ensuring this growth returns as we continue to emerge from the pandemic will be vital for those small businesses that derive revenue from international sales.

Figure 7: Value of trade goods (2016-2020)

● Exports (SMEs) ● Exports (Large businesses) ● Imports (SMEs) ● Imports (Large businesses)



Source: HM Revenue and Customs (2021). UK Trade in Goods by Business Characteristics 2020.

35. HM Revenue and Customs (2021). UK Trade in Goods by Business Characteristics 2020.

Case study Keisha Shah, Teddo Play

Teddo Play is a children's educational brand, run by Keisha Shah. The resources it produces aim to encourage children to gain a lifelong interest in acquiring knowledge for their all-round development, while having fun at the same time.

Keisha now exports her products all over the world, but she described starting out as a "learning curve". She told us how she had to "dedicate time to learn about the different regulations, customs requirements and so on". Another initial challenge was the cost of delivery, especially to individual customers, rather than B2B sales: "It was a massive strain on the business as I tried to absorb the delivery costs, making it attractive for international customers."

The emergence of wholesale business-to-business (B2B) platforms was a game-changer, Keisha says. "Faire, Abound, and Ankorstore launched in the UK in 2021 and 2019 respectively. We were one of the first brands that were invited by these wholesale marketplaces. I'm so glad they found us and saw the potential in our products – it really changed the face of our business overnight." As well as gaining extra exposure to new buyers from the platforms, Keisha singled out how she received support from them too – such as advice on customs procedures and new regulations coming into force.

How has exporting impacted Teddo Play? Keisha lists a number of positive effects – from an expanded customer base (and a more diverse one at that, with reduced reliance on a single market), to improved competitiveness as she can exploit greater economies of scale.

In terms of support from the government, Keisha notes how she partnered with the Department of International Trade to work on an export plan with a dedicated trade adviser. She speaks positively of the experience: "It's been an intense exercise, but in a very good way. It's amazing to have that kind of one-to-one support and guidance, and also a clear roadmap to follow. We secured an internationalisation grant, which has been great news for me and my business. It's a 50–50 funding arrangement, but a significant boost for me to take our children's products to new markets, which would have been very challenging to achieve on my own."

Unprompted, Keisha also brings up support from Enterprise Nation, describing it as her "go-to place". The "events, training, blogs, and expert articles have been so helpful, not just for learning about navigating our way with exports, but also at a wider level of running a business," she adds.

While Keisha accepts there are challenges to trading internationally, she thinks "many small businesses have convinced themselves, based on unfounded fears, that exporting is a highly complex and challenging process for small businesses, and not something that they will be able to manage". Teddo Play proves this doesn't have to be the case, and Keisha finishes by reiterating: "There's certainly plenty of help and support out there – in the private sector and from government-funded initiatives – that are too good to not take advantage of."

www.teddo-play.com

Recommendations

Given the clear and obvious benefits that international trade can bestow upon firms, having the right policies in place to support and encourage more trade will be essential to boosting growth rates and the fortunes of Britain's small businesses. And while the UK has made good progress in a number of respects of late, it would be conceited to assume that we couldn't improve upon our trade policy overall.

Indeed, throughout this research, we've found that entrepreneurs still face considerable challenges when it comes to engaging in international trade – particularly on the export side of the equation.

To inform our research, we convened a virtual policy roundtable of entrepreneurs and policy experts to share views and experiences with regards to selling into foreign markets. Many of the recommendations that follow draw upon the opinions we heard at this roundtable.

1 Champion free trade and British businesses at every level from the top down

Perhaps the single best thing the government can do to support SMEs in terms of trading internationally is to consistently champion the notion of free trade itself on the global stage. We should not assume that free and open trade between nations is the natural state of affairs. Moreover, in recent years, faith in free trade has come under concerted attack – and trade as a percentage of global GDP has gone into decline of late, falling from 61% in 2008 to 52% in 2020.[36] The case for free trade needs to be made and remade constantly – especially in global forums such as the G20, at the WTO, or the United Nations General Assembly.

Negotiating access to new markets, and improving the terms of access to existing ones, underpins all importing and exporting – and influences the ease (or difficulty, or even the simple possibility) of doing so. This is a competency afforded to governments and governments alone, and they owe it to businesses both large and small to make effective use of it.

Since the vote to leave the EU, Britain has had to think about its trade policy in a way it hasn't had to do for several decades. It has chosen to detach itself from the European Single Market and Customs Union, in favour of looking for growth opportunities further afield. To its credit, many existing trade deals the UK enjoyed as a member of the EU have been rolled over, and the government has been actively exploring access to new trading blocs, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).[37] It should be commended on the zeal with which it has tried to enlarge market access for British firms and consumers to date, but this commitment must be seen as an ongoing and iterative process, and the government should seek out opportunities for deeper market access at every turn.

But it should also be noted that withdrawal from the Single Market and Customs Union has been far from painless. In our research, almost all of the entrepreneurs we heard from who already export spoke of trade becoming more difficult with the EU since Brexit, and that non-tariff barriers are an impediment to them trying to do more. Recent research from the British Chambers of Commerce (BCC) underscores this sentiment, with the BCC finding that 56% of SME respondents to a poll reported it was either 'quite difficult' or 'very difficult' to adapt to changes flowing from the Trade and Cooperation Agreement with regards to buying and selling goods.[38] We don't think it's necessary to entirely renegotiate our current relationship with Europe, but that isn't to say that pragmatic tweaks to existing arrangements, plus further clarification in certain areas, could not help in creating an easier trading framework between the UK and what remains our largest single trading partner.

As well as championing free trade, the government must be mindful of how it can champion British firms themselves. From the Ministers within the Department for Business and Trade, to our Trade Envoys, Ambassadors, High Commissioners and more, there are ample opportunities to advocate on behalf of small British companies. This isn't to say that government representatives ought to pick winners, and start singling out specific firms – but rather that they should be unstinting in their promotion of Britain as a market to do business with.

On this recommendation, it's worth saying that the current Business and Trade Secretary appears to be in perfect agreement. Her speech made at the start of 2023, detailing her priorities for the year, was enormously encouraging – and singled out "defending free trade" as a key objective.[39] The proposal here, therefore, is rather to ensure action matches rhetoric, rather than a wholesale change in policy direction.

36. World Bank (2022). Trade (% of GDP).
37. Department for International Trade (2022). Trade Secretary secures major trade bloc milestone ahead of Asia visit.
38. British Chambers of Commerce (2022). The Trade and Cooperation Agreement: Two years on.
39. Badenoch, K. (2023). Trade Secretary: My top five priorities for trade.

2 Improve the information available to SMEs that are interested in exporting

By far and away the biggest concern we heard from individual entrepreneurs with respect to engaging in international trade was a simple lack of understanding around what they need to do to, for instance, comply with the right regulations or pay the right taxes. Some SMEs we spoke to were interested in the idea of exporting, but didn't know how to go about starting that journey. The need for better advice when it comes to exporting was also a sentiment strongly reflected in Enterprise Nation's *A growth plan for the UK*.[40]

We don't believe that this is something the government is unaware of – far from it. There is in fact a great deal of information online which tries to demystify exporting, much of which is targeted at SMEs. This sits alongside a diverse range of schemes, initiatives and bodies, also trying to assist SMEs that want to begin, or increase their engagement with, trading internationally.

But, somewhat counterintuitively, such is the amount of – without doubt well-intentioned – help on offer that it can often resemble a labyrinthine landscape, with businesses unsure of where to turn to, or who to trust. Previous research from Enterprise Nation found that three-fifths of SMEs surveyed want tools to help streamline duties and customs – suggesting this is a widespread problem among British small and medium-sized businesses.[41]

The government should consult closely with entrepreneurs and business organisations to get a better understanding of what SMEs find confusing about the current situation with regards to information on exporting in particular. While we wouldn't necessarily imagine support needs to be pared back, a streamlining of what is on offer could help SMEs to more easily navigate to the right places to begin exporting. A clearer allocation of responsibilities, which allows businesses to know exactly who and which organisations to speak to, was something to which the entrepreneurs we engaged with during our research were receptive.

40. Enterprise Nation (2022). A growth plan for the UK How to provide the best environment in which independent small businesses can thrive.
41. Enterprise Nation (2021). Delivering the goods: The Global Ambition of the UK's Entrepreneurs.

3 Ensure UKEF is working as well as it can be for SMEs

UK Export Finance (UKEF) is a government body that seeks to help British businesses to export by offering loans, guarantees and insurance. Founded in 1919, it's the world's oldest export credit agency, and has a maximum exposure – the total value of risk it holds at any given time – of £50 billion.[42] UKEF exists, in its own words, to ensure "no viable UK export fails for lack of finance or insurance, doing that sustainably and at no net cost to the taxpayer".[43]

In 2021/2022, UKEF provided £7.4 billion in support of UK exports, and since 2017/2018 has provided nearly £33.5 billion.[44] In terms of the businesses it supports, 81% are SMEs.

By all accounts, UKEF does a good job in delivering against its objectives – and in fact was named as Best Export Credit Agency of the Year by Trade Finance Global in 2021.[45] But that isn't to say there's no room for improvement.

A 2021 inquiry into UKEF by the House of Commons International Trade Committee, for example, found that of the £12.3 billion that UKEF committed in support in 2020/2021, nearly £11 billion was accounted for by just 12 transactions to nine exporters – including the likes of Rolls-Royce, easyJet, BAE Systems and British Airways.[46] It isn't for us to say what UKEF's operational stance ought to be with respect to the sizes of businesses it affords most support to. However, the skew towards supporting massive companies is striking, given that SMEs account for 99.9% of all businesses in the UK, and begs the question as to whether more needs to be done to apportion a greater share of support towards smaller businesses.[47]

In the same inquiry, another line of criticism towards UKEF centred on the lack of awareness among SMEs of UKEF, and how it could help them. By its own admission, awareness of UKEF among even its "target audience" of SMEs stood at just 31% in 2020.[48] This is admittedly an increase of five percentage points on 2018 levels, and of 11 percentage points prior to that, but hardly feels like something worth boasting about. Moreover, when surveyed in 2019, while 26% of SMEs were aware of UKEF, fully 61% of those still didn't understand what it did – suggesting perhaps only around one in 10 SMEs have a good idea of what UKEF is, and what support it can offer them.

As previously mentioned, awareness about UKEF is increasing, and UKEF does appear to acknowledge the need to raise it further. But unless and until this happens, we can only recommend that it doubles down on improving its marketing and spreads the message to more SMEs about the potential for UKEF to assist them in exporting. This ought to be something that Ministers within the Department for Business and Trade also regard as their responsibility too.

42. International Trade Committee (2021). UK Export Finance.
43. UK Export Finance (2022). About us.
44. UK Export Finance (2022). Annual Report and Accounts 2021-22.
45. UK Export Finance (2022). UK Export Finance Performance Highlights 2021 to 2022.
46. International Trade Committee (2021). UK Export Finance.
47. Department for Business, Energy and Industrial Strategy (2022). Business population estimates for the UK and the regions 2022.
48. National Audit Office (2020). Department for International Trade and UK Export Finance: Support for exports.

4 Trial an Export Tax Credit or 'Export Vouchers' to incentivise more exporting among SMEs

Many of the entrepreneurs we spoke to during our research said that a principal reason behind why they don't export is because they worry about the expense and risk of venturing into the world of international trade. This attitude is perfectly understandable, and now more so than ever – with tight margins and economic unpredictability, it makes sense that businesses don't necessarily want to be putting scarce resources on the line.

However, on the flipside, exporting can also act as a hedge during uncertain times, as crises that impact UK customers may not touch international customers and can leave businesses with a greater diversity of people to sell to. Therefore, now may be the perfect time for the government to think about what it can do to rebalance the risk profile of exporting. If it can intervene in such a way that ultimately leads to stronger growth, more jobs, and higher tax revenues in return, any support could well end up paying for itself.

One idea is to offer tax incentives, perhaps in the form of an Export Tax Credit or 'Export Voucher'. This would allow businesses to claim a credit on any money it spends in pursuit of exporting activities. This proposal isn't without precedent, having already received the backing of a number of policy experts,[49] and with similar initiatives even being introduced in other countries.[50]

Exactly how the Export Tax Credit should work would clearly need to be consulted on, but modelling it on Research and Development Tax Credits would be an obvious place to start. Businesses are already familiar with how this works, and it has proven a successful intervention to date.

To limit costs of the Export Tax Credit, the government may wish to restrict eligibility only to companies that haven't previously exported, or perhaps also those that haven't exported for a certain number of years. This would ensure that the support it offers is truly 'additional' in terms of achieving what should be its intended aim – building familiarity and experience of exporting within companies. The Export Tax Credit could also be limited only to SMEs, which would naturally lower the cost to the Treasury. Interestingly, a 2017 study from Annette Broocks and Johannes van Biesebroeck found that export promotion is generally more effective at helping small firms with no previous experience of exporting – with evidence showing that export promotion leads to a 10.7% increase in propensity to export for small firms on average, compared with a 3.5% increase in propensity for large firms.[51]

An alternative form of support could be to trial Export Vouchers, to subsidise the costs of firms that are looking to export for the first time. Voucher-style schemes are a common intervention, and also have recent precedent with regards to helping businesses that trade. In 2021, for example, the government launched the £20 million SME Brexit Support Fund, from which businesses could apply for grants of up to £2,000 to help them adapt to new customs and tax rules when trading with the EU.[52]

Precisely how an Export Voucher would function would again need to be consulted on, but it could provide a subsidy for firms getting advice on exporting, market research, translation services and so forth. As with the proposed Export Tax Credit scheme, the effectiveness and value-for-money of such an initiative would need to be carefully evaluated, but its aim would be the same – reducing the financial risk firms can incur when starting their export journey, in return for higher growth in the long run.

49. King, N. (2022). Trading up: Supporting UK exports in a post-Brexit world; Kreston Reeves (2018). Is now the time for export tax credits to help businesses expand internationally?
50. Shapel, N. and Biddlecombe, S. (2021). Export tax incentives: The effect of potentially rising tax rates.
51. Broocks, A. and van Beisebroeck, J. (2017). The impact of export promotion on export market entry.
52. HM Revenue and Customs (2021). £20 million SME Brexit Support Fund opens for applications.

5 Reform Help to Grow: Management courses to equip as many business leaders with exporting skills as possible

One of the government's flagship schemes for improving productivity among SMEs is Help to Grow: Management.[53] This is a 12-week course of management training available to business leaders within SMEs, delivered through a network of business schools with 10 hours of one-to-one mentoring from an experienced professional. The course is heavily subsidised by the government – participants pay just £750, or one-tenth, of the total £7,500 cost.

The curriculum of the Help to Grow: Management Course includes modules on financial management, marketing strategies, employee engagement and, of interest for this report, "Internationalisation and Winning New Markets".[54] This is welcome, and should help in building up the skills and know-how SMEs need to begin exporting successfully, as well as instilling a general mindset in participants around not limiting themselves purely to domestic markets.

While the Help to Grow: Management Course has been received well by the businesses taking advantage of it, it hasn't been entirely free from criticism. Recently published research from the APPG for Entrepreneurship found that many entrepreneurs and small business owners were deterred from undertaking the Help to Grow: Management Course because of the amount of time required to complete it.[55]

A reappraisal of how the course is structured, therefore, may result in it becoming a more viable and attractive proposition for SMEs to make use of – and ultimately expose more business leaders to the sort of skills training which could help in navigating some of the barriers we've heard SMEs highlight when it comes to exporting and importing.

Help to Grow: Management was initially administered by the now defunct Department for Business, Energy and Industrial Strategy (BEIS). Since February 2023, it has been administered by the Department for Business and Trade (DBT). On the face of it, this ought to be positive news from an exporting perspective.

But previous experience of government departments merging suggests that overcoming the all-too-often siloed nature of Whitehall isn't as straightforward as a simple name change. Ministers and senior civil servants within the newly created BaT must not be complacent in ensuring that officials who once sat in BEIS really are linked up with relevant counterparts who once sat in the Department for International Trade (DIT). Former DIT officials should be proactive in talking to officials overseeing Help to Grow: Management, to ensure that any participating small business that expresses a strong interest in exporting more as a result has all the support it needs to fulfil its potential.

53. Department for Business, Energy and Industrial Strategy (2022). Help to Grow: Management - UK.
54. Small Business Charter (2022). Help to Grow: Management course.
55. Ives, E. (2022). Supporting SMEs Successfully.

Conclusions

International trade represents a world of opportunities for Britain's smallest businesses. Evidence points to it being a particularly effective way for firms to up their game, and increase their profits, as they tap into new markets.

From our research, we found that while many British SMEs were successfully selling abroad, the act of doing so was not as easy as it could otherwise be. Moreover, too many entrepreneurs – despite being naturally ambitious and enterprising people – are yet to engage in international trade, due to its often complex nature.

If the UK is to quickly rebound from recent economic crises, and begin growing the economy at the rate it once did, increasing the extent to which SMEs trade on the international scene is an eminently prudent objective. The government has already committed to many reforms to improve Britain's trade policy of late, but it could still do more. In this report, we've put forward a selection of ideas that could help smaller businesses to broaden their horizons, and reap the rewards on offer.

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Enterprise Nation

Enterprise Nation is the UK's leading small business network and business support provider, delivering support to more than 65,000 small businesses every month. Its aim is to help people turn their good ideas into great businesses – through expert advice (including a comprehensive resources library), events, acceleration support and networking.

Enterprise Nation was founded in 2005 by British entrepreneur Emma Jones CBE, who is also the co-founder of national enterprise campaign StartUp Britain. She is author of best-selling business books including *Spare Room Startup, Working 5 to 9, Go Global, Start a Business for £99* and *The StartUp Kit*. She is a frequently called-on and regular media commentator on a range of issues which affect the UK's growing number of SMEs. In 2018 FTSE 100 entrepreneur and HomeServe founder Richard Harpin invested in Enterprise Nation with the aim of creating a 'more entrepreneurial Britain'.

www.enterprisenation.com

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The Entrepreneurs Network is a think tank for Britain's most ambitious entrepreneurs. We support entrepreneurs by:

- Producing cutting-edge research into the best policies to support entrepreneurship;
- Campaigning for policy changes that will help entrepreneurship flourish;
- Hosting regular events to bridge the gap between entrepreneurs and policymakers;
- Updating entrepreneurs on how policy changes will impact their business;
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Small businesses need access to succeed

That includes:

Access to finance
– to spur their growth

Access to people
– including mentors, networks, investors, trusted experts and employees

Access to markets
– both domestic and international

Access to government
– whether for procurement or lobbying

Access to space
– to help them grow

Access all areas: Markets is the fourth of five briefing papers from Enterprise Nation and The Entrepreneurs Network on key areas of policy for small business owners.

Informing the report are meetings with the Small Business Forum, a group of 20 business owners who provide valuable insights about the challenges SMEs are facing.