In association with

HSBC UK

MAKE uk
The Manufacturers' Organisation

INTERNATIONAL TRADE REPORT 2020

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CONTENTS

EXECUTIVE SUMMARY

For decades, businesses have worked on the assumption that global trade would get incrementally easier. The emergence of an expanding, open rules-based system of trade had dominated the global economy. Overseen by the World Trade Organization (WTO), the advent of super-regional economic blocs such as the European Union (EU) and the political encouragement that China could be recognised as an economic and trade actor with its structured approach to a market-economy, ensured that the regulatory and cost barriers to an increasingly globalised economy were steadily reduced.

Now, that assumption is coming under profound challenge whether from geopolitical events such as the United Kingdom's (UK) decision to exit the EU or profound economic shocks such as the Covid-19 pandemic. As a business sector, manufacturing is particularly affected by these changes. As our report shows, 95% of manufacturers already export, predominantly to the EU. And a significant number also rely on imported materials or components, often reliant upon EU sources, reflecting the UK's position in the middle of manufacturing value chains. Whatever the final shape of the UK's economic relationship with the EU, trade between the two will become significantly more administrative and harder from 2021, impacting on the future viability of these links.

The Covid-19 pandemic has added further complexity to an already challenging situation, depressing global supply and demand, adding new levels of disruption to the global supply chains on which manufacturers depend. Over 60% of manufacturers report seeing their supply chains interrupted, leading them to revise their import and export strategies. While at the moment manufacturers are focussing on short-term changes to ensure a degree of return to normal trading conditions, over 40% are looking at their medium-term options, including diversification of customers and suppliers and considering the localisation of supply chains. Many are re-evaluating the risks of the 'just-in-time' model, which is particularly well embedded in sectors such as aerospace and automotive, and thinking more about a 'just-in-case' approach.

The UK manufacturing sector has many strengths. But our domestic market is too small to support manufacturing at scale purely for our own consumption, and is not self-sustaining in all the raw materials and components required for the manufacturing needs of today and tomorrow. The reality is that jobs and the economic wellbeing of manufacturing communities across the country depend on our ability to trade goods - and related services – internationally with the associated economies of scale. During this period of profound change, our manufacturers will need help and support in order to ensure that they can continue to do this effectively and competitively in a new paradigm where the UK will not be directly economically and politically connected to the EU. A comprehensive trade deal with the EU that supports easy and existing trade in goods and services, new trade relationships and market access opportunities with other key export markets, an increased focus and investment towards export promotion and widespread industry engagement will all be critical.

Make UK and HSBC UK are there to support manufacturers through these challenging times, and to ensure they are ready to take full advantage of the opportunities ahead.

#MAKEITGLOBAL

TRADE TRENDS: A DECADE OF VOLATILITY

2020 has been a turbulent year for manufacturers. The Covid-19 pandemic has resulted in governments across the world taking stringent measures to protect the health of their citizens with an increasing interventionist, even protectionist, approach to shore up economies. As a result, consumer demand has dried up, supply chains have become desynchronised, and manufacturers are fighting to survive. In these unprecedented times, many governments have stepped in to provide fiscal support for businesses and employees. Whilst this has gone some way to stem the initial shock of the pandemic, the on-going effect as economies slowly reopen, will be felt for some time to come.

The pandemic triggered a global economic depression on a scale more severe than that experienced in the 2007-08 financial crisis and at levels last witnessed in the Great Depression. Early trade forecast analysis by the World Trade Organisation (WTO) on the impact of the pandemic on trade shows a decline in 2020 of between 13% to 32% and a recovery in 2021 depending on circumstances.

The current economic downturn is global, affecting both demand and supply. Global value chains have been disrupted, as factories and businesses were required to close or reduce operations to protect workers. A suspension of passenger commercial air transport substantially impacted the capacity for long-haul air freight of goods. The shutdown of economies has contracted the ocean freight demand, altering and reducing scheduled services. These challenges continue in the global logistic eco-system and are forecast to endure into 2021 as it rebuilds capacity and customer demand. The wider restrictions on the movement of labour due to closed borders threatens the economic viability and access to basic necessities provided by the agricultural, seasonal and labour-intensive sectors.

The economic impact of the Covid-19 pandemic has brought into sharp focus the interdependence of global economies and trade and the decades' reliance on international and intensive supply chains. International trade has grown as a (percentage of GDP) continuously since the early 1980s (Chart 1). The rapid impact of the pandemic will deepen structural trends and accelerate thinking towards new models of supply chain sustainability and diversification. The impact on global trade will be a feature of industrial and economic performance for many years to come.

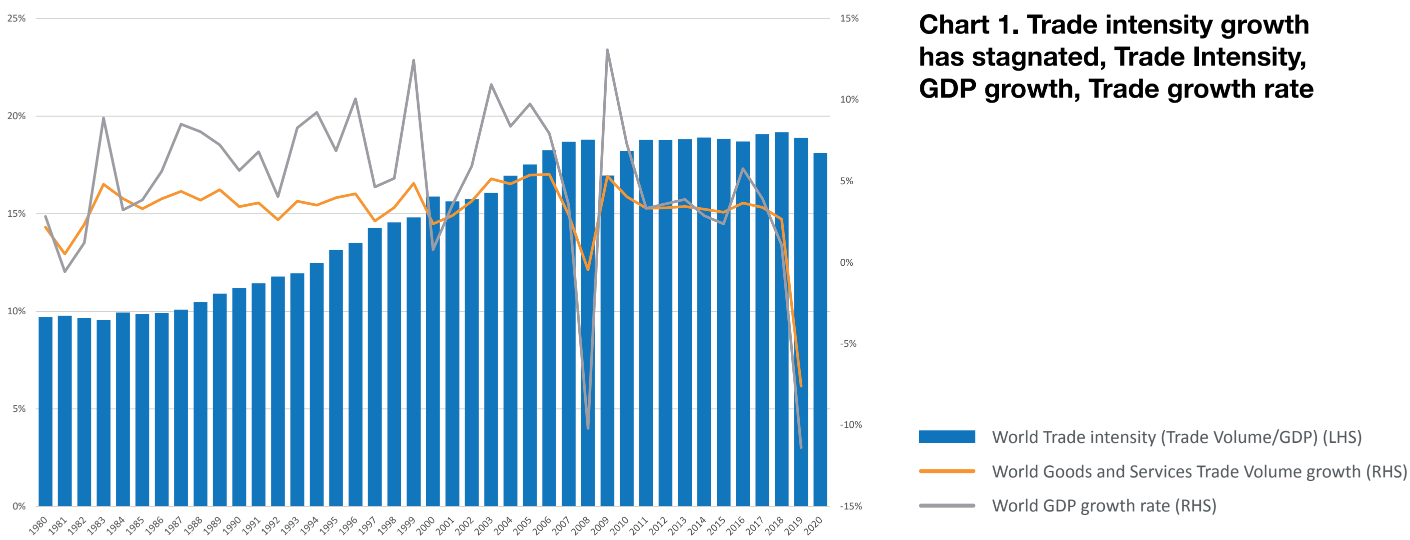

Chart 1. Trade intensity growth has stagnated, Trade Intensity, GDP growth, Trade growth rate

Source: OECD/WTO and Make UK analysis

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Not all the rapid and quite fundamental changes that will be witnessed are in response to current events. International trade and globalisation had already been subject to a number of economic, geo-political and demand side challenges that were undermining the principles of a rules-based approach. In the years preceding 2020, global trade intensity had witnessed a slowdown caused by a combination of factors.

Global economic activity had been challenged by the financial crisis of 2008-09 weakening economic growth and affecting trade flows for some years afterwards. There was a demonstrable impact in confidence in the multilateral trading system with the growing adoption of trade protection measures to disrupt commerce and protect national interests.

Recently, in the case of the UK and the EU, the focus of the global trading world was how both sides would agree the basis of a new economic relationship, the effects of which have wider geo-economic and political impact. In turn, how would an independent UK seek to shape its economic and trade relationship with the rest of the World.

Overall, the picture for the previous decade or so, had been a stagnation in trade intensity despite small rises in 2017 and 2018, with a further dip in activity in 2019.

These global trends have played out in the UK manufacturing sector, with export orders having remained volatile over the same period, with periods of growth in 2017 and early 2018, however showing a general downward trend since the end of 2018.

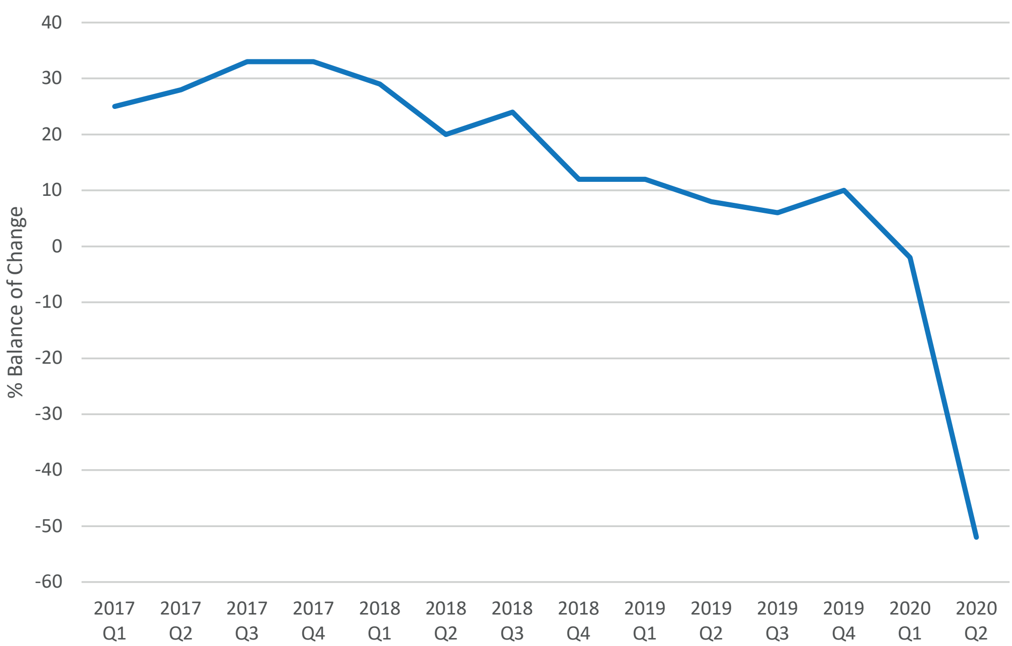


Chart 2. Manufacturers in the UK experiencing a downturn in export orders, Balance of change in new export orders (past 3 months)

Source: Make UK Manufacturing Outlook Survey 2017 Q1 – 2020 Q2

The UK's exit from the EU

The UK will embark on an unprecedented change and challenge to its immediate economic, political and global position by its decision to leave the EU. The issue for the UK and its manufacturing sector will be in chartering a course in the international trading system that can retain a positive commercial and diplomatic relationship with its nearest economic neighbour and develop a trade policy that delivers on the ambition and tone that helped secure the decision to seek an independence mandate.

In the four decades of membership of the EU, the UK has undergone significant economic, legal and commercial integration, epitomised by the development of highly complex and intertwined value chains across Europe and beyond. Departure from the EU single market and customs union will create new barriers to trade not experienced by UK manufacturers trading with the EU for decades, and by extension will lead to increased costs and administration for companies. Securing a comprehensive agreement with the EU remains a priority, however manufacturers will have to prepare for a fundamental change in the trading relationship with what remains our largest single trading partner at the end of 2020.

In addition, the UK trading relationship with other key markets has been defined by the membership of the EU. By the end of 2020 the UK will need to negotiate continuity agreements with markets which already benefit from preferential trade agreements with the EU. It has also set an ambitious programme of negotiations in 2020 with a range of additional markets, most notably the US, Australia and New Zealand.

Multilateral trade system and the need for reform

The UK is taking its own place as a full member of the WTO, at a time which has seen a loss of confidence in the open-trade framework that supports the multilateral trading system.

The WTO has been challenged in recent years to become more agile and responsive to changes in the dynamics of a modern and evolving global trading world. From updating rules of the trade in services, to responding to the advances in digital trade and ensuring the rules and obligations of the organisation are not held in contempt by key members. Its ability to respond to these calls has prompted some key members to increasingly seek unilateral action outside the parameters of the rules-based system.

The outcome is the paralysation of the organisations internal dispute resolution mechanism known as the Appellate Body.

The Appellate Body was established in 1995 under Article 17 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU). It is a standing body of seven persons that hears appeals from reports issued by panels in disputes brought by WTO Members. The Appellate Body can uphold, modify or reverse the legal findings and conclusions of a panel, and Appellate Body Reports, once adopted by the Dispute Settlement Body (DSB), must be accepted by the parties to the dispute. The Appellate Body has its seat in Geneva, Switzerland.

Source: WTO

While these reforms are necessary, it is important not to lose sight of the benefits the international rules-based system has enabled, particularly in the trade in goods. Manufacturers around the world have benefited from a common rule book in international trade and the historic growth in global trade volumes is a testament to the success of the WTO. It is important that future reform enhances the system and provides reassuring confidence to its members and the beneficiaries of the trading system.

In taking its independent place at the WTO, the UK should stand as a defender of the open-trade rules-based system and seek to find the compromise needed to reform and develop the organisation.

Use of Tariffs as a trade disrupter

Our report has provided commentary on the current weakness of the multilateral trading system and unilateral measures adopted by some countries to work outside the rules-based system. Typical of the actions that have induced widespread concern and often retaliatory action, has been targeted and punitive tariff increases. The actions of the US and China administrations in recent years is an example of such an intervention to dispute trade.

The most high profile example of the use of tariffs has seen the US impose tariffs on more than $350 million worth of Chinese goods. While these have been eased by a "phase 1" trade agreement, the run up to the 2020 US election has seen tensions increase again. Indeed, 2020 has witnessed the widening of economic and political tensions involving China, extend beyond the US. The UK, Australia, Canada and India all have cause to review their respective relationships. Such tensions are unlikely to ease going into 2021 and beyond.

However, China has not been the only target of US actions. Similar measures have been deployed as part of the ongoing case involving Boeing and Airbus. This has been partially to apply pressure on the EU in an effort to put pressure on faltering trade agreement discussions. But the actions have also affected a widening group of commercial and industrial interests not directly connected with the original dispute or sector, but targeted due to their prestige nature and the strategic and political poignancy they generate.

A possible return to nationalism through localism

The wider effects and impact of the current crisis are showing early signs of how change will be adopted across many sectors. Fundamental deep structural trends have the opportunity to challenge the pre-crisis focus of self-reliance and an absence of resilience. Supply chains will be reviewed and reshaped, with 34% of manufacturers indicating they anticipate the proportion of their UK suppliers to moderately increase in the next two years.[1] The acceleration of this process from early trends as a determining factor in global trade before the crisis, has the worrying signals of a growth of nationalism and protectionism.

The definition and application of national economic protectionism takes various forms such as the principle of America First and the EU's drive towards technological sovereignty. These moves should not be allowed to lead to protectionist policies limiting trade with third countries.

In addition to economic nationalism, localism is becoming an increasing factor with customers and consumers looking to source more goods locally, driven by a multitude of factors from environmental and climate concerns to shorting of supply chains. It is likely that the Covid-19 pandemic will exacerbate this trend with many countries considering the reliance on third markets for essential goods in particular medical supplies.

Responding to both economic nationalism and the drive towards localism will be a challenge facing exporters for a number of years to come and will have to form part of any trade strategy.

The smart use of data and technology

Digitalisation of trade is a catalyst for change and will open opportunities for firms to bring new products and services to a larger number of digitally-connected customers across the globe.

Technology is becoming more embedded in how businesses operate. Forthcoming research from Make UK shows that the overwhelming majority of manufacturers believe Industrial Digital Technologies (IDTs) will be a reality for their business by 2025.[2] And technology is not only about automation, but using new and innovative digital tools to overcome barriers to growth, widening access to payments, enabling collaboration, and changing business models that will merge goods and services together.

Dependent on these changes will be information and communication technology services which form the backbone of digital trade, providing the necessary network infrastructure and underpinning the digitisation of new types of services.

In the world of digitalisation, the old trade issues that are a matter for current policy makers and business will be replaced by new issues for trade policy such as data flow regulation. These should be met by policy makers and business as opportunities to create an environment that supports innovation and promotes digital trade in goods and services. A more economic nationalistic and self-sufficient focus adopted by countries and a sense that not all countries should be treated equally particularly in the original and destination of data, has the further potential to be disruptive to an open system of trade.

[1] Make UK/Oracle, Smart supply chains survey, June 2020
[2] Make UK/Infor, Innovation Monitor: Bouncing Back Smarter (2020)

An opportunity to make it green

A move towards a greener and more sustainable planet is becoming an increasingly important trend in global trade. Indeed, as countries and regions look to rebuild and grow after the crisis, there has been a refocus on sustainability goals and with many governments committed to delivering a green recovery. Manufacturers are themselves fully aware of the need to become greener and more sustainable. An overwhelming majority are aware of the net-zero target and many are taking measures in their own business in support of this target and to drive energy efficiencies within their companies.[3]

There is clear evidence that this trend is not only being driven by government commitments, such as the Paris Climate Accord, but also that customers are increasingly calling for sustainable and environmentally friendly products. A 2019 report from the International Trade Centre (ITC) and the EU Commission highlighted that retailers consider sustainability as key when buying from suppliers. In their survey, the ITC found that almost all retailers expect demand to grow for sustainable products over the next five years, with three-quarters already having sustainable sourcing commitments.[4]

With the UK hosting the 26th UN Climate Change Conference (UN COP 26) in 2021 (postponed from 2020), the spotlight will be on manufacturers in the UK and how to mainstream sustainability and climate change into production and trade of goods and services. The good news with this trend is that sustainability and profitability go hand-in-hand. Make UK research[5] has shown that manufacturers who put sustainability at the heart of their businesses have seen real benefits from doing so in the last 12 months with 40% reporting increased profit margins and 30% increased competitiveness as a result.[6]

Planning for the future

While it is hard to get away from the impact of the current crisis, developing, adapting and deploying an international trade strategy will need an understanding of these factors which will likely persist for a time. This is as true for a national trade strategy as it is for a manufacturer aiming to increase their exports.

[3] Make UK/Eon, Towards a net zero economy (2020).
[4] The European Union Market for Sustainable Products: The retail perspective on sourcing policies and consumer demand, International Trade Centre, European Commission, May 2019.
[5] Make UK/Eon, Towards a net zero economy (2020).
[6] Make UK/Eon, Towards a net zero economy (2020).

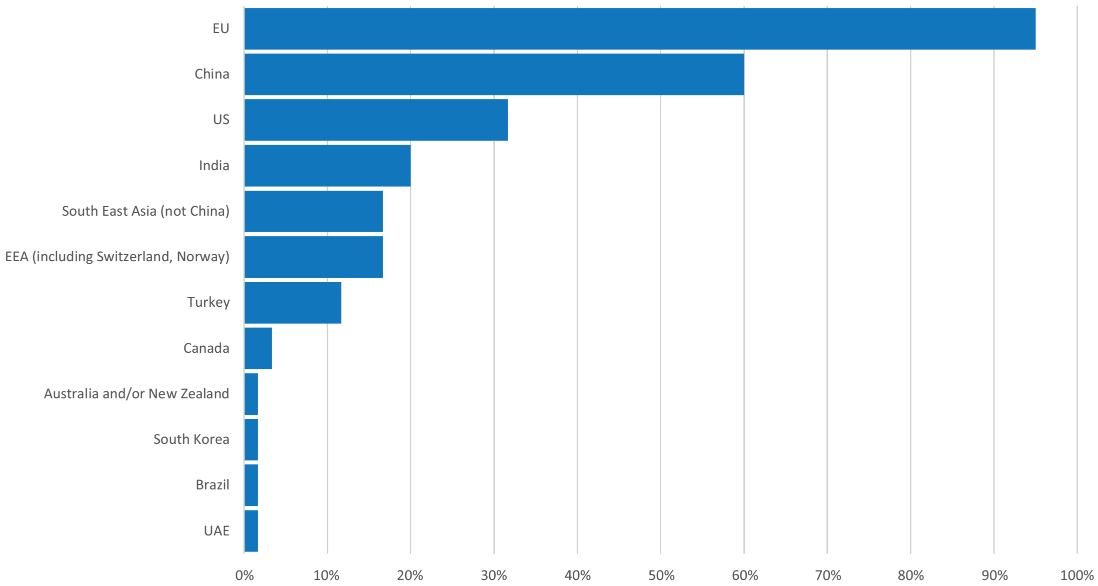
THE IMPACT OF THE COVID-19 PANDEMIC – A SNAP SHOT

The survey upon which this report is based coincided with the initial phases of the Covid-19 pandemic's disruption of international trade. While the Covid-19 pandemic has moved swiftly to effect all corners of the globe and all manners of traditional commerce and trading activity, it is interesting to reflect on the early phase of disruption and understand the lessons, how business leaders have responded, and what recommendations are likely to drive the changes and challenges ahead.

AS OF THE END OF MAY 2020, OVER 60% OF MANUFACTURING FIRMS WHERE ALREADY EXPERIENCING DISRUPTIONS AND IMPLEMENTING REVISED EXPORT AND IMPORT STRATEGIES.

These were found in all of the key markets for the manufacturing sector, although were dominated by disruptions in Europe and China (Chart 3). While it is clear the crisis also impacted transatlantic trade, particularly with the disruption of passenger flights which also carry significant volumes of cargo, the markets chiefly impacted by the epicentre of the crisis represent markets dominated by ocean and air freight routes, including India and South East Asia.

Chart 3. Supply chain disruptions widespread, Key markets impacted by restrictions on business activity in response to Covid-19 Coronavirus



Source: Make UK, International Trade Survey (2020)

OVER HALF OF MANUFACTURERS HAD EXPERIENCED INCREASES IN THE COST OF FREIGHT

7 IN 10 HAD EXPERIENCED INCREASES TO FREIGHT TIMES

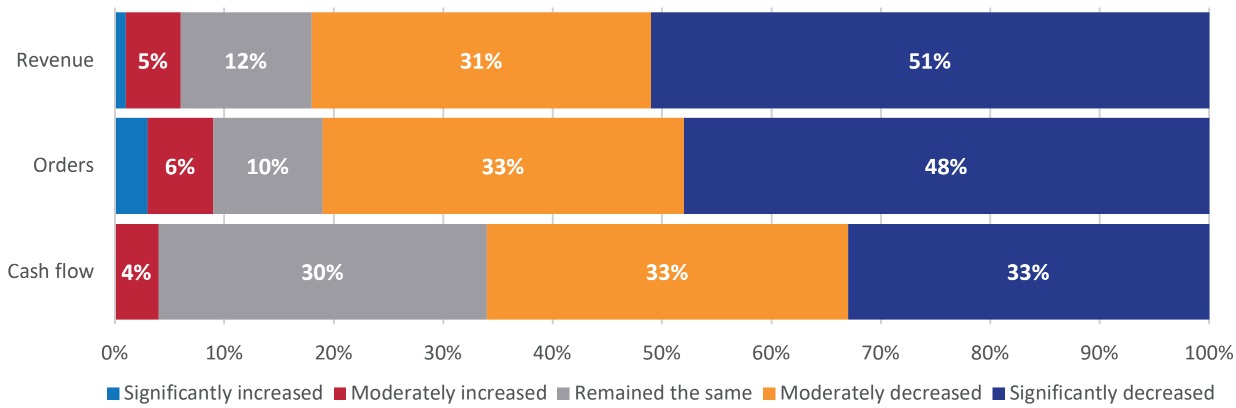
The impact of these disruptions were seen in both cost and time increases, with manufacturers seeing an uptick in both prices and freight times.

Manufacturers reported increases to both freight costs and travel time due to Covid-19. Seven in ten companies said they had experienced increases in freight time and over half have experienced increases in cost. For many manufacturers the cost and travel time of freight had increased by up to 25%.

This evidence was further supported by Make UK's fifth edition of the Manufacturing Monitor survey, which reported approximately half of manufacturers had experienced increases in logistic costs and travel times.[7]

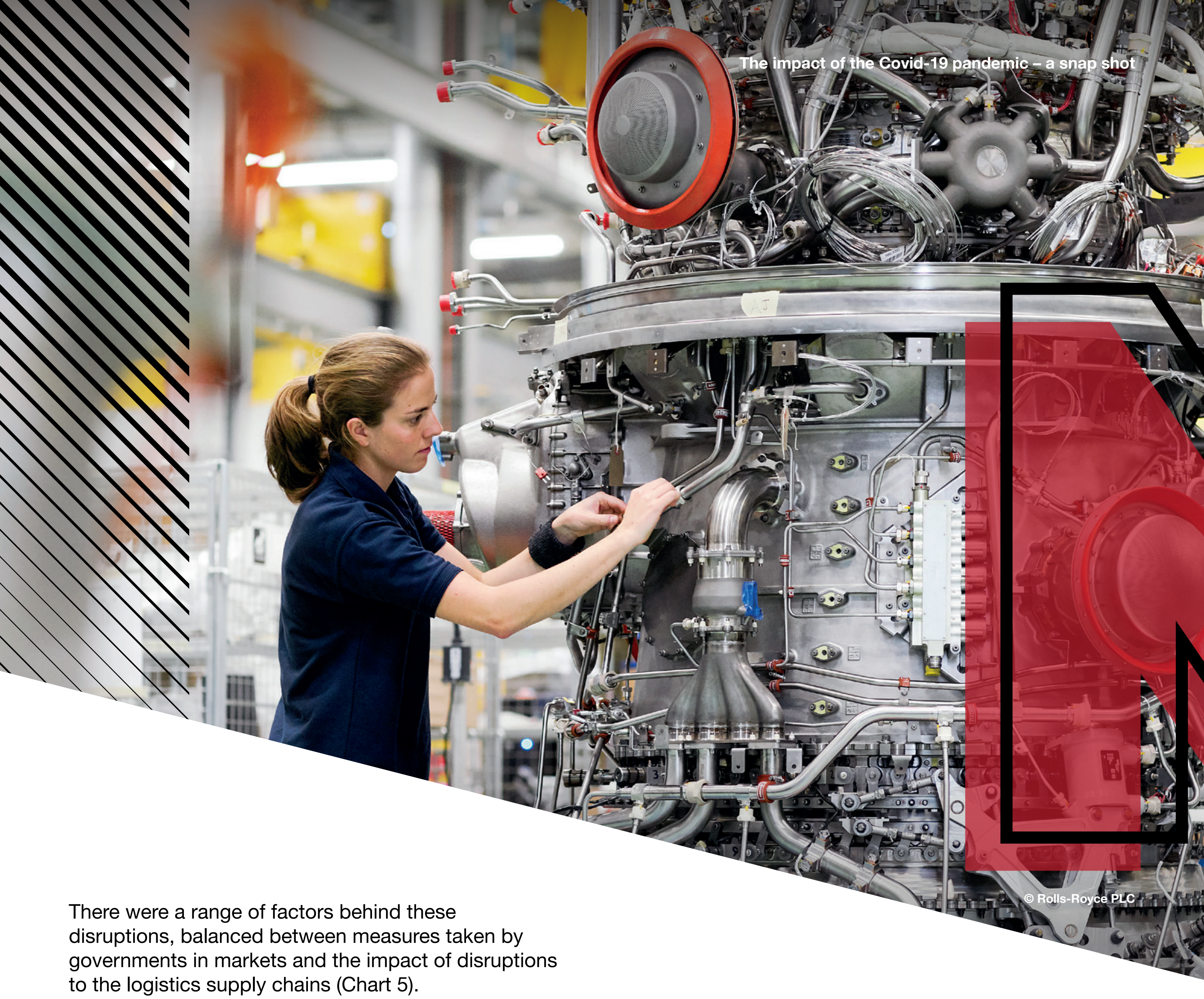
As a result, many manufacturers saw their revenue, orders and cash flow significantly decrease (chart 4).

Chart 4. Extent to which Covid-19 has disrupted your company and where specifically were the effects felt



Source: Make UK / Oracle survey, June 2020

[7] Manufacturing Monitor #5, July 2020



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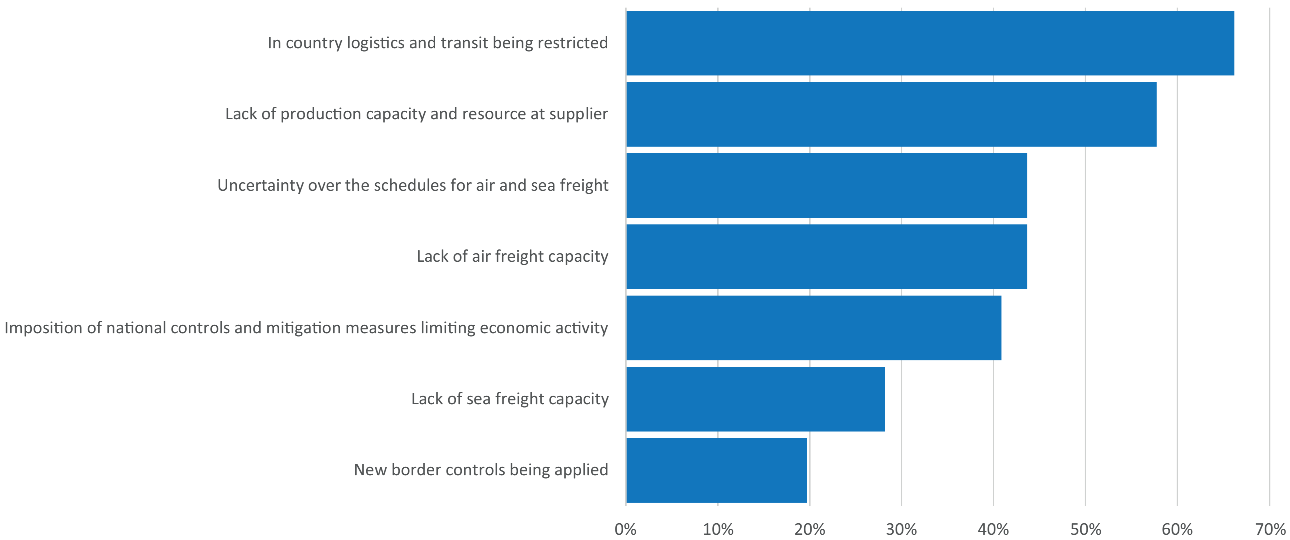
There were a range of factors behind these disruptions, balanced between measures taken by governments in markets and the impact of disruptions to the logistics supply chains (Chart 5).

Chart 5. Range of factors, % manufacturers citing key factors influencing disruptions in logistic supply chains due to Covid-19



Source: Make UK, International Trade Survey (2020)

In response, the vast majority of companies did not respond by stockpiling. This may have been a result of previous measures taken ahead of last year's preparations for the potential 'No Deal' exit from the EU and companies winding down existing stockpiles – as was indicated by Make UK's Q1 2020 Manufacturing Outlook report. At the time of the survey the vast majority of companies were not considering changing their trade strategy however, of those considering changes, it was predominated by short- and medium-term adjustments to their export or sales strategies, with only a small number of companies considering re-focusing of their business towards on-shoring or prioritising local markets (Chart 6).

Chart 6. Short and medium-term changes, measures companies were considering to alter export and import strategies due to Covid-19

Source: Make UK, International Trade Survey (2020)

What was clear during the early phases of the crisis was the unilateral measures taken by countries which significantly disrupted supply chains. While measures to limit the Covid-19 pandemic required containment policies to protect people and health care systems, these were too often without co-ordination between nations and sometimes disproportionate, impacting significantly on the maintenance of secure international supply chains. Many of these measures curtailed freedoms within the international trading market, such as trans-border mobility of essential and skilled workers and essential medical and food supplies. There were examples of positive co-ordinated initiatives undertaken by countries to support supply chains; the European 'green-lanes' initiative to fast track road good movements; the tripartite announcement by UK, Ireland and France to provide short-term financial support for the 'short-sea' crossings; countries including Canada, Australia, New Zealand and Singapore to keep supply chains open and remove any existing trade restrictive measures on essential goods, especially medical supplies. However, the wider view was that the international community lacked a coordinated plan of action with regards to trade early in the pandemic, unlike the international cooperation seen during the 2008 financial crisis.

In the future it is essential that the governments of key markets work together to ensure essential supply chains are protected and ensure that measures to restrict production or the lifting of measures are coordinated across the international market as far as possible. This must be done in consultation with industry and the logistics sector to ensure that unnecessary disruptions can be avoided in the future.

Learning lessons

In the future it is essential that the governments of key markets work together to ensure essential supply chains are protected and ensure that measures to restrict production or the lifting of measures are coordinated across the international market as far as possible. This must be done in consultation with industry and the logistics sector to ensure that unnecessary disruptions can be avoided in the future.

THE BENEFITS OF TRADE

Exporting is widespread in manufacturing

As set out in the first chapter of this report, the UK is at a crucial point as it defines its place in the global trading environment. Having left the EU and now negotiating its future trading relationship with its largest market, it is also spearheading global trade strategies with other influential trade partners to take advantage of new opportunities and eliminate barriers to trade.

In this moment of change for the UK, it is important to examine how the manufacturing sector fits into the overall picture and to understand the drivers and mechanisms of trade. In 2019, goods exports account for 53% of UK total exports*, however as is highlighted below manufacturers today are exporter more than just goods, with services becoming a greater part of manufactures export footprint.

The good news is that exporting is widespread in manufacturing, with manufacturers exporting to a wide range of countries and through various mechanisms to bring real value and benefits to their businesses. The international trading environment has witnessed increased political tensions and practical disruptions in recent years and is now adjusting through the ongoing demand and supply disruptions to global supply changes caused by the Covid-19 pandemic.

95% OF MANUFACTURERS ARE ALREADY EXPORTING

* ONS UK Trade Statistics August 2020

CASE STUDY

Arrowsmith is a manufacturer of precision aero engine and braking systems components for a global customer base.

Our company's approach to increase export has helped us overcome Brexit uncertainty and given us the platform to almost double our business to £7.6m since 2016, with a 400% increase in export work helping to drive this expansion.

Contracts have come from the US, Singapore, Germany and Spain and new opportunities are currently being explored in ten different countries as part of Arrowsmith Engineering's bid to provide truly global coverage for our customers. Pre Covid-19 we created a two-year growth plan, taking annual sales to £10m through our state-of-the-art manufacturing facility in the UK, with a new joint venture planned for India generating a further £3m of revenue.

Aerospace is a global marketplace and, as a business, we have to make sure that we are in a position to be able to move with the times and deliver what our customers are looking for. Increasingly, development work will be completed in the UK, but production volumes will be for clients overseas, meaning we have to be able to compete with international rivals, some located in what would be traditionally classed as low-cost manufacturing bases.

One of the ways we have been able to do this is by investing in adding value through the initial design work and then utilising automation and lean manufacturing processes to deliver on time and within the agreed budget. It is an approach that is working. Export orders have gone from 5% of our annual turnover in 2016 to nearly 40% in March 2020, with contracts now in place for us to deliver £2.5m of components every year to six different countries. The investment we have made puts us in a perfect position to take advantage of new opportunities in India, the Far East and the US as aircraft production continues to move into new global territories. We also have a number of the global customer quality approvals that means we are able to tender for new work and, with the backing of AS.G Group, we can now utilise the expertise of sister companies in Ireland and Germany when pitching for orders. In some instances, we can offer an even more comprehensive sourcing solution for precision components for use in next generation engines and braking systems.

As we continue to prove to global customers we can deliver on our promises, we would expect export and international orders to actively become the largest part of the business. The majority of this work will continue to be carried out at our facility in Coventry and will lead to the possibility of 10 new jobs to get us to £10m and then the potential for five more year-on-year. A significant number of these new recruits will be sourced from local graduates and apprentices, with the company committing to two new apprentices every year in order to help it bridge the skills gap currently being faced in the UK.

Parts are currently being won in the UK and moved abroad, whilst others are won directly from international customer offices in the US, Singapore, Spain and Germany.

The aerospace market has the same rules and specifications regardless of where you deal domestically or internationally, the difference mainly lies in delivery and paperwork. Both need very good project management and a strong logistics operation in place and we have developed an experienced team to look after all of this.

They have been trained to cope with time differences, language nuances, exchange rate fluctuations, delivery time, packaging and tariffs/contracts. This is essential, because if we get one of these wrong, it can ruin all of the hard work we put in on the shop floor. Again, it is all about putting solid platforms in place from where we can grow the business and, from there, identifying where the opportunities exist. That's where tapping into external expertise can be so essential, especially when it comes to market research.

With this in mind, we have used industry bodies, such as ADS Group, the Midlands Aerospace Alliance (MAA), Coventry & Warwickshire Aerospace Forum (CWAF) and the Coventry Chamber of Commerce, to attend international trade shows in Farnborough and Paris.

We have also used the external assistance to support us with:

- Defining routes to market
- Aftersales and technical advice
- Activities to encourage market growth
- Staff language training
- Legal help with exploring overseas distributors

There is also no substitute for actually going on trade missions and seeing markets for yourself and, over the last two years, we have visited France, Germany, India, Ireland, Spain and the US. All of these trips have delivered new contacts and vital information we have used to subsequently build our supply chain and potential customer base.

To export globally you have to operate to the highest possible standards and be competitive…if you don't have either of these in your locker it's a non-starter.

From there, the biggest challenges we have faced involve learning different customer and country requirements, with each one carrying their own expectations and nuances. One prime example is US export paperwork – you need three forms for customs and a further three for your own internal use on each package.

Then you have specialist aerospace export requirements, with each client boasting their own specifications when it comes to exacting packaging, transport and paperwork. Throw in time differences, language barriers, recouping costs on damage to critical components and it fast becomes a minefield for inexperienced exporters.

We overcame all of these hurdles by tapping into experts at the Chamber of Commerce and visiting friendly aerospace suppliers, who spent time advising us on how to proceed and what to look out for. There is also an element of trial and error.

Manufacturers know that international trade matters

It is clear that manufacturing firms in the UK are, in the main, exporters. Our survey shows that the overwhelming majority (95%) export to some degree (see Chart 7), directly or indirectly via their supply chains with just 5% saying they do not trade internationally.

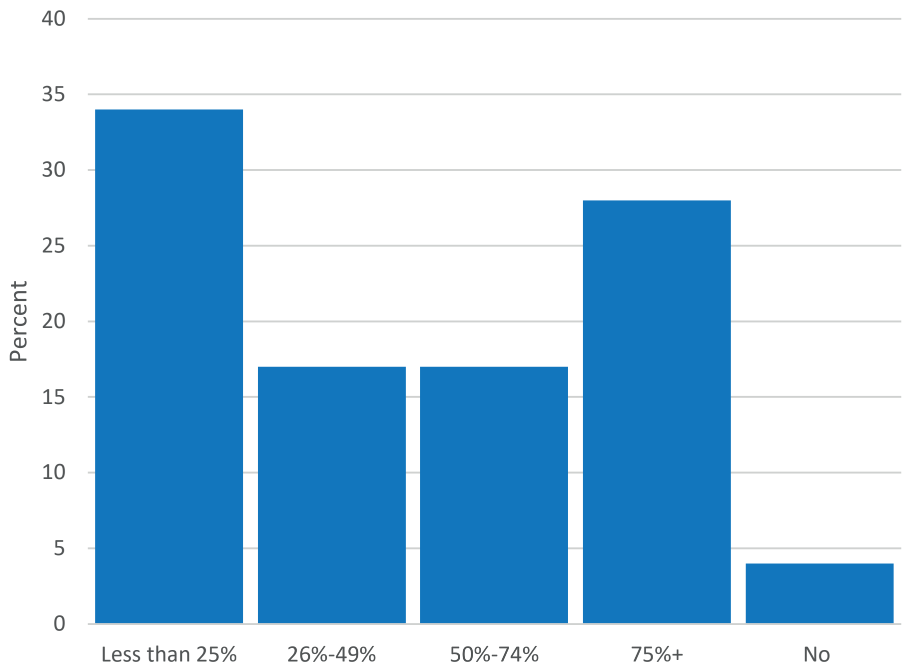


Chart 7. The majority of manufacturers export, % companies stating whether their companies export and if so the proportion of turnover generated by exports

Source: Make UK, International Trade Survey (2020)

And exporting is important for a significant number of firms in our survey and this continues to grow. Over four in ten companies say that exports account for more than half their turnover.

What is also clear is that there are two significant categories:

1. Manufacturers who have an export driven strategy
2. Manufacturers who have a great potential to grow their export sales.

Over a quarter of manufacturers generate over 75% of their annual turnover from exporting goods and services, while for a third it is less than 25%. From the data it is evident that the potential to grow exports exists in the sector, however the barriers to growth are varied and there are few one-size-fits-all solutions.

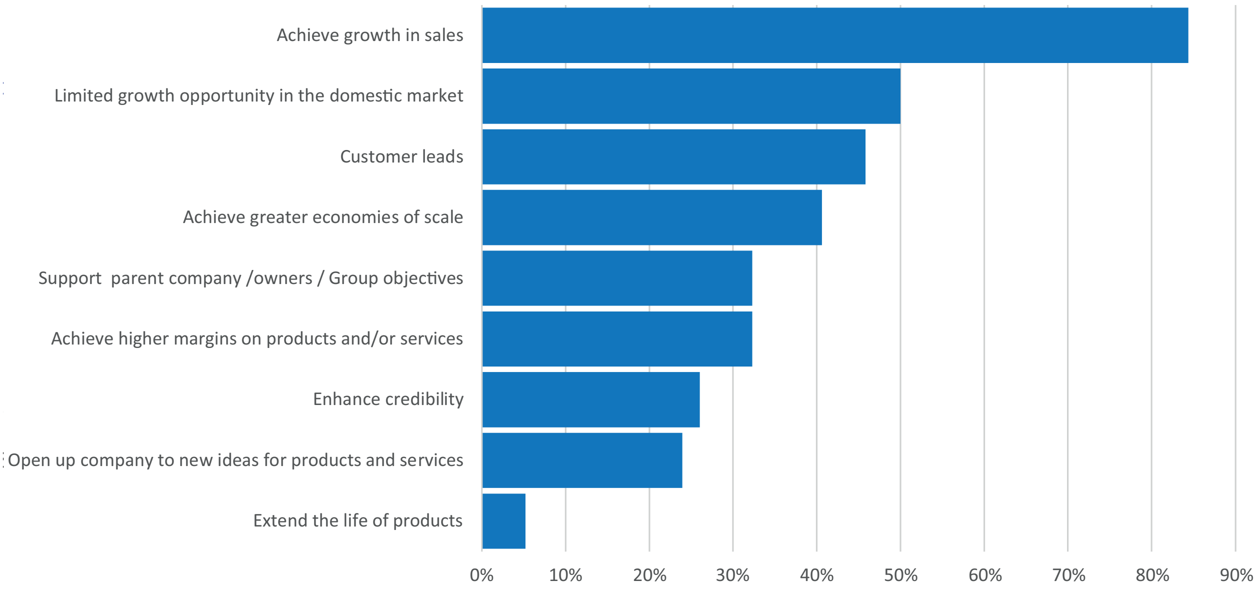
The export profile of a business is not limited to the size of the business. While smaller firms tend to export less it is not a key limiting factor, nor is the sector a significant factor. Manufacturing firms will need a strategy which recognises the specific drivers and barriers they face and is responsive to defining the measures that they needed to help them overcome these challenges. It is clear from working with manufacturing firms that peer-learning from other manufacturers has the greatest potential to help businesses understand and develop the strategies needed for success.

This is a theme that Make UK and HSBC UK will return to in a complementary piece of work. This will evidence the expert advice from experienced manufacturers on how they have developed their export strategies, overcome the challenges, and taken advantage of the opportunities provided by international trade.

Why manufacturers export

Companies export for a range of reasons (chart 10). For many it is following clear strategic aims whilst in other cases being more reactionary to emerging opportunities. For over 80% of companies, it's simply about doing more business and increasing sales beyond the limited domestic market – a reminder of the importance of trade as a source of business growth as the report has explored in the section on the international trading environment.

Chart 8. Manufacturers export for a range of reasons, % companies stating why they export their goods and/or services



Source: Make UK, International Trade Survey (2020)

Existing trade partners entering new export markets can also be a catalyst for a company in their supply chain to go global. Reacting to customer leads and servicing existing customers is a clear driver from the industry responses. This coupled with new customers can act as a pull for a company to export. The evidence is that almost half of manufacturer exporters say they sell overseas because of a direct enquiry.

Exporting is also a key way to boost profit margins and drive productivity improvements. Achieving greater economies of scale and higher profit margins are reasons to export for over 40% and over 30% of respondents respectively.

ALMOST HALF OF MANUFACTURING EXPORTERS SELL OVERSEAS FOLLOWING A DIRECT CUSTOMER ENQUIRY

It is also evident that manufacturers are becoming more strategic in driving export sales up, with over 30% of exporters citing that it is part of corporate objectives and 25% enhancing credibility. This is up by over 10% and over 5% respectively since 2017.

CASE STUDY

David Nieper

David Nieper Ltd is a family fashion business which has exported its British manufactured garments for 30 years. Export accounts for one third of revenue and is part of the company's secret of success and financial stability.

There are many strategic advantages in exporting, the most obvious being economies of scale. For example, by reaching into just Germany and France we more than triple the potential of the UK market without requiring any additional design expense or prototypes from the fashion studio. Additional sales volume for the same product range then increases efficiency and profitability in manufacturing.

David Nieper also reuses its existing UK marketing material. Mail order catalogues require only a 'black plate' change in printing for the relevant language and currency. Press ads and TV commercials too are adapted in a similar way for export markets.

Another strategic advantage which has greatly benefited the company over the years is the natural currency hedge afforded by exporting in local currency.

David Nieper buys some fabrics in Euros and sells garments to its European clients in Euros. When the pound weakens the fabrics cost more but garment sales are worth more, when the pound strengthens the opposite happens. Either way the company is insulated from movement in currency over which it has no control.

But exporting isn't as easy as selling into the home market! The challenge isn't in distance or language or paperwork or Brexit - it's culture. CEO Christopher Nieper's top tip is to work with locally based representatives from the countries you export to. They speak the language, understand the dialect and importantly, understand the culture and bring local contacts and local knowledge.

The company believes the opportunities in export far outweigh the challenges. By exporting British manufactured goods we create more skilled and much needed jobs in Britain, we build financial resilience and we add value to our communities.

British quality and brand Britain are revered the world over. Britain was at its most successful during the industrial revolution when it was an exporting nation, now is a good time to start exporting again.

WORK WITH LOCALLY BASED REPRESENTATIVES FROM THE COUNTRIES YOU EXPORT TO. THEY SPEAK THE LANGUAGE, UNDERSTAND THE DIALECT AND IMPORTANTLY, UNDERSTAND THE CULTURE AND BRING LOCAL CONTACTS AND LOCAL KNOWLEDGE.

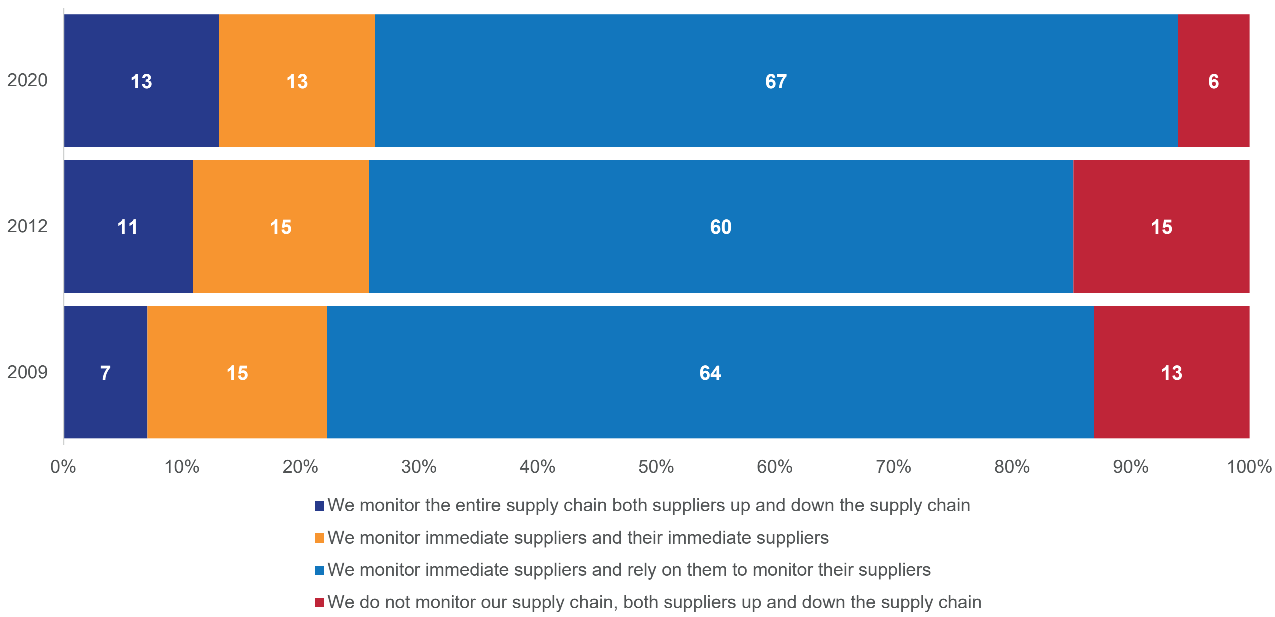
Why supply chain resilience matters

Manufacturers in the UK are particularly exposed to supply chain disruptions as the sector tends to produce products and goods which sit in the middle of complex regional and global supply chains.

Fewer than 40% of companies export products that remain in the original destination market with the majority selling goods which ultimately are exported from that country. This evidence supports the analysis that the UK produces and exports predominately intermediate products intended for final products and onward export.

But supply chain viability remains a strategy undertaken by very few manufacturers, despite evidence showing it helps to build resilience. Only 13% of manufacturers reported that they monitored their entire supply chain, with the majority, almost 7 in 10, only monitoring their immediate suppliers. (See chart 9).

Chart 9. How closely your company monitors its suppliers to help assess risk?



Source: Make UK / Oracle survey (June 2020)

CASE STUDY

BRANDAUER

Brandauer is one of the West Midlands' best kept manufacturing secrets, producing millions of high tolerance metal pressings and stampings every week for customers in the plumbing, automotive, domestic products, electrical, medical and renewables sectors.

Most of the products it makes are invisible to the user, but fundamental in making many everyday items work effectively. These range from electrical connectors that are fitted in 90% of the world's kettles and edge connectors for the dimming of rear view mirrors in 50% of modern day cars to 7 million nose clips per month that are helping protect people against the spread of Covid-19.

85% of the Birmingham's firm's current £8.9m turnover is exported to international markets, which represents a 5% year-on-year increase since 2015 and is the direct result of a concerted campaign to enter new global sectors.

"We now export to 22 countries, including traditionally 'hard to break' territories of Israel, Saudi Arabia and Germany, home to our most intense competition," explained Rowan Crozier, CEO.

"Significant inroads into China have been made and I'm delighted to say we are taking on domestic manufacturers on price and, more importantly, on quality and technical innovation. In short, they can't compete with our micron tolerances and our ability to manage extended supply chains effectively."

This sustained growth has come in the face of many challenges, most of which have been outside of Brandauer's direct control.

Brexit has been the one constant threat throughout and, whilst this may have played second fiddle to Covid-19 in recent months, it continues to inject a fair amount of uncertainty.

This is on top of more traditional challenges around getting to understand the nuances of different markets, managing supply chain timelines and breaking down some of the stereotypes attached to UK manufacturing.

"You have to really believe in what you offer and get out there and attack the marketplaces," continued Rowan.

"We've used digital media effectively to generate new opportunities and, prior to Covid-19, we have sent our experts overseas to attend trade shows and get under the skin of each sector. Being on the ground really is the best way to open doors and get you talking with the right people."

He concluded: "It's not just about winning the work. You then have to be confident you can deliver what you promise and this is why we invest over £1m every year into new technology that delivers increased productivity, IT systems that guarantee full traceability and 100% automated inspection quality."

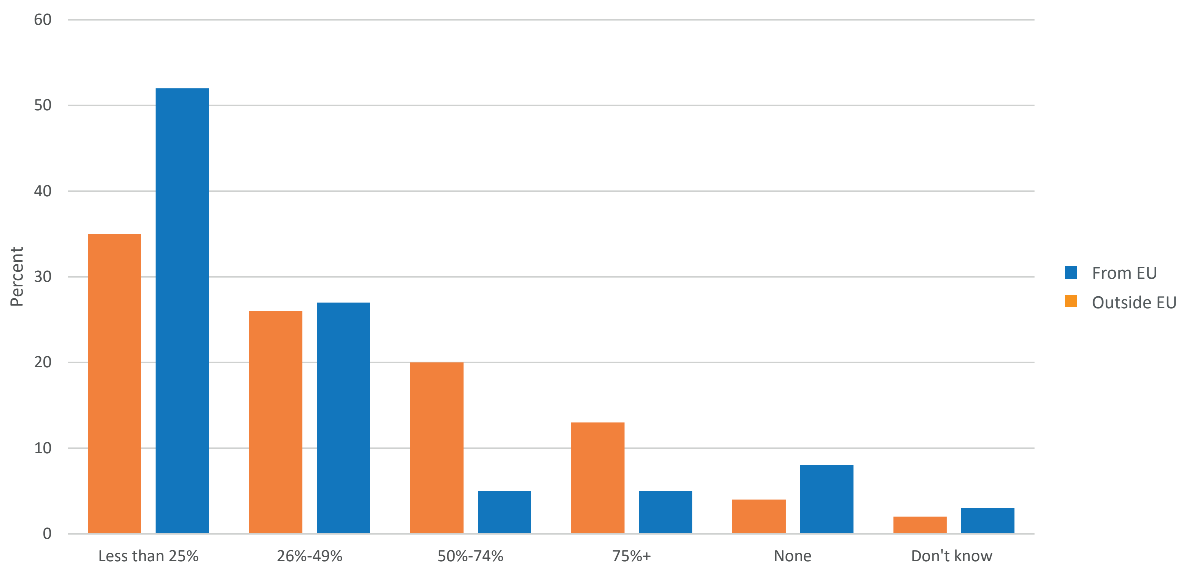
Brandauer's 5-year plan placed international trade at the heart of expansion and, whilst Covid-19 may have forced the firm's hand on some decisions, it is still expecting export to account for £10m of £13m sales by 2023.

85% OF THE BIRMINGHAM'S FIRM'S CURRENT £8.9M TURNOVER IS EXPORTED TO INTERNATIONAL MARKETS

The other side

The other side of supply chain management is the input or import of components, parts and products needed to produce a good. Again the evidence suggests that the UK manufacturing sector is heavily reliant on imports from EU sources and a significant proportion from wider global suppliers. This confirms that the sector sits as a location that supports manufacturing and part-assembly capability within a wider supply chain eco-system. As can be seen from the chart below UK manufacturers have a slightly higher reliance on the EU market for their inputs, however clearly not limited to Europe.

Chart 10. Manufacturers are reliant on imports for their inputs, % companies citing the proportions of their inputs from the EU market and outside

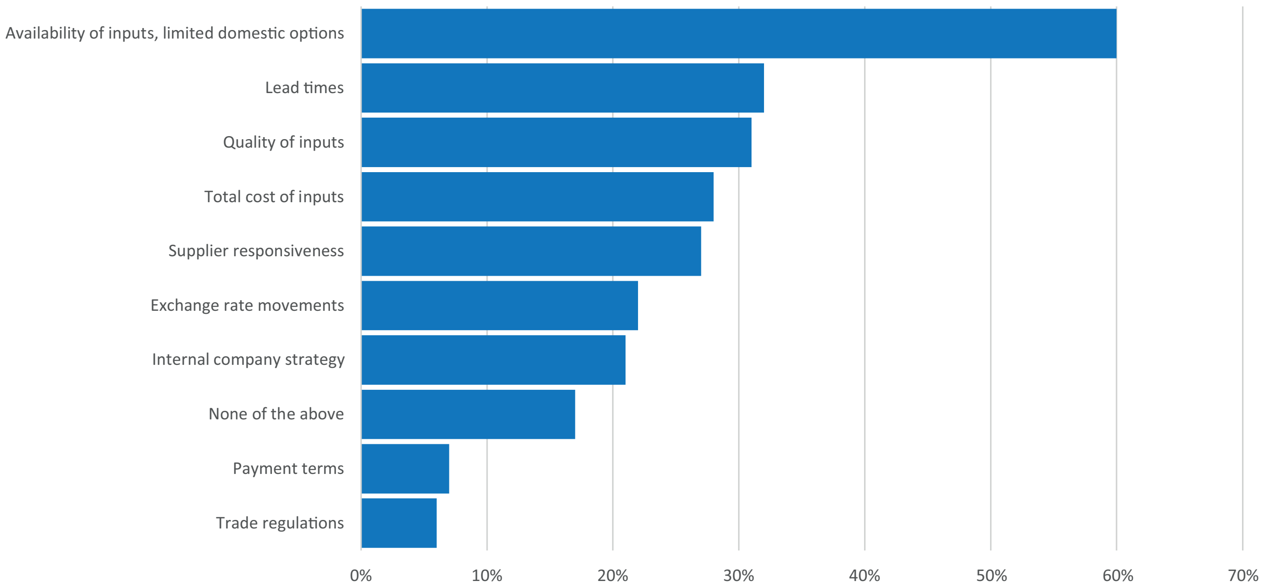


Source: Make UK, International Trade Survey (2020)

In redefining our economic relationship with the EU and in setting our economic priorities in future international trade negotiations, it will be important to understand the impact to the complex web of regional and global supply chains and how UK manufacturers have and should make the most of the preferential terms that emerge from future trading relationships. This is most profound in the EU context and the manufacturing sector supports a preferential position on Rules of Origin covering not just the EU's internal market but extends across key trading and export markets.

As with the reasons for exporting, the drivers behind importing are equally varied. A clear requirement for sourcing from outside the domestic market is limited capacity and availability. It is also evident that importing from non-domestic sources is also viewed in terms of improving business performance, boosting productivity improvements and driving business growth. While it is evident that cost is a clear factor as can be seen from the prominence in the list of reasons for importing (chart 12), it is not the key reason with business and productivity improvements more important than cost factors, with lead times and quality of inputs cited as critical factors.

Chart 11. There are a number of factors that affected where imports are source, % companies citing the factors affecting proportion of imported inputs



Source: Make UK, International Trade Survey (2020)

While exchange rate movements have influenced a number of manufacturers to look at diversification of inputs away from UK sources, the pound exchange rates have remain volatile since the 2016 EU referendum result. While some commentators had suggested pre-referendum that the pound was overvalued, it has seen sharp downward fluctuations in recent years, often matched to key political moments in the UK and EU negotiation process.

Chart 12. Average sterling exchange rate: Euro (monthly)

Source: ONS

It is often true that a drop in domestic currency value relative to key markets has been a factor for manufacturing exporters. In the UK, for the reasons set out above, the exchange rate benefit is more finely balanced. For the UK manufacturing sector the issue is that with increased opportunities to export against an increase in input costs, it highlights the UK manufacturing sector's mid-supply chain position. While we have seen export growth as a result of a weaker pound position, there has been a corresponding and sometimes even steeper, increase in input costs than in export prices. Make UK surveys have often found that few manufacturers believe that a persistently weaker pound position would have a positive impact on their business.

Continuous negotiations

Reviewing and seeking changes to terms of trade between economic regions and/or countries is a continual process. The discussions in 2020 between the UK and EU in agreeing a new trading relationship will not be the only and final occasion that both sides will seek to improve this relationship. The process of continual negotiation and renegotiation is common-place in trade relationship around the world, highlighted in 2019 by the renegotiation of the North American Free Trade Agreement (NAFTA), to form a new economic partnership known as the United States, Mexico, and Canada Agreement (USMCA).

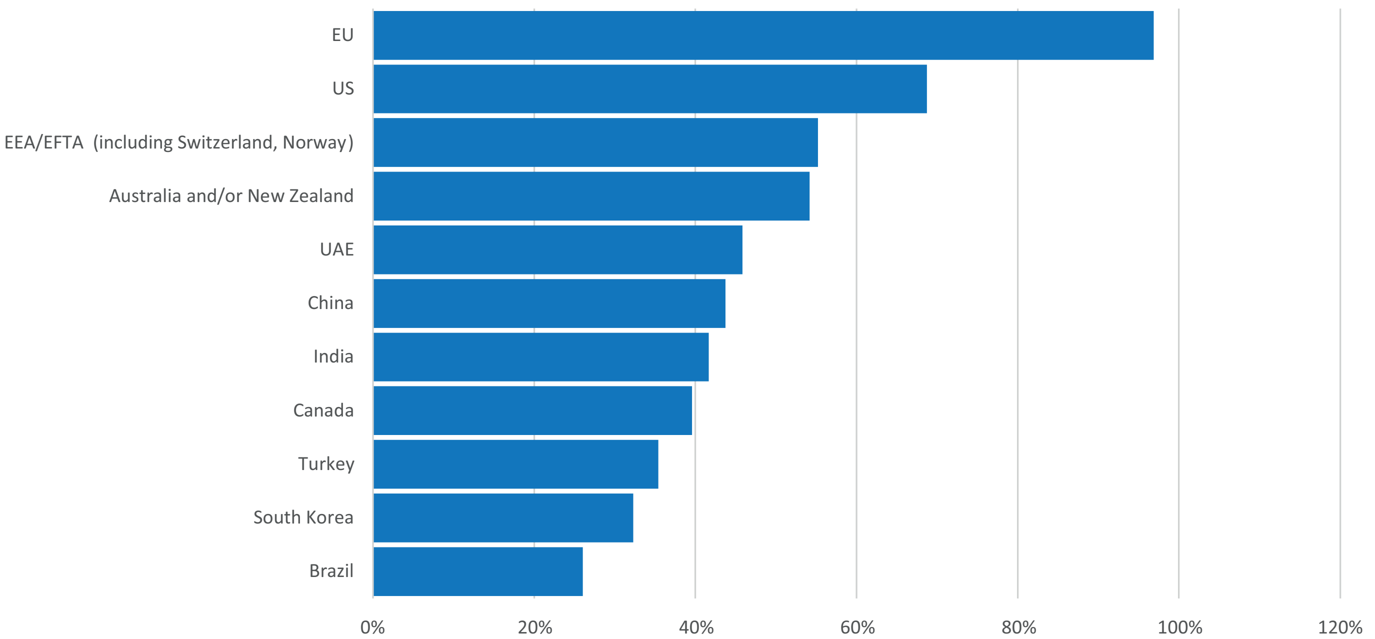
It will be important that the UK ensures future trade agreements, including with the EU, aim to build in appropriate mechanisms for the creation of a discussion and review forum. This is clearly a lesson learnt by the EU with its trade agreements in the past (South Korea) and while not a perfect mechanism, is reflected in the most recent Comprehensive Economic and Trade Agreement (CETA) signed between Canada and the EU, seen as the template for the future.

Where and how? – Going Global but remaining European

As Make UK has highlighted frequently the EU market remains the top destination for exporters – 97% of survey respondents export to the EU – a significant portion of companies have developed a spectrum of market opportunities outside the EU although these figures have seen a slight drop when compared to the levels seen in 2017. Exports to the US have fallen to just below seven in ten, and fewer are exporting to China, with companies generating greater sales from exporting more likely to export to emerging markets. The results tend to reflect the recent tensions seen around the globe which have been dominated by defensive trade policies, the trade war between China and the US as well as increasing trade tensions between the US and the EU, three of the largest markets for UK manufacturing.

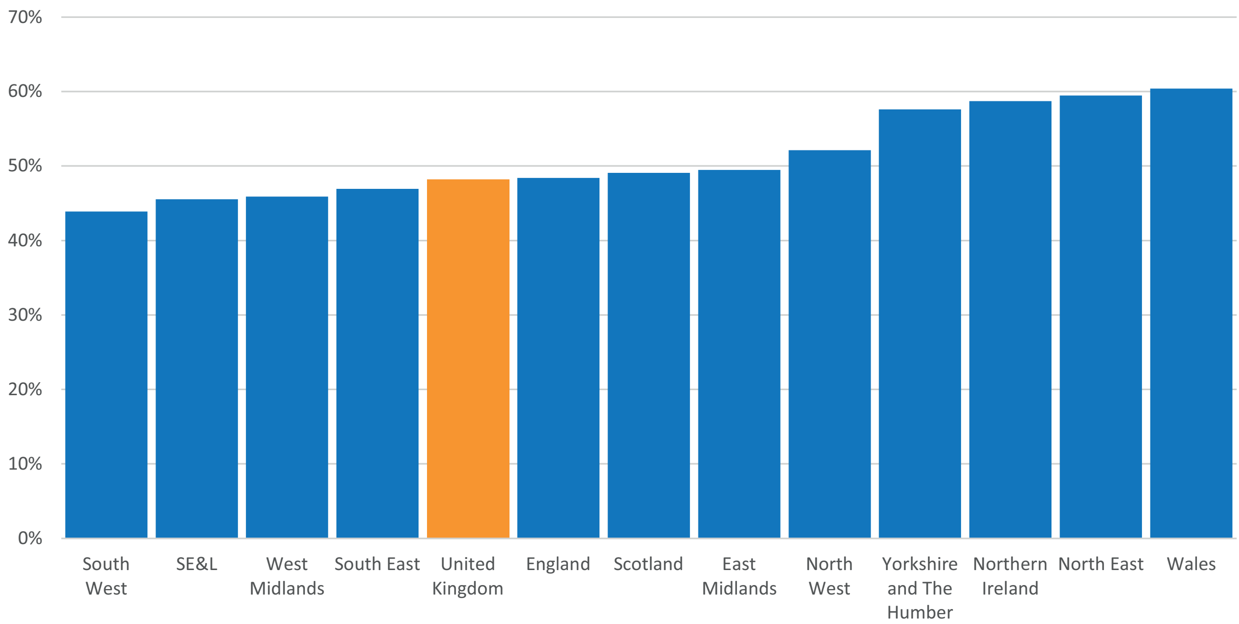
97% OF MANUFACTURERS WHO EXPORT, DO SO TO THE EU

Chart 13. The EU remains the top market for exports, % companies citing where they export to



Source: Make UK, International Trade Survey (2020)

Chart 14. UK regions are reliant on the EU for its exports, % share of regional exports to the EU

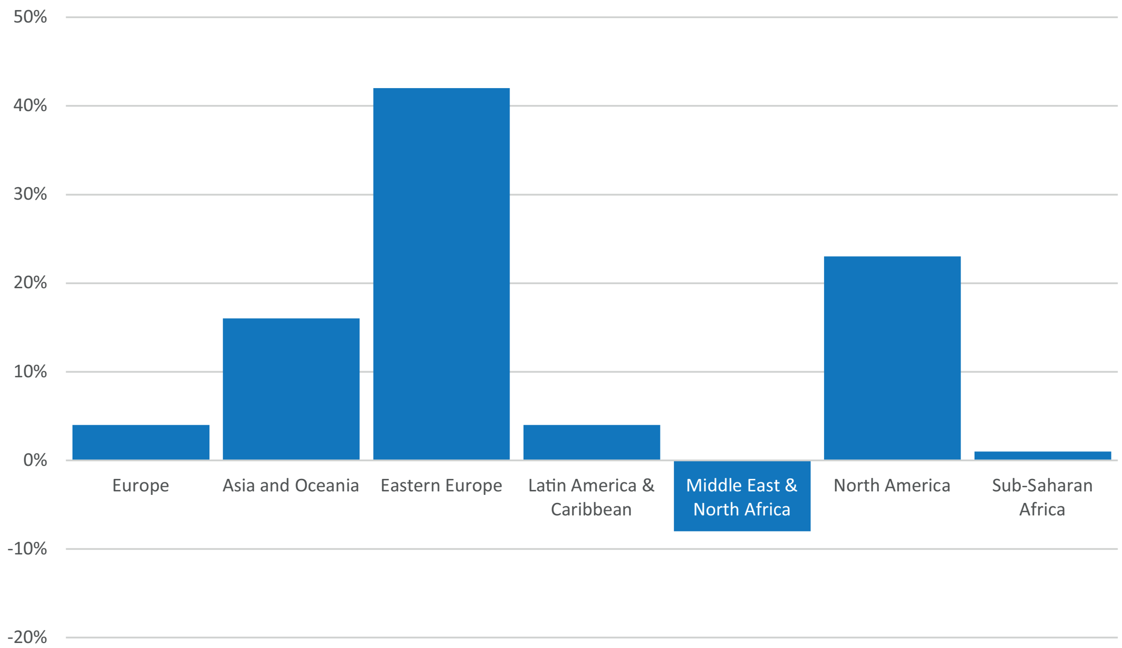


Source: HMRC (2019)

What the data also shows is that the UK Government's priority markets such as the US, Japan and Australia are established markets for manufacturers.

While it is clear that emerging markets continue to show growth, this appears to be slowing and while Europe as a whole remains a relatively low growth market, Central and Eastern Europe continues to outstrip the continent as a whole and will remain important markets.

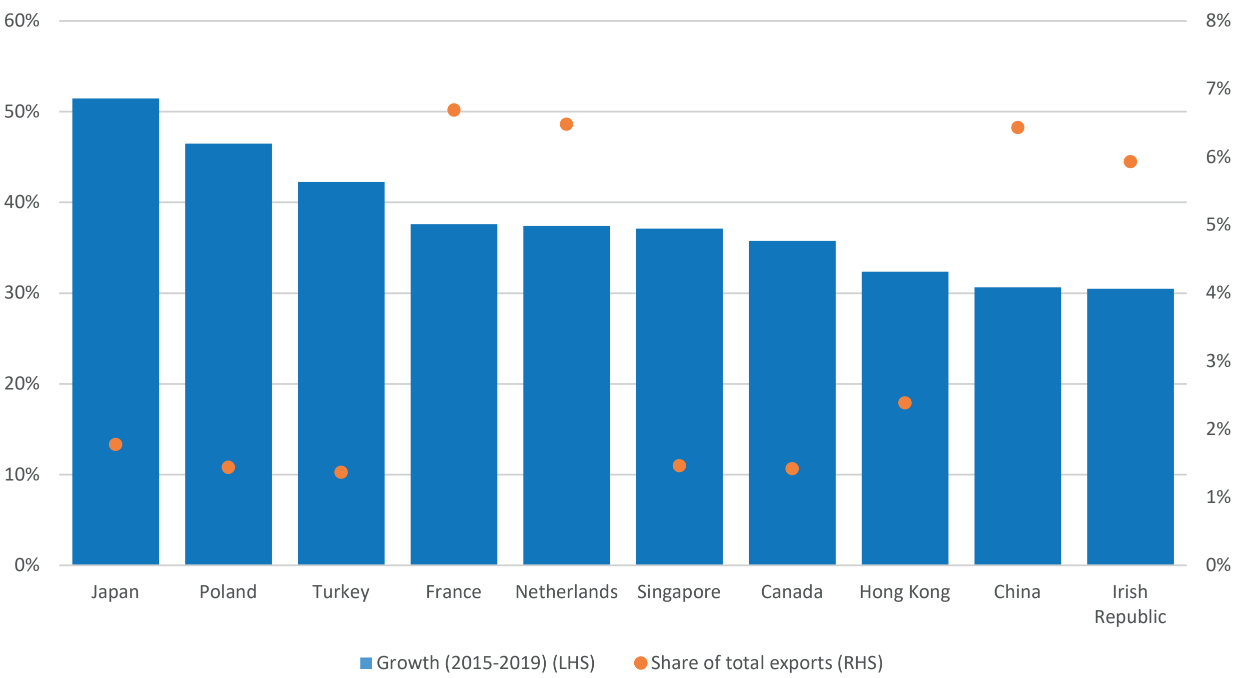
Chart 15. Manufacturing Exports Growth by region, 2017-2019



Source: uktradeinfo

As highlighted, what is also important is the size of the market for manufacturers in the UK as well as its growth rate. Strong growth in a market with low share of UK exports should not be prioritised before weaker growth in established markets, however these should not be considered mutually exclusive.

Chart 16. Top 10 fastest growing UK export markets



Source: uktradeinfo *Top 10 markets include countries that account for >1* of the UK's total exports

However, a more concerning finding of the data is the UK manufacturing sector's exposure to markets with existing trading arrangements with the EU, such as the EEA/EFTA countries, Canada and Turkey. As of summer 2020, these countries remain without new arrangements being agreed by the start of 2021, potentially leaving the UK with a loss of preferential terms from this date. In establishing a national trade policy the Government will need to understand the potential of growth in new markets and the penetration of these markets by UK exporters.

This is particularly a concern as 70% of exporters take advantage of simplified rules found in trade agreements, and in order to maintain a similar level of access and simplified trading relationship these arrangements will need to be re-negotiated as standalone new Free Trade or Economic Partnership agreements with the UK.

70% OF EXPORTERS TAKE ADVANTAGE OF SIMPLIFIED RULES FOUND IN TRADE AGREEMENTS

Since the establishment of the rules-based system for global trade, barriers to trade in industrial goods have continued to fall. Despite recent volatility, tariffs for industrial goods tend to be much lower than for other traded goods. Therefore Trade Agreement chapters, covering trade in goods, seeking to reduce further tariffs across the sector, tend to focus on areas of maximum opportunity such as non-tariff barriers covering trade facilitation and regulatory barriers.

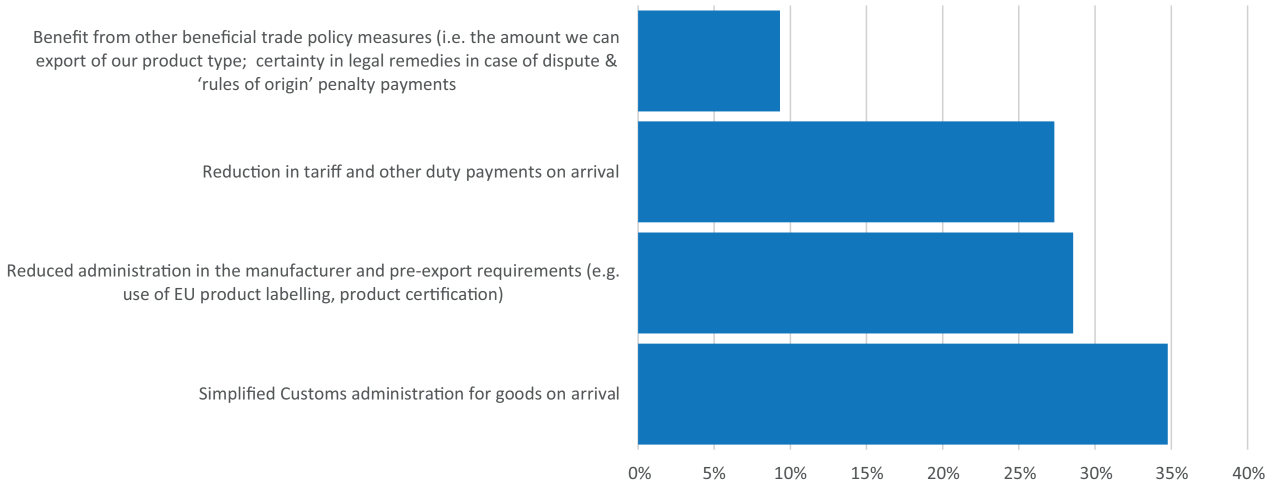
What our findings have shown however is that while these technical barriers to trade dominate, reduction of tariffs remains a key benefit that manufacturers see in international agreements. This may be influenced by unilateral political decisions to increase tariffs (e.g. EU and US instigating retaliatory tariff measures as part of a wider trade dispute) affecting a wider range of industrial and commercial sectors. (See Chart 17)

STRUCTURAL TRADE BARRIERS

Tariffs
Duties on goods imports intended to provide a cost advantage to domestic producers. Tariffs accounted for just over a fifth of harmful trade policy interventions over the past decade.

Non-tariff Barriers
Other measures which restrict the flow of imports of goods or services are non-tariff measures and can include the imposition of quotas, a preference for local procurement or 'buy national' policies and complex regulations or product standards.

Chart 17. How manufacturers are using simplified rules in FTAs, % companies citing the various rules that they have used when exporting



Source: Make UK, International Trade Survey (2020)

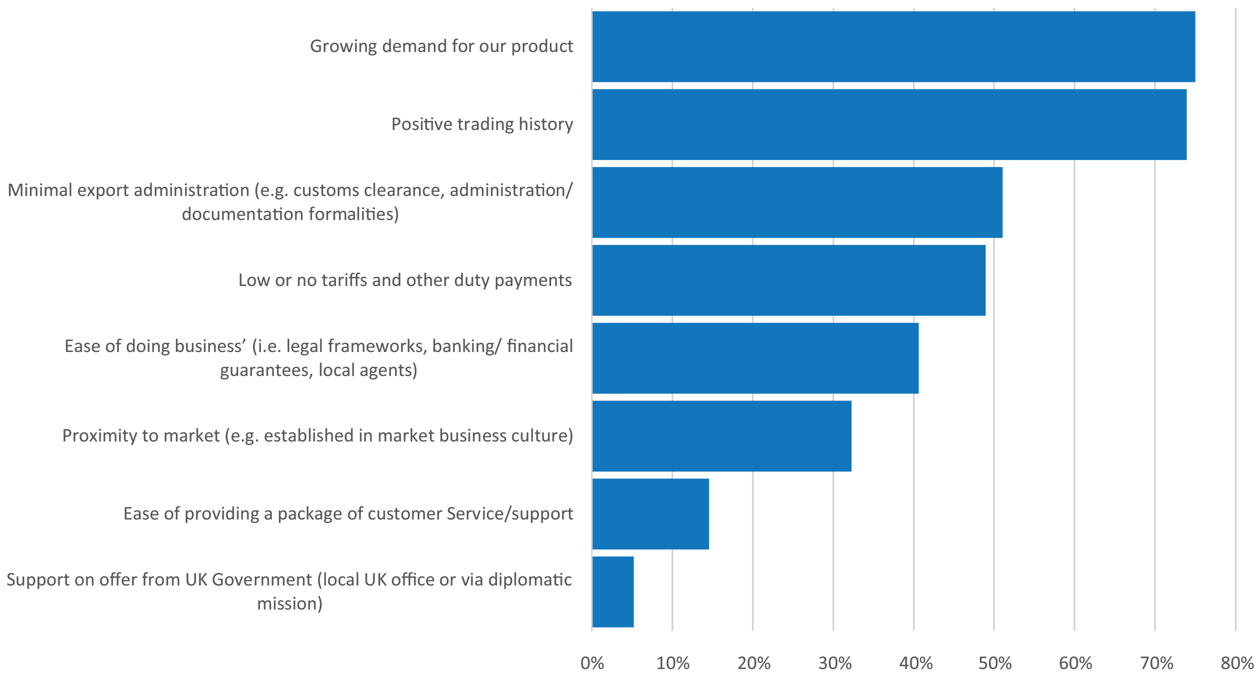
A clear benefit of trade agreements is the reduction in non-tariff barriers, thereby reducing custom facilitation and administrative burden. The findings demonstrate an apparent lack of awareness on technical elements in trade access, such as Quotas, Rules of Origin, and dispute resolution mechanisms. Only 20% of respondents selected this from the list. This could be attributable to the trade in industrial goods being less susceptible than for other goods (such as agriculture); the UK manufacturing sector focus towards the EU market where many of these technical barriers have been reduced or in some cases removed altogether; or the technical regulations framework in the UK allows UK manufactured product to be sold with maximum compliance.

Indeed Rules of Origin are a complex part of international trade rules and can in some cases be a barrier to trade. However where tariff reductions are only minor, the cost and complexity of completing the necessary evaluation can reduce the use of the tariff reduction.

Examples of this have been seen in the non-application of the tariff reduction provisions in the EU-South Korea agreement where the reduction for aviation equipment was not significant to justify the cost and burden of completing the required proof and administration to benefit.

This reaffirms the importance of working with industry to understand the key market access and restrictions to trade beyond just understanding relevant tariff schedules. Working with a sector to understand how these barriers affect trade in these markets will be key to enabling manufacturers to grow exports.

Chart 18. Growing demand for products is the main advantage of exporting, % companies citing reasons for exporting



Source: Make UK, International Trade Survey (2020)

As with the overall reasons to export, manufacturers see driving growth through exports as the key benefit of selling into these markets and many have seen growing demand for their products in these markets. We know that familiarity and a positive experience in a market are key to growing exports as building confidence is key to a successful export strategy. This has been borne out by research and both demand and a positive trading history hold across all markets.

CASE STUDY

Kyocera SGS Precision Tools is an industry leading manufacturer of solid carbide cutting tools, with a European head office and manufacturing base in Berkshire, UK.

In the UK and Europe, their focus is on manufacturing special cutting tools, tool modifications and regrinds, in addition to their off-the-shelf items of high-performance end mills, routers and drills, which are predominantly manufactured by subsidiary Kyocera SGS of Monroe Falls in Ohio, US.

The core function of SGS is to grow and develop special application tools made in the UK for customers throughout UK and Europe. Traditionally, aerospace has been their primary market, which means, due to the current climate, SGS face significant challenges, which they are strategically working to overcome.

SGS, synonymous with innovation and high-performance machining are now expanding into new 'growth' sectors, such as medical, motorsports and power generation. They strategically invest heavily in R&D and have several registered patents, which for markets, such as medical, is a winning formula. They are now working with various medical manufacturers, developing special designed tools to improve their customers' processes.

It is through their 'special' designed products and patents they can power ahead of cheaper mass-produced alternatives in performance terms, this is crucial to the longevity of their business.

As a direct result of their strategy to invest in R&D and become market leaders for product innovation, SGS now supply tooling to the subsidiary group, Kyocera.

Exporting into Europe offers SGS the opportunity to bring their products to a much larger market. They have benefitted from the extensive knowledge and support available through organisations including Make UK, ADS and Chamber of Commerce. Such organisations have assisted in the development of the business strategy, helping SGS understand the specific requirements of different regions.

SGS export into Europe mainly through channel partners. Building good relationships with their channel partners has been an essential part of their export strategy. SGS provide technical sales support to their channel partners and heavily invest time and resource into developing and growing relationships.

SGS also sell directly to the end-user. Many of their UK customers have subsidiary businesses of their own in Europe, so exporting enables them to support and supply customer business units throughout Europe and now beyond, next day.

For SGS, the future challenge of Brexit is ideally a free trade deal but also they need to deal with the threat of a potential WTO no-deal Brexit. The tariffs that could result from WTO rules on raw materials purchased from Europe, and then exporting back to Europe, can only have a detrimental impact on cost benefit proposition for the business.

Preparations for Brexit by UK Government for understandable reasons seem to have been low priority given the impact of Covid-19 on the global economy. But there will come a time, when the Government needs to bring trade deals back to the table and SGS will be prepared for all possible outcomes.

"BREXIT IN OUR VIEW REPRESENTS A FANTASTIC OPPORTUNITY FOR THE UK TO BECOME THE 'ENGINEERING AND MANUFACTURING ENGINE ROOM OF EUROPE' AND THAT IS WHAT WE ARE BUILDING TOWARDS."

Hugh Welch, European Managing Director

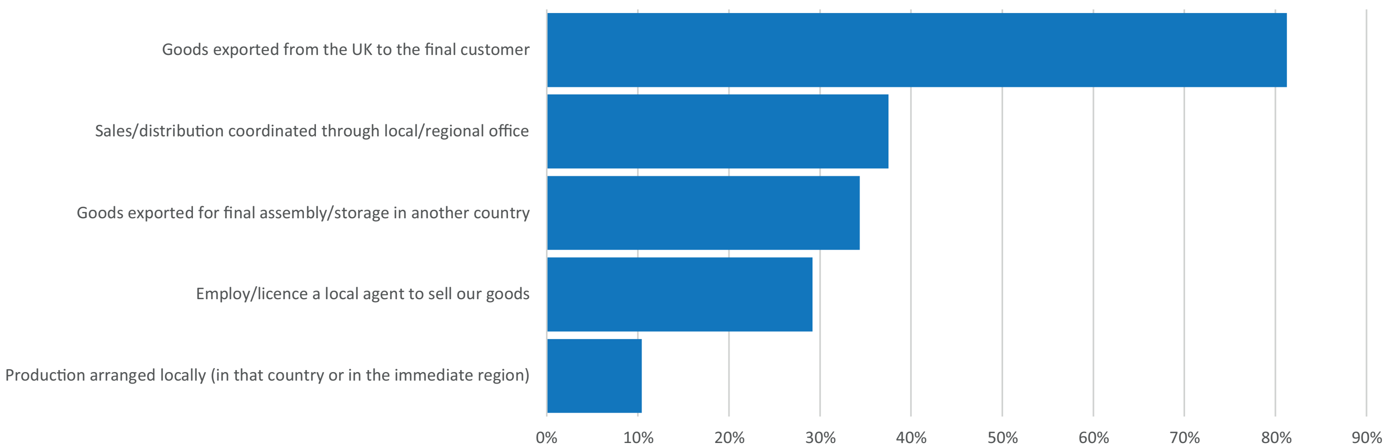
As seen in Chart 18, the next set of key benefits all fit in the category of issues covered by trade agreements and remain significant advantages to exporting to these markets with a mix of both reduced tariff and non-tariff barriers highlighted. Interestingly while overall the respondents cited minimal export administration as a slightly greater benefit than reductions in tariffs, these two are cited with low tariffs as being more significant in non-EU markets and the rest of the world. This perhaps highlights as before that for the industrial goods sector where non-tariff barriers tend to dominate, it may be a result of increased global political tension and unilateral increases in tariff wars.

WHILE TRADE THEORY HOLDS THAT GEOGRAPHY MATTERS AND CLEARLY THE EU MARKET DOMINATES THE EXPORT MARKET FOR UK EXPORTERS, JUST OVER 30% OF ALL RESPONDENTS WHEN ASKED ABOUT THE BENEFITS OF TRADE SELECTED PROXIMITY TO MARKET.

HOW MANUFACTURERS EXPORT

UK manufacturers also export goods in a variety of ways, although direct export to the final customer dominates with over 80% indicating the use of this method. 'In market' sales solutions such as the use of a local or regional office, or engaging a local agent to act on behalf of the exporter, are also important routes to market. Off-shoring of the direct production or licensing seems to be rare for manufacturers in the UK with only 10% using this method of export.

Chart 19. Exporting from the UK to the final customer is the main channel of export, % of manufacturers stating how they export their goods and/or services



Source: Make UK, International Trade Survey (2020)

CASE STUDY

ADDER®

Adder is a global leader in the design and manufacture of connectivity solutions and high performance IP KVM (keyboard, video, mouse switching and distance extension technology). Founded in 1984, and headquartered near Cambridge, UK, Adder's market-leading products bring control and peace of mind to customers managing mission-critical applications, across a wide range of industries. With 13 local offices established in all major continents, Adder is well positioned to meet global market requirements and support its customer and partner networks around the world.

Adder's global export capability has been instrumental in the growth and success of the business. In recent years, Adder has exported over 90% of its products to outside of the UK. As recognition of significant year on year growth in exports, it was awarded a Queens Award in 2020 for International Trade.

Managing global exports comes with great complexity - particularly for a manufacturer of electronic hardware solutions. Increasing requirements for overseas in-country testing can prove to be both challenging and costly, while the focus of many economies to protect local manufacturing can increase barriers to entry. The recent import tariffs put in place by the United States on electronic goods made in China are a perfect example of this.

For businesses like Adder, it can be a balancing act when deciding which countries to target and therefore which countries to acquire the necessary regulatory approvals. This decision, along with a robust go-to market strategy, is always factored into the planning and implementation stages of Adder's new product development activity.

Ensuring that Adder has sufficient internal expert knowledge is critical if the business is to sustain the continued global market success it has enjoyed to date.

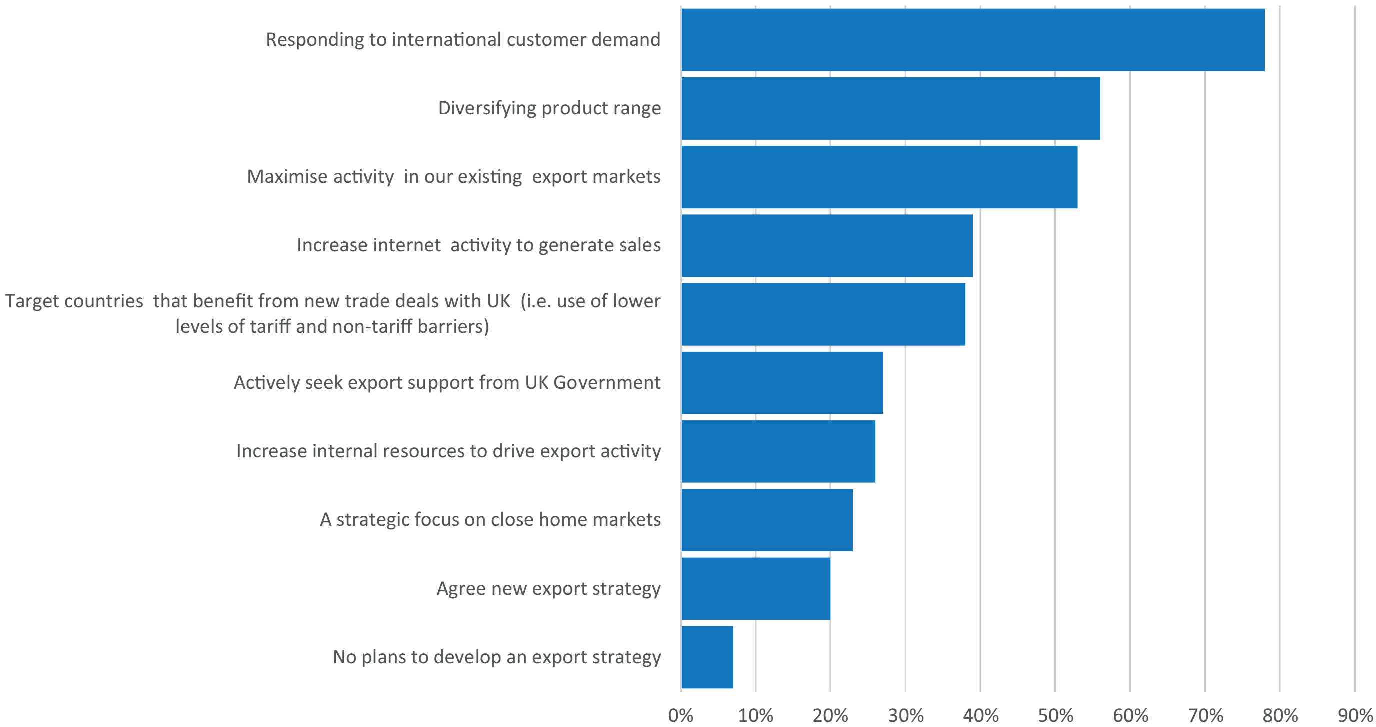
For more information about Adder, please visit **www.adder.com**

ADDER HAS EXPORTED OVER 90% OF ITS PRODUCTS TO OUTSIDE OF THE UK.

Developing a strategy

The volatility in the global trade market also appears to be affecting companies' export strategies with most citing a key action is responding to customer demand. This could indicate a wait and see approach. As we have seen in the previous section the global trading system has come under pressure from protectionist policies, tariff retaliatory action and the most recent acute disruptions caused by the symmetric shock and resulting asymmetric impacts caused by the Covid-19 pandemic. Manufacturers may also be reluctant to develop an expansionist export strategy due to the uncertainty of the UK's trading future with the EU and the rest of the world.

Chart 20. Drivers of export, % companies citing key drivers for exporting



Source: Make UK, International Trade Survey (2020)

Similarly, companies are looking to reduce risk and are focusing on growing existing markets, diversifying product ranges and increasingly looking to digital trade. Very few are looking at increasing internal resource or to adopting a new export strategy in the coming three years.

There is limited connection in the UK Government's future trade strategy and the potential for increasing exports from the opportunities derived from new trade agreements. Only 10% of respondents will consider how the benefits of a trade agreement will contribute to their company's export strategy in the next three years. However when asked if they would actively seek export support services from the Government an even smaller number are considering this an option. The drivers of this reluctance and the prevalence in the sector is explored later in the report.

CASE STUDY

J&C Joel
the inspiration behind the performance

Interview with CEO James Wheelwright

Exporting means not having all your eggs in one basket. When times get tough, operating in different markets can spread your risk and soften the blow.

We started exporting around 20 years ago, in response to rising global demand for British quality manufactured goods. Today, around 70% of our business is export, shipping to some 75-80 countries a year and with facilities in Romania, Dubai, Macau, Hong Kong and Vietnam.

Raw goods, including flame-retardant fabrics, flooring, drapery and stage engineering solutions are manufactured in the UK and shipped on a monthly basis to our facilities serving Europe, MENA and Asia. Our investment in setting up those facilities has been a huge success, allowing us to build strong relationships with customers and dealer networks and develop deeper understanding of overseas markets.

It has proved vital in the unprecedented circumstances of 2020, giving us advance notice of what was happening in Asia, so we could prepare the business. Having people on the ground in our key markets has also provided continuity and confidence despite travel bans. Whilst technology enabled us to stay connected with clients, there really is no substitute for the personal touch and we're keen to get back out and reinvest in those relationships when we can. For anyone considering new markets, particularly in Asia, it's essential to be there, boots on the ground, to show your commitment.

Undoubtedly, the diversity of our export base has helped us weather the COVID-19 storm. Even in the case of a worldwide downturn, there are markets that perform better than others, so exporting helps spread your risk. As well as existing projects, including the Coca Cola Arena in Dubai, and a £4m project in Macau, we're starting to see new signs of recovery.

Working with a banking partner that understands international markets and has a presence in the territories we operate in has been important. With shipping times increasing during the pandemic, often from 30 to 60 or 90 days, we saw our working capital stretched – payments that typically came in 30 days post-delivery, would now take considerably longer, so having HSBC UK's support really made a difference.

AS WELL AS EXISTING PROJECTS, INCLUDING THE COCA COLA ARENA IN DUBAI, AND A £4M PROJECT IN MACAU, WE'RE STARTING TO SEE NEW SIGNS OF RECOVERY.

Exporting and the EU

It has become a commonly used term to define the UK's sale of products to the EU as 'exports'. In practice, the UK trade in goods with the EU has been placing goods on and selling services into a single market inside a customs envelope which has unilaterally removed many of the traditional barriers to trade. This has meant the removal of tariffs, the adoption of a single regulatory system, and in the provision of Services, for example the recognition of professional qualification. The European market has reduced or eliminated many barriers to trade. In the future, continuing to think of selling a product in Frankfurt in the same way as selling to another part of Great Britain, will become a different process. The loss of the benefits of membership of the single market and not being within a single customs union, will require UK exporters to understand the legal definitions of international trade. What the loss does not prepare an exporter for are the considerably higher barriers associated with exporting to other markets, including customs administration, technical and regulatory requirements and in many cases tariffs.

The UK's departure from the EU will shine a light onto the barriers to exporting and the cost and administrative requirements of international trade. It is possible that reducing the delta change between selling to European countries and those further afield will be reduced as a result and the trading with European states will become a true stepping stone to developing an international trade strategy for the rest of the world.

Make UK will continue to call for the Government to ensure that as our manufacturing communities recover from the Covid-19 pandemic, they must not be faced with the chaos of no trade-deal with the EU at the end of 2020. The success of the manufacturing sector across the country depends on the Government delivering on an ambitious free trade agreement with the EU, which reduces as many barriers as possible in protecting the UK's position inside an integrated European manufacturing ecosystem.

That said, significant administrative and regulatory changes are coming at the end of 2020, even with a trade deal in place, and we must allow manufacturers in the UK, and their partners in the complex supply chains, the time they needed to prepare and understand the added cost implications.

CASE STUDY

xtrutech
innovation · performance · productivity

Interview with MD Graham Edwards.

Business is about taking as much market as you can, and the challenges of overseas trade are relatively minor when you compare them to the advantages that trading at volume can offer.

Trading overseas has been a fundamental part of our business since day one, because we operate in a global market. For a small business like Xtrutech, being in a market dominated by big players, made taking stands at key industry exhibitions and getting in front of potential customers really important. It showed that we were a force to be reckoned with and offered customers confidence in dealing with us.

As the business evolved, working with agents overseas provided greater reach. A step change for us came when we were increasingly asked for machines, as well as the spare parts and service we'd originally started out in. It was a significant opportunity, but the high capital values and the fact that we were trading further afield, often with customers who required guarantees, meant that cash was stretched.

We managed if we were selling two or three machines a year, but in order to scale and make the most of these opportunities we needed financial support beyond an overdraft.

It was at that point that HSBC UK came to us. Their export trade loan fitted the bill and was a big turning point for the business, allowing us to treble turnover over the next few years. We're now at another one of those junctures, where the large multinationals we supply are pushing out payment terms. Our bigger competitors can absorb that much more easily and that can be a challenge of being a small player in a much bigger market. Fortunately, HSBC UK have supported us to meet that challenge.

Of course, there are advantages from being smaller too. We're much more flexible and able to respond to customer need, for example. That has been important in managing the uncertainty of global events, where staying light on our feet, playing out different scenarios and keeping a close eye on all aspects of the business really can make a difference.

IT WAS AT THAT POINT THAT HSBC UK CAME TO US. THEIR EXPORT TRADE LOAN FITTED THE BILL AND WAS A BIG TURNING POINT FOR THE BUSINESS, ALLOWING US TO TREBLE TURNOVER OVER THE NEXT FEW YEARS.

© This is Engineering

MANUFACTURING AND SERVICES

Services exports play an important role in the UK economy and, as has been shown above, the UK manufacturing industry actively exports as a source for business growth. In the UK manufacturing sector there is a growing trend of goods and services being increasingly intertwined in both the domestic and export markets. In addition to producing traditional goods, manufacturing industries are now buying and selling services. Many services companies can essentially be manufacturing-based and have restructured their operations internationally so the lines between manufacturing and services have become increasingly unclear.

35% OF MANUFACTURES WHO EXPORT ALSO PROVIDE A SERVICE AS PART OF THE SALE OF A GOOD TO CUSTOMERS OVERSEAS

Goods and services in manufacturing are commonly provided together in one of two ways:

1. 'Bundling' goods and services in a packaged business product
2. Through services being inputs in the production (and export) of the final goods – for example software, branding, R&D and transport.

In the first approach it is particularly difficult to detach the goods and services components. Common examples are financing loans attached to the purchase of motor vehicles and after-sales maintenance of aircraft engines. In fact, many UK manufacturers rely on such services for a significant revenue stream. Typical of the connectivity between the sale of a good and a related service, the sale of a helicopter to a client goes together with guaranteeing an engineer can be provided same day to repair if needed. The relationship between goods and services is strongest in respect of machinery and aerospace sectors where they are critically intertwined and cannot be separated.

HOW SERVICES ARE TRADED

Under WTO rules services exports are categorised by four different modes of supply:

i. **Mode 1:** Cross-border supply: service is provided in another country without the movement of people. (Common examples are financial services or brokerage services.)

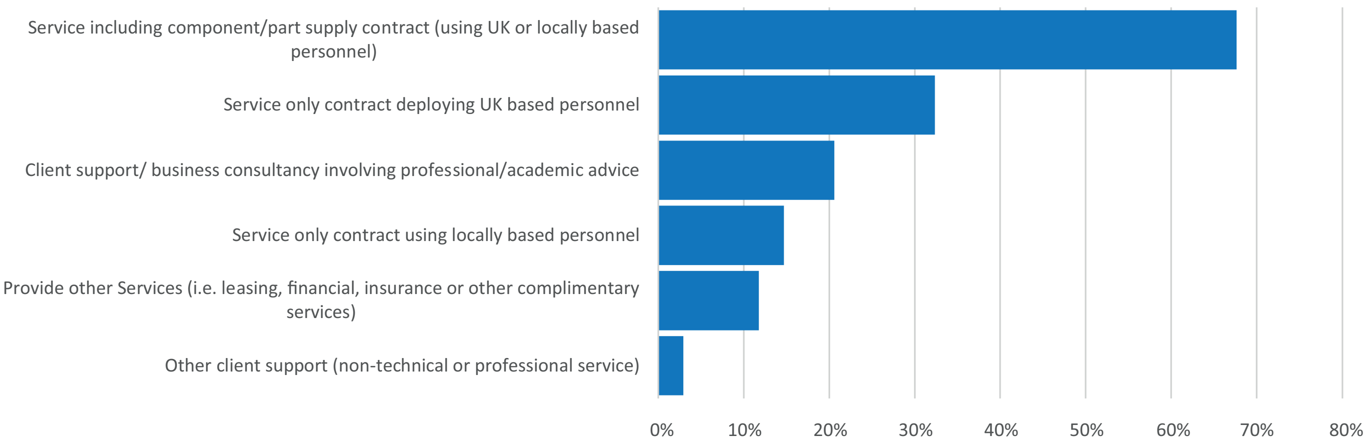
ii. **Mode 2:** Consumption abroad: the consumer moves to the country of the supplier for the transaction. (Common examples are tourist services, or education.)

iii. **Mode 3:** Commercial presence: the service is supplied through established presence of the supplier in the country of the consumer. (Common examples are telecommunications and private banking.)

iv. **Mode 4:** The presence of natural persons: occurs when an individual (rather than a firm like in mode 3) temporarily moves to another country to provide a commercial service. (Mode 4 generally includes the contractual services of suppliers such as self-employed, intra-corporate transferees, and foreign employees directly employed by foreign established companies.)

In the UK manufacturing sector, services are provided under all four modes of service provision as defined by the WTO rules. However these services are dominated by services which form part of the supply contract, which is either provided by UK or locally based personnel, typically using modes 3 and 4.

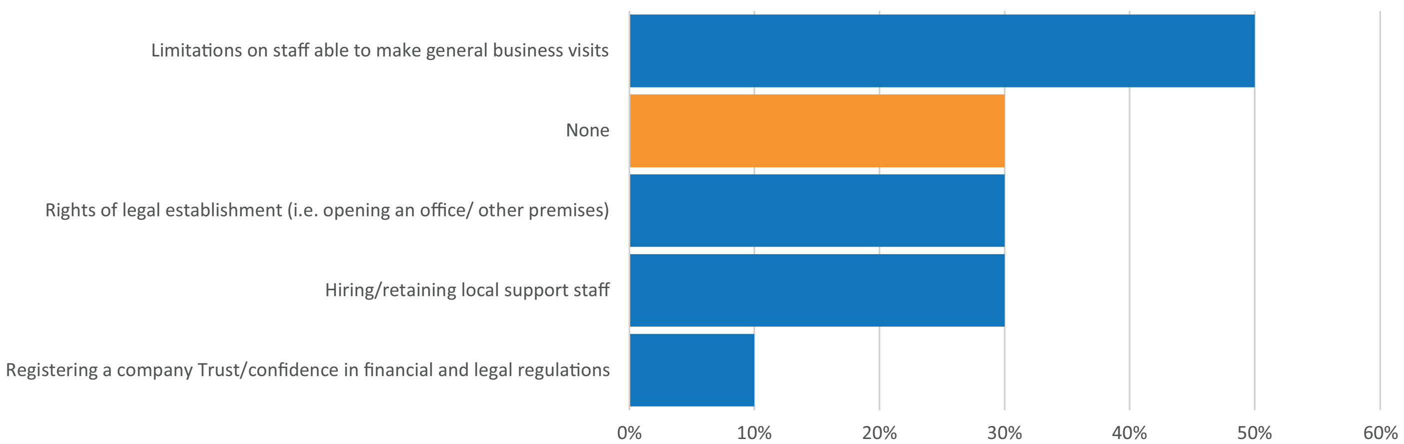
Chart 21. Type of Service, What services do companies export alongside a good or a product?



Source: Make UK, International Trade Survey (2020)

While the majority of exporters do not experience restrictions in providing services in export markets, services exports commonly face a range of non-tariff barriers such as regulatory hurdles that impede market access. Service exporters are challenged by the impact of; short term business visas; intra-country transfers; right of establishment; incorporation of a local entity; registration for local taxes (e.g. VAT); mutual recognition of professional qualifications; and data transfers.

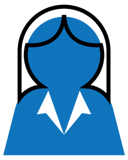
Chart 22. Limitations on staff biggest restriction to providing services,
% companies citing restrictions their company experiences in providing services in certain countries



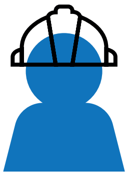
Source: Make UK, International Trade Survey (2020)

Of particular concern for manufacturing services are limitations on the temporary entry and stay of individuals.

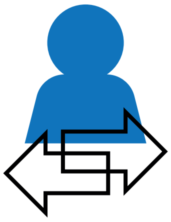
This includes restrictions on:



Business visitors
(and related residency conditions)



Those providing contracted services; professional services (such as engineers)



Those undertaking intra-company transfers

The manufacturing sector's main export destination for services is the EU creating a significant hurdle for our sector now that the UK has left the EU. Many manufacturers currently rely on the free movement of labour within the EU to provide Mode 4 services. In the future, workers who need to temporarily visit the EU to deliver a service may require business visas to do so creating costs and delays. This will impact particularly in high-value manufacturing operations where the provision of services still rely on significant in-person engagement.

For UK manufacturers the flexibility to be able to provide in-country installation, maintenance, testing, servicing or resetting is crucial to their marketability. While as a proportion of revenue, services exports may be small, they are part of what sets them apart from their competition. For machinery manufacturers in particular customers' expectations are that any product to include a servicing contract requires the manufacturer to deliver the service to the customer on the day the client actually needs it – often the same day. This could be once or several times a year – but to maintain export levels it is crucial to be able to respond immediately to a request.

Understanding the link between goods and services will be an important part of the development of the UK trade policy.

Businesses will also need to overcome the hurdle of recognition of professional qualifications in any future trade agreement, notably with the EU. Currently, no comprehensive free trade agreement in existence, provides close to the level of access for services, afforded by the EU single market, which is why Make UK strongly supports the inclusion of explicit Mutual Recognition Agreements to recognise professional qualifications in the EU future partnership and in all UK FTA negotiations. This is highly relevant given the UK's strengths in this area and especially as it relates to engineering and highly specialised manufacturing services.

CASE STUDY

Part of the global Bühler Group our Digital Technologies division consists of the three business units SORTEX®, Digital Sense and Data Analytics & Services. The division is renowned for its pioneering SORTEX range of optical sorting technologies as well as innovative sensor, weighing/bagging and digital solutions for food, feed and other industrial applications.

Bühler UK Limited is headquartered in East London where we design, service and manufacture a range of configure-to-order optical sorting machines, primarily for the food processing industry – these machines are used for food quality, safety and optimum yield sorting of staples such as rice, wheat, pulses, grains, coffee, nuts, fruit and vegetables. In the non-food sector, we provide solutions for recyclers to be able to sort a variety of plastic flakes and pellets. Our products incorporate highly desirable UK innovation, high value-added manufacturing and a 'made in the UK' value proposition.

We developed and exported our first sorter in 1947 and now we export 99% of everything we manufacture - we are active in more than 140 countries – the main destinations are the major food production and processing centres of the world including Asia, Africa, Europe, North and South America. As a market leader, we need to make sure our solutions are equally effective in each area, for example, in a range of environmental conditions. Another challenge is to ensure excellent after-sales support; we don't sell unless we can guarantee high-quality local maintenance and spares to the customer – no matter where they are. Because we have been exporting more or less since Sortex was formed, we're very skilled at the logistics side of selling overseas.

Increasingly our global installed base is connected via IoT and the Bühler Insights platform **https://digital.buhlergroup.com** - together with local knowledge, digital connectivity is key to our global export presence, service and support.

Approximately 15% of our exports are to the European Union. An obvious concern is the uncertainly around the end of (Brexit) transition and the real possibility of there being no trade deal with the EU and new third-country relations with many. Additionally, our European customers may no longer be able to access certain grants to purchase our UK manufactured equipment - or it may be difficult for them to do so, given the new tariffs and complexities involved.

We share Brexit concerns with many other UK companies such as the free movement of staff/ engineers, access to the EU labour market, import tariffs, freight delays, costs and bureaucracy. Increasingly uncertain are the many technical and regulatory changes.

However, we are fortunate in that we have been export orientated for many years (approximately 85% of everything manufacture goes outside of the EU) and so we maintain some excellent experience and talent in the various commercial aspects, Incoterms, customs declarations and international freight. Our factory incorporates a DfT/CAA secure quarantine zone, from which our machines can be immediately shipped by airfreight.

Our frustrations with the uncertainties of Transition are further aggravated by the uncertainties of Coronavirus and lockdown worldwide - plus many new geo-political situations such as UK-Hong Kong China, China-India, US-China and the Brexit related UK-US trade developments.

We rise to these challenges by remaining flexible, agile and close to what is happening (enhanced by our membership of Make UK) and by leveraging the resources of our global Swiss parent company. Our performance in competitive international markets has been recognised by us winning five Queen's Awards for International Trade – we also won the Queen's Award for Innovation in 2001 and 2019.

WE ARE ACTIVE IN MORE THAN 140 COUNTRIES – THE MAIN DESTINATIONS ARE THE MAJOR FOOD PRODUCTION AND PROCESSING CENTRES OF THE WORLD INCLUDING ASIA, AFRICA, EUROPE, NORTH AND SOUTH AMERICA.

WORKING IN PARTNERSHIP WITH GOVERNMENT

The Department for International Trade (DIT) was established in 2016 following the decision of the UK to leave the EU. DIT has primary responsibility for delivering the UK's independent trade policy, including maintaining trade access to international markets, supporting and strengthening the multilateral trading system and creating new trading opportunities.

Growing UK exports has remained a vital component of the Government's industrial strategy, and inherited by the Department from its predecessors as a key policy priority. The ambition is to achieve economic objectives by making gains in productivity and growth by helping businesses create more sustainable employment by investing in skills and infrastructure.

In 2018, the Department published a revised export strategy setting out how the Government would support business to make the most of opportunities presented in global markets. A key influence behind setting out a new strategy was that exports and its related benefits to the UK economy would form a vital part of the wider government strategy for a global Britain following the UK's exit from the EU. Underpinning the export strategy was a national ambition to raise exports as a proportion of GDP from 30% to 35%.

While the focus on an appropriate and relevant export strategy is welcomed by UK manufacturing, the report urges that the Department and wider Government should have the necessary resources and be able to focus activities that will have the greatest impact on driving export opportunities.

The findings go on to highlight that there must be a good understanding of the export capability of UK manufacturing; an effective domestic and overseas UK Government network that can identify and support export opportunities and an investment programme in developing the necessary skills base to understand the legal and practical environment for exporting.

UK manufacturing will work with the Department and wider Government across the UK to develop a programme of services to help companies understand both how to maximise opportunities and prepare for new trading relationships. Our findings show that this would not just be beneficial for the manufacturing sector as the UK exits the EU's current trade arrangements at the end of 2020 but the significant preparations that will be needed for many businesses across the UK to develop new export opportunities.

Consulting with industry

In taking forward the responsibility for the UK's international trade policy, the Department has set upon an ambitious strategy in 2020 of market access and trade opportunity discussions with a number of potential partner countries.

As with the export strategy, the basis of international trade policy and seeking market access opportunities is to achieve economic objectives of an industrial and regional policy. For the UK to achieve its objectives it must ensure it focuses its negotiating efforts and resources in the sectors such as UK manufacturing where there are the greatest opportunities to support businesses. To achieve this a close and united relationship with industry is vital. Only industry can provide government negotiators with the basis and evidence to effectively develop powerful negotiating positions.

It is in the UK's interest to learn quickly from the approach adopted in other countries to ensure the right framework is in place.

US model of industry consultation in trade policy

US trade negotiators work with a series of advisory committees that are established by Congress through which industry can provide their views. These include:

Tier I

- President's Advisory Committee on Trade Policy Negotiations (ACTPN): The committee is made up of representatives from non-federal governments, industry, agriculture, small business, retailers and consumers, amongst others, broadly representing key sectors that have a trade interest. A Government trade negotiator also sits on this committee.

Tier II

- Agricultural Policy Advisory Committee (APAC)
- Intergovernmental Policy Advisory Committee (IGPAC)
- Labour Advisory Committee (LAC)
- Trade and Environment Policy Advisory Committee (TEPAC)

Tier III

- Agricultural Technical Advisory Committees (ATACs)
- Industry Trade Advisory Committees (ITACs)

Industry Trade Advisory Committees (ITACs)
As part of the US Trade Representative (USTR) trade advisory committee system, the Department of Commerce and USTR co-administer 14 ITACs, an ITAC Committee of Chairs, and more than 300+ trade advisors, who provide detailed policy and technical advice and recommendations to the Secretary of Commerce and The United States Trade Representative regarding trade barriers, negotiations of trade agreements, and implementation of existing trade agreements affecting industry sectors; and perform other advisory functions relevant to US trade policy matters.

These committees and members receive access to US negotiating proposals, which are not made public unlike other trading partners including the EU. The committees also work directly with the negotiators in an interactive process that includes regular updates on the negotiations, the opportunity to review US proposals before they are tabled, and the chance to provide substantial input into negotiating proposals and decisions. Participants are vetted with security clearances and are required to sign non-disclosure agreements. Negotiating texts are shared with participants and comments are received on an interactive platform throughout the negotiations. In exchange Government receives valuable input directly from the industry which informs their negotiating positions.

As highlighted to the left in the United States, as in many of the most advanced trading nations, close consultation with industry is a well-established and integrated pathway which feeds directly into any trade negotiating process. Many of these countries have had decades and numerous rounds of WTO and Free Trade Agreement (FTA) negotiations experience to perfect their models of collaboration. The UK needs to learn from and replicate these processes very quickly, and just as effectively, in what is an alarmingly short timeframe.

Supporting exporters

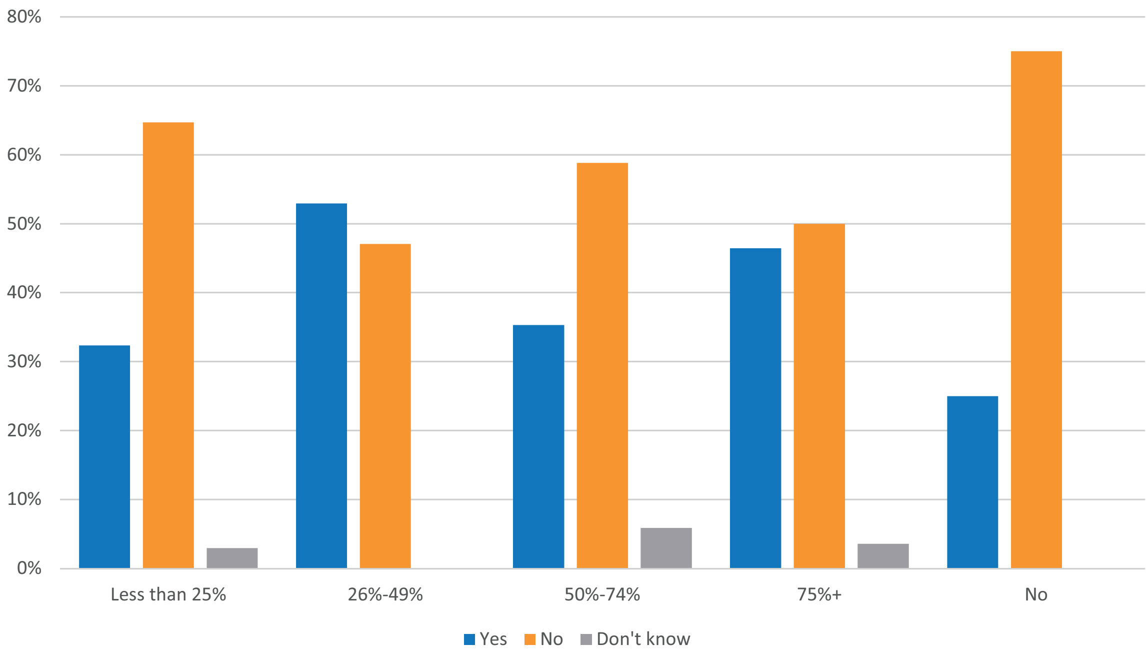
In addition to working with businesses on the development of trade policy and consulting prior and during trade negotiations, the Department has the ideal opportunity to review and re-calibrate the services on offer to assist companies in developing their export strategies, taking advantage of opportunities and overcoming barriers to trade. The Department has a developed suite of services which many manufacturers are accessing. The findings suggest that the most common of these services accessed by manufacturers are events aimed at improving overall knowledge in exporting and events focused on a specific trading region. This is followed by more bespoke advice from trade advisers and the use of 'in-country' support.

However, what is most concerning in the findings is that while 40% of manufacturers surveyed had taken advantage of these services, the majority of those surveyed have not engaged in using one of these services.

OVER HALF OF MANUFACTURERS HAVE NOT TAKEN ADVANTAGE OF EXPORT SUPPORT SERVICES

This is particularly evident for manufacturers for whom exports make up a lower share of overall turnover. This should arguably be the target for Government as this is where the potential growth for exports is clearly seen.

Chart 23. Manufacturers are not always taking advantage of services, % companies citing whether they have access Government support services split by export profile



Source: Make UK, International Trade Survey (2020)

What support is needed?

While the globalised rules-based system has clearly made exporting easier, understanding markets is essential to taking advantage of the opportunities in these markets and growing business overseas. The dynamics and culture of each potential market are distinct and differ greatly, not just across countries and continents, but also at a regional level. Sometimes the answer to 'why is no one else exporting to this market?' is that 'it's too difficult'. While partnering with a local company can assist vastly in dealing with the local bureaucracy, our evidence shows that few companies are taking this route.

CASE STUDY

EMS Physio is a family owned manufacturing company based in Oxfordshire and was started in London in 1924 by the current Managing Director's grandfather. The company designs and manufactures electronic physiotherapy equipment such as ultrasound, electrical stimulators, shortwave diathermy and shockwave units. The company now sells approximately 70% of its business overseas through a network of distributors in the European Union, Middle East, Asia (including mainland China) and North America.

"Exporting is vital for any branded manufacturer as it allows the business to expand outside of its home market and extend its network of sales," says James Greenham, Managing Director. "However, you need to have a strategic plan in place, lots of patience and be prepared to make mistakes along the way," he continues.

Attending global exhibitions is the start to gain good overseas connections and meet new business customers who are interested in selling your product in their country. Exporting cannot be done solely by the internet, you need to travel and meet the customers in their own country. In some regions this is vital, while in others it is a bonus.

Patience is needed to seek and gain regulatory approval in each new country. In some regions, the non-tariff barriers can be daunting to overcome. For instance, a medical product must be CE marked or FDA approved as a start point, after which specific testing and evaluation occurs and that can take several years in certain countries. It is certainly a 'non-tariff barrier' to trade which is easily overlooked in the wider trade negotiations which are circulated in the media.

Once the product is approved for sale, the challenge becomes one of logistics and paperwork – getting your product from a warehouse in the UK to the hospital or clinic in the overseas country requires close co-ordination with freight forwarders and the provision of accurate and appropriate paperwork (invoices, despatch notes, packing lists, insurance certificates, Chamber of Commerce certificates of origin etc). However your customer and the freight agent can help guide you through the complexities.

One of the challenges of Brexit will be for those companies who have only exported to the EU. They will need to become familiar with the paperwork which has always been required for exports outside of the EU as these will be necessary for shipments to EU countries. Regulatory approvals will need to be reviewed to ensure continuity of supply. In some industries, delays to logistical shipments will be problematic as will higher costs associated with the enforcement of new tariffs, although in the case of EMS Physio these are not likely to affect the company.

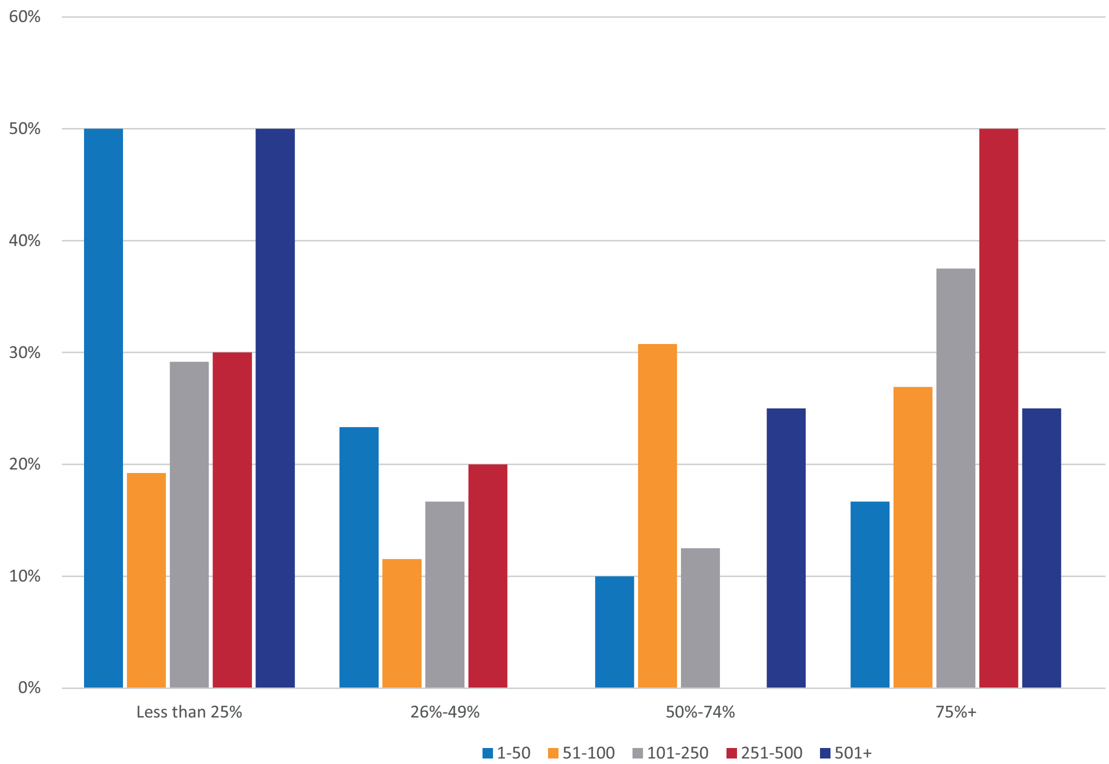
The upside of exporting is that there is a lot of 'world' out there and particularly for an SME this can have enormous benefit in growing the business and expanding the market for your product. Embrace it and you will wonder why you waited so long!

"EXPORTING IS VITAL FOR ANY BRANDED MANUFACTURER AS IT ALLOWS THE BUSINESS TO EXPAND OUTSIDE OF ITS HOME MARKET AND EXTEND ITS NETWORK OF SALES."

James Greenham, Managing Director.

It is welcome that the Department has an ongoing strategy to maximise the opportunities for business to export more, but companies need help and it is not all about size. While our survey shows that the smallest companies tend to have a lower share of turnover derived from export, SMEs can export globally and successfully.

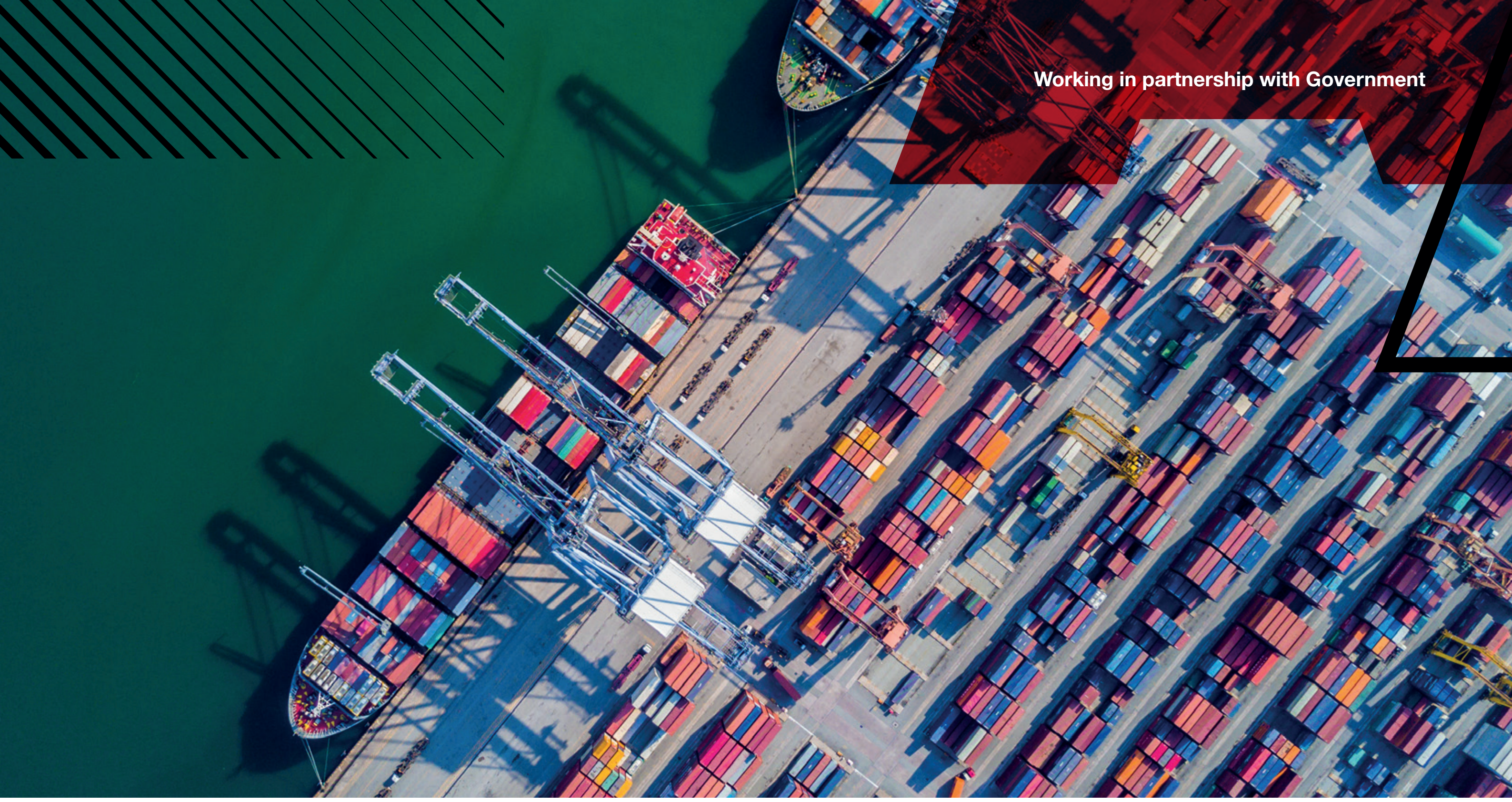
Chart 24. Size can matter in your reliance on exporting, % companies stating whether their companies export and if so the proportion of turnover generated by exports split by head count



Source: Make UK, International Trade Survey (2020)

The most common trend experienced by exporting manufacturers has been the requirement to meet changing regulations, which leads to the need for greater understanding and monitoring of regulatory frameworks and political changes in potential markets. This is an opportunity for both the Department and UK manufacturing to work in partnership to develop monitoring and intelligence services for companies in key markets. While this has always been the case with traditional non-EU markets, it will increasingly become the case for the EU as the regulatory systems in the UK and the EU could diverge in future. Make UK has a long established presence in Brussels and will continue to provide support to members, but in recent years has begun developing greater relationships and understanding of other markets, including the US where in recent years Make UK has signed a partnership agreement with our counterpart organisation in Washington DC, the National Association of Manufacturing.

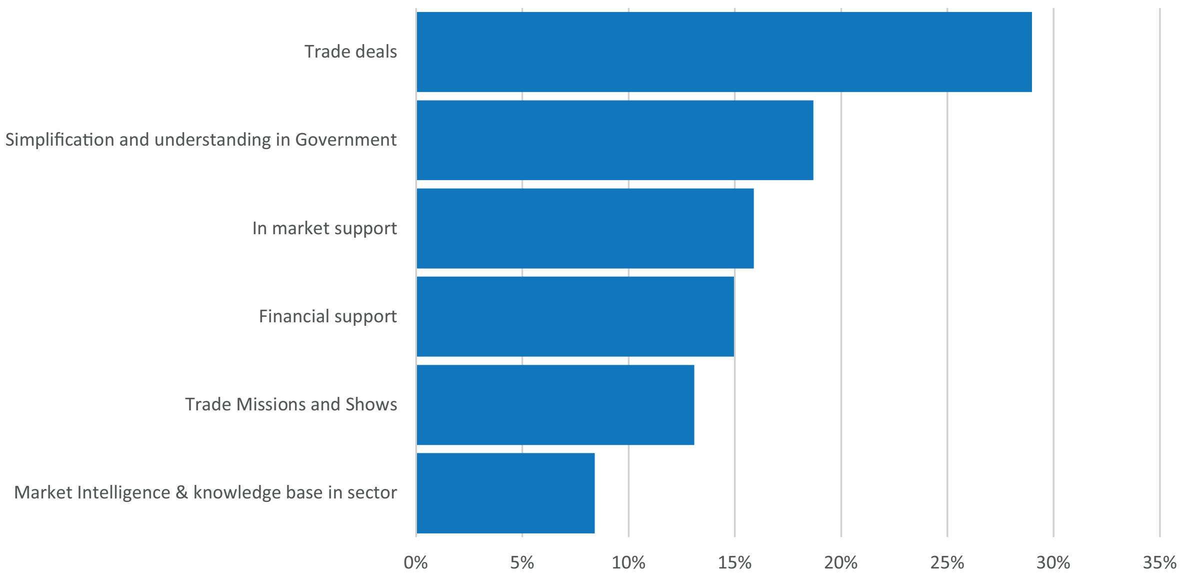
As already highlighted Make UK, in partnership with HSBC UK, will return to understanding how companies can develop and improve their export strategy as part of our partnership. However it is important to understand the barriers and what is needed to support manufactures.



A new national Export Strategy

UK manufacturers are clear on the assistance that the Department and wider Government can provide to help them in developing an international export strategy and to grow their exports. The report stresses that a key priority for the Department is to negotiate and agree comprehensive market access and trade opportunities with international partner countries and unsurprisingly with the EU. The key themes from the findings are that manufacturers are keen that the Department brings forward a new Export Strategy and wider support measures.

Chart 25. Trade deals matter, % companies citing type of support needed from Government



Source: Make UK, International Trade Survey (2020)

CASE STUDY

oeelectrics always innovating

People consider entering export markets to be difficult and challenging, but I just see it as an opportunity.

Our first experience of exporting was working directly with a customer in France. We then turned our attention to the UAE, and now have a permanent representative based in Dubai, where they use a UK socket - so our product was a perfect fit and accepted widely.

In order to be successful, we have found that doing your research is key. Some countries require additional certification, so working with the DIT and our Local Council, and going on Trade Missions, has given us an insight into what is needed. Equally there are lots of organisations able to help with the documentation process, one we use extensively is our local Chamber of Commerce.

We started exporting over 10 years ago and, on average, we consistently achieve around 30% export to 70% of our UK sales. In these strange and difficult times, we have been cushioned against the drop off by country, and when the UK was severely affected the swing was 70% export to 30% UK sales - which now seems to be back to our normal.

We now export to 66 countries around the world, have 6 European distributors and a manufacturing business in Australia, with a supply chain of component parts from China. Local expertise was crucial in growing our export business.

Taking advantage of the model which we used to open our German warehouse 2 years ago, in January of this year, we launched our North America business.

It's fair to say our US launch has not gone to plan due to the effects of the Covid-19 pandemic, however it hasn't stopped us. Things have just gone more slowly than we would have liked but, with great signs of early success, this is an area where we have already been gaining additional sales, which has helped smooth the effect of the downturn in other markets.

We have plans to keep on expanding. Exporting will always be a part of our growth and success, and I would highly recommend it.

ON AVERAGE, WE CONSISTENTLY ACHIEVE AROUND 30% EXPORT TO 70% OF OUR UK SALES.

SUPPORT FROM GOVERNMENT

i) Market access and trade opening opportunities

When asked how the Department, either in the UK or in overseas markets could help to support and boost their export strategy and performance, manufacturers overwhelmingly called for trade arrangements to be negotiated. While there were a range of preferences from manufacturers, the first priority was to conclude a robust, comprehensive trade arrangement with the EU which would reduce potential barriers to trade and provide as frictionless a relationship as possible. It is unsurprising that the priority for manufacturers is a ‘good deal’ with the EU considering the significant reliance the sector has on exports and imports as part of European supply chains. The findings also showed support for the Department to secure new arrangements with the US and other key markets. There was a focus in the findings on ensuring future trade agreements included not just reductions in tariffs but also reducing non-tariff barriers and other behind the border measures that are barriers to liberalising trade.

ii) Simplification, guidance and understanding in Government

The report finds that the Department should ensure that resources and priorities are focused on activities that will have the greatest impact on export growth. In particular the findings support the requirement for the Department to maintain a good understanding of the export capability of UK manufacturing, an effective domestic, regional and overseas network that can identify and support export opportunities and a tailored approach to promote UK manufacturing in specialised market opportunities.

In addition, manufacturers would like to see more simplification and streamlining of the documentation and processes required to export goods out of the market as well as importing into foreign markets. These including simplified customs procedures, reducing the paperwork required to administer central support and working with industry leading exporters to be able to answer specific questions on manufacturing and exporting. Each manufacturer’s export journey will be different, and industry must work with Government to develop a suite of services which enable all businesses to easily overcome barriers as well as to identify, understand and exploit new opportunities and markets.

iii) Overseas market support

The report has already highlighted the need to ensure that the dynamics and culture of each potential overseas market is understood in developing opportunities and growing exports. It will be important for a renewed and committed focus within a new DIT export strategy to leverage the power and influence of the UK's international and diplomatic services to provide value-based bespoke, tailored and market specific support and intelligence to firms looking at maximising existing relationship and seeking new markets.

Working with and through the UK's diplomatic network the Department and other government interests can review the level and type of services available to exporters. The services that companies are interested in range from the soft measures such as introductions to potential partners and hosting more sector specific market events to more concrete assistance in understanding local regulatory standards and supporting risk assessment.

Manufacturers would like to see more 'boots on the ground' industry specialists in overseas markets to help understand the specific requirements of exporters, reporting on market research and establishing a database of overseas companies in each country as a basis for market research. Equally important is improving 'ease of doing business' guides for key export markets, the development of in-market contacts, agents and other advisers who have sector and in-market expertise.

iv) Financial Assistance

UK Export Finance (UKEF) helps UK business to secure export contracts by offering financing terms to their overseas buyers, to fulfil contracts by supporting working capital loans, and to get paid by insuring against buyer default. The report finds that manufacturers need additional financial assistance in helping to develop and expand market opportunities.

The range of financial assistance, loans, guarantees that cover export credit, export financing, export factoring and trade credit insurance should be under continual review and linked with DIT's wider export strategy. This will ensure that future development of financial support packages for UK manufacturing is market leading by international comparisons, made easy to access for exporters, has support from a range of financial institutions and is cost-competitive particularly for SME exporters and 'resource-stressed' exporters.

Make UK supports the establishment of an Enterprise Fund which provides an ongoing package of grants and practical support to assist exporters to attend trade shows and similar events, boost market understanding and provide exhibition support.

v) Improving the knowledge base and skill set in the sector

The report provides a strong response for a wider boost in improving the skills base for exporters, providing bespoke training to improving capability and ambition and help for manufacturers at different stages of their exporting journey. Improving skills development will raise awareness, confidence and appetite to explore new export opportunities. This is vital for new and 'resource-stressed' exporters who need to become proficient in understanding the legal environment, technical and regulatory obligations and business strategy considerations that underpin exporting.

vi) Trade Missions and Shows

The report identifies that trade shows represent an excellent opportunity to emphasise the benefits of trade and highlight specific opportunities to potential suppliers and customers. While trade missions provide equal chances to highlight these opportunities, they also benefit from providing in-market experience and learning. The findings suggest that UK manufacturing is also keen for the Department of International Trade to lead wider activity across the Government, and with the UK nations administrations, to continue to expand these events however, UK manufacturing is calling for more specific and tailored events aimed at all manufacturing sectors.

RECOMMENDATIONS AND CALLS TO ACTION

How the UK Government and UK nations can support manufacturers:

Increase resource and participation in Trade Accessing Programmes and related and targeted trade events: Ongoing package of grants and practical support to assist exporters to attend trade shows and similar events. This will assist exporters (particularly SMEs) in gaining essential market knowledge and making new contacts. Indeed over a third (34%) of manufacturers said an increase in export support would have a positive and immediate impact on manufacturing.[8] Consideration could be given to widening the access and opportunities of the current Trade Access Programme to ensure that the programme remains agile and as representative as possible for both business sector representation and size of exporter. It will be important to strengthen representations from SME and 'resource limited' firms, and others who are gaining an understanding of export opportunities. Considerations for a new programme specifically focused for these categories of exporters is desirable and necessary.

Increase resources available to help exporters adjust to new administrative barriers to export being introduced in 2021 e.g. customs processes: Work with and through UK's diplomatic network to review the level and type of services available to exporters. This could include; establishing a database of overseas companies in each country as a basis for market research; improving 'ease of doing business' guides for key export markets; the development of in-market contacts, agents and other advisers who have sector and in-market expertise.

Boost the skills fund and training base for exports: Provide a bespoke financial package that is directed to boosting the skills base for exporters. Improving capability and ambition for exporters by improving skills development will raise awareness, confidence and appetite to explore new export opportunities. Skills development will be dependent upon the experience and resources of individual exporter. Areas of skills will cover all aspects of export, import and international trade. Topic areas and themes such as export controls, Bribery Act, Customs and VAT procedures, regulatory and compliance issues, insurance issues, payment terms, transport and logistics are all important (but not exhaustive) on developing skills.

Provide national guidance website for business covering all destinations UK manufacturers send their workers to: With manufacturers trading globally, seeking new markets and the UK closing in on new global trade agreements, businesses will need ready access to information on the technical requirements for the provision of services and the mobility of people contained in the UK's future trade agreements. Whilst this cannot be a substitute for direct support for training, information that can be easily accessed on the topic covering all the destinations that the UK has an international agreement with will allow manufacturers to plan ahead and understand the outline of the technical requirements for the provision of services internationally. This should be in the form of a single national website. To ensure success, Government would need to work closely with LEPs, Catapults, councils, business groups and other stakeholders to ensure SMEs are made aware of this information.

Mapping out a global supply chain resilience programme: UK Government should work with the sector to effectively map out a global supply chain resilience programme, allowing manufacturers to make it global, by agreeing coordinated action with key economic partner countries to maintain current trade flows and removing administrative restrictions. This will support manufacturers to move goods, products and services with ease through smart supply chains and global logistics.

[8] Make UK, Manufacturing Monitor #4 (May-June 2020)

The Department should keep under review the formal cross-sector industry-government engagement on key trade policy and consistently benchmark against international best practice. It is welcome that the Government has established a series of sectoral Trade Advisory Groups (TAGs), which will ensure regular industry input into trade negotiations and policy. However this engagement could be augmented to ensure that as these groups are embedded, their operating model and terms of reference are regularly reviewed and benchmarked against international best practice. Opportunities to supplement this senior executive engagement should include a scheduled programme of in-depth technical discussions on negotiating positions to identify offensive and defensive interests and contribute to the live negotiations with sector expertise. In addition, the government should explore groups which work on cross-sector issues such as data, customs, intellectual property and technical barriers to trade. In establishing these mechanisms the Government should work with industry to co-design training programmes for negotiators to support the continuous professional development of commercial skills, building on the successful examples of secondments, mentoring and short-term placements that have taken place in recent years.

Inclusion of explicit Mutual Recognition Agreements to recognise professional qualifications in future UK FTAs: Businesses will also need to overcome the hurdle of recognition of professional qualifications in any future trade agreement, notably with the EU. No FTAs currently provide close to the level of access for services, afforded by the EU single market, which is why Make UK strongly supports the inclusion of explicit Mutual Recognition Agreements to recognise professional qualifications in the EU future partnership and in all UK FTA negotiations, particularly given the UK's strengths in this area and especially as it relates to engineering and highly specialised manufacturing services.

Lessons from Covid-19:

Establish cross industry and Government resilience taskforce to access the supply chain disruptions throughout the crisis and establish an action plan for future lockdowns or pandemics: In the future it is essential that the governments of key markets work together to ensure essential supply chains are protected and ensure that measures to restrict production or the lifting of measures are coordinated across the international market as far as possible. This must be done in consultation with industry and the logistics sector to ensure that unnecessary disruptions can be avoided in the future.

How UK manufacturers can help themselves:

Work with experienced exporting firms to help those companies who are at the early stages of developing their own strategy: This is a theme that Make UK and HSBC UK will return to in a complementary piece of work. This will evidence the expert advice from experienced manufacturers on how they have developed their export strategies, overcome the challenges, and taken advantage of the opportunities provided by international trade.

HSBC UK VIEWPOINT: ADAPTING TO CHANGE

While uncertainty and supply chain disruption remain key concerns, UK manufacturers continue to lead the way in exporting and there remains real potential for growth, says Ian Tandy, Head of Global Trade & Receivables Finance, HSBC UK.

The UK has a manufacturing industry to be proud of, providing jobs, driving innovation and taking the best of Britain to the wider world.

Like any industry, though, uncertainty has become a way of life for the UK's manufacturers. And the impact of that uncertainty is perhaps even greater for businesses with long and often complex supply chains.

The global shock of the Covid-19 pandemic and the expected, but as yet unknown, impact of Brexit combine to make supply chain disruption a significant challenge for manufacturers of all sizes.

Whether sourcing raw materials, getting their products to customers, or supplying goods which sit in the middle of complex regional and global supply chains, building resilience, efficiency and agility into their operations is crucial to the long-term health of manufacturers. From localising supply chains to diversifying their production and supply base, businesses will need to explore all the options open to them.

Despite those challenges, manufacturers will continue to play a major role in UK exports, taking their products and services to markets throughout the world and making a significant contribution to the UK's balance of trade.

The Make UK survey found that the overwhelming majority of manufacturers export to some degree. What's also interesting to note is the potential for further growth. While many manufacturers have an export-led strategy, with exports making up 75% of their turnover, there is significant potential for growth among other manufacturers who have not yet fully explored the potential of overseas markets.

From growing sales to building greater economies of scale, manufacturers export for a range of different reasons. In our experience, an often overlooked benefit is the role exporting can play in diversifying risk by accessing opportunities in a range of different global markets. If the domestic market suffers a downturn, then those exporters can look to overseas markets for growth potential.

It's interesting to note from the survey how manufacturers are increasingly integrating goods and services, whether that's providing a same day repair service, professional advice or financing solutions. It's an area we're seeing more and more as our manufacturing clients work with us to offer different payment options for their end customers.

There's no doubting the opportunities that exporting presents but by the same token, expanding into overseas markets brings unique challenges. From different rules and regulations to the varying customs and ways of doing business around the world, exporters need to be able to adapt and making the right connections is crucial.

As a truly global bank, we pride ourselves on not only providing the right financial solutions to support global growth ambitions, but also access to our network of experts – internal and external – around the world.

While businesses continue to navigate the fast-changing environment, we're on hand to connect them with useful market knowledge, potential partners and new opportunities.

Ian Tandy
Head of Global Trade & Receivables Finance, HSBC UK

HSBC UK

HSBC UK

HSBC is one of the world's largest banks. We support around 1 million UK businesses, among 39 million customers worldwide. Our international banking network covers over 60 international markets and territories and gives us access to around 90% of world trade flows.

Our regional heads work with experts in markets, liquidity and cash management to design sophisticated, cross-border solutions.

We aim to partner with businesses, rather than just provide products. To that end, we offer guidance through a range of channels, including our regional Strategies for Growth events, our HSBC UK Insights Hub and our Financial Wellbeing programme.

To find out more, visit:
www.about.hsbc.co.uk

The Manufacturers' Organisation

Make UK is backing manufacturing - helping our sector to engineer a digital, global, and green future. From the first industrial revolution to the emergence of the fourth, the manufacturing sector has been the UK's economic engine and the world's workshop.

The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world's biggest challenges.

Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward thinking, bold and versatile sector, manufacturers are engineering their own future.

makeuk.org

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