



## Exporting – setting the scene

# Michael Izza's Foreword

Chief Executive, ICAEW

Export advice is critical for companies looking to do business overseas. In a rapidly-changing global economy, it is important that UK businesses have the resources to compete around the world. Help securing export finance can enable them to achieve this.

Why is export important? Concerns remain over the shape and long-term strength of the economic recovery. With overall growth having been consistently faster than export growth, a stronger trade performance will be a key plank of a sustainable, balanced recovery. Also firms that export are generally more productive. As we enter an uncertain period, this publication serves as a guide for businesses looking to navigate towards export success.

While European economies, the UK's largest trading partners, continue to find their feet, it is more important than ever that British exporters are made aware of the full range of help available to them. Chartered accountants working across UK plc, are ideally placed to drive forward export-led economic growth. A recent ICAEW survey found that accountants are the second biggest source of business advice for businesses looking to expand into overseas markets, after government departments.

Currently, around 20% of SMEs export. Exporting for the first time can seem like a daunting prospect, especially if you are a small to medium-sized business. This guide is a great tool to make that journey much clearer and working with UKEF, chartered accountants empower exporters to do business with confidence. This guide will go a long way in helping government achieve its goal of boosting UK exports.

I hope that you find it interesting and useful.



A handwritten signature in black ink that reads "Michael Izza". The script is fluid and cursive.

Michael Izza  
Chief Executive, ICAEW

# Introduction

Exports account for one third of UK GDP, which is higher than the G7 average. Growing exports is therefore fundamental to the future long-run growth of the UK economy. The government has put the rebalancing of the economy away from consumption and debt to investment and exports at the heart of its agenda. As set out in HM Treasury's 'Plan for Growth':

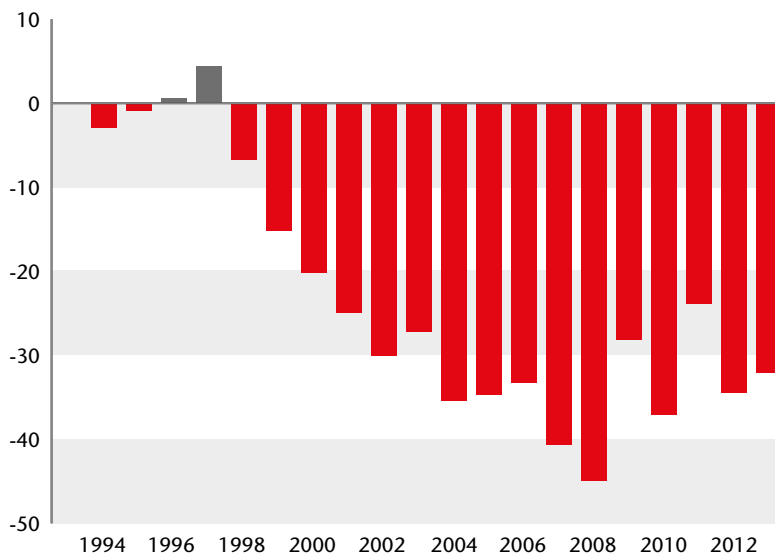
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“ We must build a new model of economic growth – where instead of borrowing from the rest of the world, we invest and we save and we export. Our economy must become more balanced.

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Chart 1 shows that the UK has been running a consistent trade deficit since 1998. To make the economy more balanced, the government's objective is to increase exports significantly and thus reduce the trade deficit.

Chart 1: UK trade deficit in £bn



Source: ONS

In addition, the emphasis of rebalancing shouldn't just concentrate on the volume but also on the type of exports. This point has been raised by Andrew Sentance, PwC's Senior Economic Advisor, who has argued that there is a range of evidence that the successful industries within the services sector, rather than traditional manufacturers, are now tapping into overseas growth. Specifically, he said:

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“ Rebalancing is ... taking place within the services sector, rather than between manufacturing and services.

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## The opportunities for exports

Table 1 shows that the UK's biggest export markets are still our traditional trading partners, such as the US and our closest European partners. These will remain key markets and are a natural location for businesses to start exporting activities. But the world will continue to become more integrated in the future as global economic activity shifts from the west to the east. This means global trade flows are projected to grow rapidly. PwC analysis shows the total value of the global goods trade will grow from around \$10.3 trillion in 2013 to around \$18 trillion in 2030<sup>1</sup> with trade between advanced and emerging markets (eg, China, India) accounting for almost half of this increase.

This means that emerging markets will be the key areas of market share growth for British products in the decades to come. UK businesses are well placed to take advantage of this trend as:

- they have a comparative advantage in the niche manufacturing sector in areas like aeronautical engineering, luxury car manufacturing and in the chemicals and pharmaceutical sectors, all of which are areas where emerging markets have less expertise; and
- the UK remains a services 'superhub' and is the second largest exporter of services in the world. This is because of its international excellence in areas like tertiary education and financial services, all of which are, and will continue to be, in demand from the growing middle-classes in emerging markets.

Table 1: UK's Top 10 export markets and associated economic performance

Country	% of total UK exports	Projected GDP growth rate 2014-2020
US	13.2	2.5
Germany	10.0	1.3
Netherlands	8.5	1.8
France	6.9	1.4
Ireland	6.1	2.7
Belgium & Luxembourg	4.6	1.4
China	4.3	7.1
Italy	2.9	0.8
Spain	2.9	1.5
UAE	2.0	4.5


Source: ONS data, PwC and IMF projections

Table 1 shows that emerging markets are currently less important to UK exports. For example, the UK exports more to the Netherlands than to China, India and Russia combined. However, Table 1 suggests that emerging markets like China and the UAE are projected to grow significantly faster than the larger, more well-established markets mentioned above. This means that they are good destinations for businesses which want to drive export growth.

<sup>1</sup> PwC, Global Economy Watch, 'Where will the top goods trade routes be in 2030?' October 2014 available on [pwc.com/GEW](http://pwc.com/GEW)

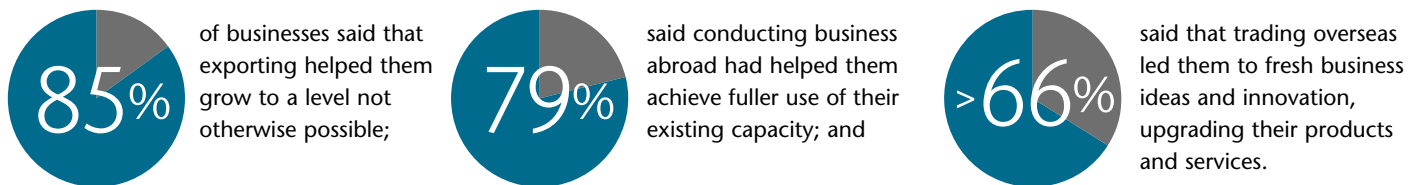
## Benefits to smaller firms from exporting

Exporting is good for the economy but also has positive spillover effects to the real economy and in particular to businesses. According to the former Acting UKTI Chief Executive Crispin Simon:

 Exporting not only helps individual companies to grow but also plays an important role in improving our trade balance.

Linking up small and medium-sized enterprises to the global economy could potentially provide some of the boost to exports required to meet the 2020 target. It can improve business performance. This is supported by a UKTI<sup>2</sup> survey which suggests that firms that have exported for more than two years are significantly more likely to be profitable. The same survey found that more than three quarters of export-oriented businesses are profitable.

Exporting also provides growth opportunities for businesses. The survey shows that:



## Challenges of exporting

But it's easier said than done. Exporting comes with regulatory, commercial and financial challenges businesses would not have otherwise faced if they just focused on growing revenues in their domestic markets. The same survey showed that:



## Help from PwC

### My Financepartner – a service to help businesses grow

If you're an SME looking to grow your business with a move to export then PwC's MyFinancepartner can help. We remove complexity with a combination of support, insight and advice. We use cloud technology and data analytics to give businesses the management information they need to plan and manage new growth effectively. Our team of professional accountants will talk through the numbers, helping you plan your strategy and connecting you to the right expertise within our wider firm. So you have the information you need, when you need it in order to grow successfully. Find out more at our website

[www.pwc.co.uk/myfinancepartner](http://www.pwc.co.uk/myfinancepartner)

<sup>2</sup> UKTI, Bringing Home the benefits: How to grow through exporting, November 2013 found at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/294348/Bringing\\_home\\_the\\_benefits\\_-\\_how\\_to\\_grow\\_through\\_exporting.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294348/Bringing_home_the_benefits_-_how_to_grow_through_exporting.pdf)

# ICAEW services

## Business Advice Service

Being aware of and understanding the necessary aspects of international trade are critical to a successful business looking to export.

ICAEW's Business Advice Service offers a free, straightforward discussion with an ICAEW Chartered Accountant. There's no obligation after your first free session, just practical thinking to help your business succeed. To find your local ICAEW firm, visit [businessadviceservice.com](https://businessadviceservice.com)

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There is also a range of useful information on importing and exporting at [icaew.com/import-export](https://icaew.com/import-export)

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