

TRADING PLACES: MAXIMISING LONDON'S EXPORTS POTENTIAL

Margarethe Theseira

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The views in this report are nevertheless solely mine. All errors and omissions remain my own.

FOREWORD

No city can avoid the impact of globalization on its population, infrastructure, and economy. And increasingly, a city's ability to engage globally determines whether it can generate sustainable, inclusive economic growth and job creation.

Strengthening the global economic connections and competitiveness of cities and their regions is the focus of the Global Cities Initiative (GCI), a joint project of Brookings and JPMorgan Chase. By providing data, stimulating innovations, and sharing learnings, GCI has inspired metro areas around the world – large and small – to consider new strategies for global engagement that spur trade and investment.

London is no different. Since 2013, GCI, alongside Centre for London, has worked to share new tools and best practices with London as it seeks to expand its trade and inward investment opportunities. Whether through policy convenings such as the London Conference 2013, where we explored the challenges faced by London as the balance of economic power across the world shifts, or through new research such as the *Ten Traits of Globally Fluent Cities* and *Nations and the Wealth of Cities*, GCI and the Centre for London are providing resources to help private and public leaders secure London's long-term prosperity.

Trading Places: Maximising London's Exports Potential is the latest project supported by GCI. For the first time, London's services and goods trade trends, exporting infrastructure, and business views are all incorporated into one report. We believe that London can build on its history as a centre for trade, and with these new data, London will be able make informed responses to an increasingly competitive global environment.

Ben Rogers *Centre for London*

Peter Kaldes *JPMorgan Chase*

Marek Gootman *Brookings Metropolitan Policy Program*

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EXECUTIVE SUMMARY

London has a long and rich history as a trading city, stretching back to Roman times and beyond. Through the medieval age to the industrial revolution, and from the heyday of the British Empire to the modern day, the form and pattern of trade has evolved, and London has proved remarkably adaptable.

In today's globalised and fast-changing world, exports are becoming ever more important as a source of economic dynamism. Growth in European economies remains sluggish at best, and businesses must look beyond their traditional trading partnerships. Both the UK Government and the Mayor of London have made growing exports a priority; London should be in a leading position, but information about the capital city's exports is limited, and support to businesses is delivered by a patchwork of agencies at national, regional and local levels.

This report seeks to identify how London can make the most of its export potential. It draws together existing data on London's exports, how they have changed over time and how they compare with other major trading cities, looks at businesses' experience of exporting, the challenges they faced, and the support provided by Government, and makes recommendations to enhance the services on offer, ensure better integration, reach out to firms with untapped potential, and enable better data collection and evaluation.

Exports from London and the UK

The UK imports more goods than it exports, but exports more services. London is estimated to account for around half of the UK's service exports (precise regional figures are not available for services), with an estimated value of £99 billion.

The capital's export profile has become increasingly dominated by services in recent years, with finance, tourism and business services being areas where London is showing particular strength. London is still world-leading in many of these specialist areas, but other cities, particularly in the Far East, are quickly catching up.

London's goods exports are valued at around £30 billion, represent about 13% of the national goods exports and have remained steady in recent years. Unlike service exports, there is reasonably good information about what goods London exports and to which destinations. London's goods exports continue to be dominated by manufactured (rather than raw) materials, and areas of growth in recent years have included medicines, food, beverages, clothing and telecommunications equipment.

The European Union remains London's most important export destination for goods, with strongest growth in recent years in Poland,

Bulgaria, the Czech Republic and Latvia. Outside the EU, the United States remains London's primary trading partner, but India, Hong Kong and South Korea are rapidly growing in importance.

Public sector support programmes

While export promotion and marketing for inward investment are increasingly closely linked, support services for these complementary activities are delivered through differing configurations of regional, national and local services. United Kingdom Trade and Investment (UKTI) leads on promoting exports, while London & Partners – established by the Mayor of London in 2011 – promotes London as a destination for inward investment, study and tourism (with some UKTI staff working out of their London offices). The Mayor himself leads trade missions, working with UKTI and L&P, and some London boroughs operate their own sector-specific trade missions and sister city arrangements.

The business perspective

A recent survey by LCCI suggests that more than 45 per cent of London firms are exporting, a significantly higher proportion than across the UK. The majority of the firms who were not exporting were not doing so because they didn't think they had a product worth exporting, though some also cited lack of contacts and market information as barriers.

Interviews undertaken by Centre for London focused on the experiences of firms who were exporting, including their use of the support services provided by the Government and Mayor of London. Many firms attributed entering into the exports market to serendipity, rather than any conscious corporate strategy (although they were quick to identify the benefits to their business that exporting could bring): former clients established businesses overseas, or other contacts told them about new opportunities.

Firms' experience of exporting was generally positive, with an initial contract quite often leading to further work and in some cases the establishment of overseas offices or long-term partnerships with local agents. But firms faced challenges too, ranging from theft of intellectual property, to non-payment, to dealing with cultural differences.

The experience of public sector support services was generally positive for those firms interviewed who had accessed services, with UKTI services being described as a "hidden gem" by one firm, though, as the description implies, others were not aware of what was on offer, or did not know how to engage with trade missions and other initiatives – "for the big boys who have the ear of the Government" in the words of

one interviewee. The support provided by the Mayor of London was also welcomed by interviewees, and his role as an ambassador for London was warmly endorsed.

But it was not just the services directly targeted at promoting exports that were seen as important; interviewees commented on the importance of housing costs, visa regulations and internet connectivity to business life in general, and exports in particular.

Recommendations

London can build on its history as a centre for trade to spearhead the UK's exports in coming years, but will need to be alert to an increasingly competitive global environment.

- The Mayor of London should take a strategic lead role for trade for London, orchestrating closer co-operation between the agencies involved in export promotion and developing an Export Plan as a framework for better co-ordination and integration with London's wider economic development strategy;
- The Mayor of London should lead a programme to help London companies understand the opportunity for export and identify if they have export potential;
- The London Enterprise Panel (LEP) should develop a clear roadmap to help businesses along the road to export;
- The Mayor of London and LEP should use existing programmes and contacts to identify and seize opportunities to boost exports;
- The Mayor of London should continue to promote the "London" brand and develop the city's infrastructure;
- Government needs to produce baseline data at a city level for locally produced goods and services exports, so that London can properly target and evaluate initiatives; and
- The Mayor of London and government should continue to evaluate services and work to widen access to programmes.

INTRODUCTION

London has a long and rich history as a centre for trade. When the Romans first established the city they brought with them new luxury goods for which existing local residents soon acquired a taste. There are records of olive oil, fish sauce and wine arriving in London from throughout the Mediterranean. In return, London sent out metal ores and provided slaves to the rest of the Roman Empire. British oysters were a delicacy much sought after. The Romans established the first wharfs on the river Thames allowing Britain's delicious oysters and other goods to be traded.

As steam replaced sail and new deep water docks were established at West India Quay, the reach of London's trade was rapidly expanded. Powered by the growth of the British Empire, London replaced Beijing as the world's largest city in 1825 and remained so for nearly 90 years. The Great Exhibition of 1851 held in London's Hyde Park showcased British industrial ingenuity hosted within a specially commissioned glass building nicknamed the "Crystal Palace". At the time it demonstrated Britain's world dominance in design, technology and engineering excellence. The UK last hosted an Expo in 1907, and the Greater London Authority is currently considering submitting a bid to become a host of the Expo once again.

London's strength as a global manufacturing centre has since been replaced by its strength as a global centre for finance. Despite some high profile regulatory failures, and uncertainty on a number of issues, including membership of the European Union, Scottish independence, and taxation and migration policy, London still retains its position as a leading global centre for finance and is pushing hard to develop new lines of trade.¹ It has positioned itself as Europe's Islamic finance centre and earlier this year it was announced that a deal between the Bank of England and the People's Bank of China will establish London as a hub for dealing in Chinese currency.

However, since the recession the UK Government has been attempting to "rebalance" the economy away from the dominance of the financial services sector and employment activities in London and the South East to a wider base of services, manufacturing and production which includes strengthening the northern regions and along with several other countries around the world has looked to an export-led recovery to deliver this. In November 2011, David Cameron set a National Export Challenge with targets to get 100,000 more UK small and medium-sized enterprises (SMEs) exporting, and in 2012 George Osborne added the target to double UK exports to £1 trillion a year by 2020. This would require an increase in export values of nine per cent per annum, which is up from the average five per cent annual increase

achieved between 2000 and 2012, but in line with growth rates achieved between 1970 and 2000.² The think tank Reform suggested that as a robust baseline for numbers of companies exporting was not available, setting a numerical target for increasing these was a questionable goal.³ The Mayor of London has set targets to provide intensive support (that is, at least 12 hours) to 240 businesses through GLE (a company that supports SMEs) and intends to reach 1000 businesses through events designed to introduce businesses to exporting with UKTI as a strategic partner.⁴

On many metrics, London is leading the way for UK exports, which include both goods and services sold overseas and goods and services sold to foreign visitors to the UK. As a nation we export more services than we import (although we import more goods than we export) and London specialises in service-related companies. Global trends for international trades are rising and at a higher rate for services than for goods.

Unfortunately, there are limited official statistics that can be used to determine the baseline for how many companies are involved in exporting and the types of services that are being exported. Results from the Global Cities Initiative (GCI), a joint project of Brookings and JPMorgan Chase, in the USA showed that many companies were opportunist exporters responding to overseas-based client requests; they did not actively seek out exporting opportunities and may have only been one-off exporters.⁵ The Office for National Statistics and Greater London Authority have jointly conducted a business survey of London which will help to identify the characteristics of companies who are trading overseas. The data from their survey are due for release in autumn 2014 and will shed a greater light on the characteristics of London companies who are currently exporting. Results from a British Chamber of Commerce survey showed that 46 per cent of London companies were exporting compared with 39 per cent nationally and the proportion of London exporters had grown by 10 per cent since 2011. Of the London companies that are exporting, 59 per cent have increased their export sales and 50 per cent have increased their export profitability over the last 12 months.⁶

London's demography and international reach mean it should be well-positioned to lead the UK's exports drive. London's residents have stronger global links than the rest of the country: 37 per cent of London residents were born overseas (three times the rate in the UK) and one in four are overseas nationals (compared with one in 10 in England and Wales), making it easier for businesses to access staff with local knowledge of their target overseas markets.⁷

The role of London as a location for headquarters for the world's top companies (40 per cent of the world's top companies have their European headquarters based in London)⁸ and its success in attracting foreign direct investment (London attracted 656 of the 1,773 projects into the UK in 2013/14⁹) greatly enhance the opportunities for global business.

Last year, London attracted record-breaking numbers of visitors, welcoming over 16.8 million people, a growth of 43.5 per cent over the last decade. The amount spent by overseas visitors in London has almost doubled (up by 92 per cent) between 2003 and 2013 to £11.3 million, fuelled largely by an increase in the number of holiday visits.¹⁰

London universities and higher education institutions attracted over 100,000 overseas students to their institutions in 2013. Their university fees and off-campus expenditure represented a total of £2.5 billion in export earnings.¹¹ The top countries providing incoming students into London are China, the USA and India.¹²

However, the challenge of increasing exports should not be underestimated – export data from the first half of 2014 have shown that at a national level exports have declined despite a focus on growth from Government.

In the USA, the Global Cities Initiative has been working with metropolitan areas to identify and develop ten key steps to delivering a successful metropolitan export plan.¹³

Their suggested steps are:

- **Go Metro to Go Global** – Markets are regional and export strategies foster regional collaboration in economic development.
- **Organise for Success** – The planning effort must have the stated commitment of local leaders and be well-organised at the outset to create a culture change in economic development practice.
- **Produce a Data-Driven Market Scan** – A credible export plan is built on a solid foundation of data and information about the region's export performance and potential.
- **Capture Local Market Insight** – At the heart of the local market assessment is direct input from firms and service providers obtained through surveys and one-on-one interviews.
- **Champion Exports Now** – Promoting and communicating the importance of exports to the region's long-term economic future is critical to ensure the export plan is embraced.

- **Develop a Customised Export Plan** – A clear, easy-to-read document will serve as a strong vehicle for galvanizing stakeholders to act on and support the exports opportunity.
- **Prepare for Implementation** – A detailed implementation (or business) plan that delineates how the export plan will be executed must include details on deliverables, phasing, budgets, and the division of labour among lead organisations.
- **Identify and Promote Policy Priorities** – Metro leaders should articulate and advance a state and federal policy agenda that will foster an environment for enabling the region’s exports to thrive.
- **Track and Publicise Progress** – The metro export team will need to identify metrics that are most realistic to collect locally and dedicate resources to maintaining, analysing, and reporting progress.
- **Mainstream Exports into Economic Development** – For a region’s economy to fully benefit from international trade, exports must be an integral part of a multi-pronged economic growth agenda that includes innovation, transportation and logistics, and global talent.

This report fulfils steps 3 and 4 of the Global Cities Initiative export planning process and explores London’s exports, highlights recent trends and issues with data availability, and compares London’s performance with competitor overseas cities. This data analysis has been supplemented by interviews, providing insights from companies actively exporting, including on the value and accessibility of support provided by government agencies. The report draws together recommendations for the different public sector agencies involved to encourage greater exports from London-based companies in a bid to make the most of London’s huge potential.

1

INTERNATIONAL TRADE IN A CHANGING WORLD

From local to global: the rationale for seeking new markets

The Bank of England recently upgraded its forecast for the UK economy to grow by 3.5 per cent this year and 3 per cent next year, although wage growth is still sluggish which will impact consumer demand.¹⁴ London has played a leading role in the economic recovery, growing at a faster rate than the country as a whole and is forecast to grow by 3.8 per cent this year, 3.2 per cent in 2015 and 2.6 per cent in 2016.¹⁵

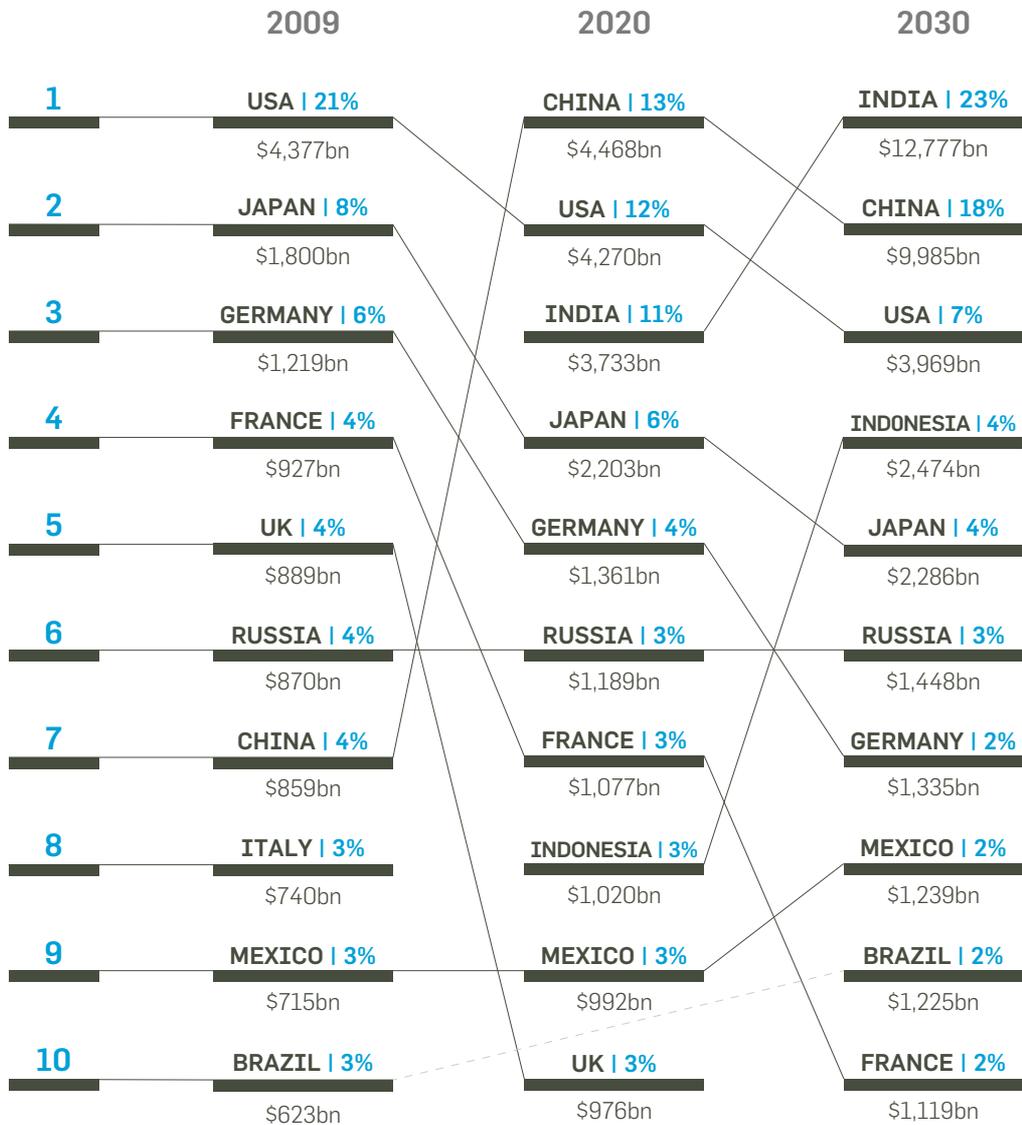
We are in a time of rapid change within the global economy and the UK's position within it. Several factors, including the rise of China and other Asian economies, introduction of new technologies, better global communications and the opening up of new trade corridors will combine to create stronger global growth, albeit led by a wider range of countries than in the recent past. The most recent IMF figures project global growth rates of 3.4 per cent for 2014 varying between 1.8 per cent for advanced economies and 4.6 per cent for emerging markets and developing economies.¹⁶ Recent research has estimated that the middle class will grow from around 1.8 billion people today to 5 billion by 2030 with the most rapid growth in residents of Asia (see Table 1.1). The research sees the United Kingdom middle classes drop out of the top 10 countries by 2030.¹⁷

This has consequences for London and UK export strategies as their traditional key export markets of Europe and the USA have slower growth trajectories than many other countries, and the growth of the middle class around the world makes other markets more attractive.

In Europe, the challenge is to find ways to stimulate the economy given that several countries are still in recession and other countries are seeing their economies contracting.¹⁸ GDP in the Euro area for Q2 2014 remains unchanged from the previous quarter and has increased by 0.2 per cent for the E28. Among Member States for which data are available for the second quarter of 2014, Malta (+1.3 per cent), Latvia and Slovenia (both +1.0 per cent), Lithuania, Hungary and the United Kingdom (all +0.8 per cent) recorded the highest growth compared with the previous quarter. Romania (-1.0 per cent), Denmark and Cyprus (both -0.3 per cent), Germany and Italy (both -0.2 per cent) registered decreases.¹⁹

All this means that London will no longer be able to rely solely on its traditional export markets, but will need to look at emerging markets in Europe, Asia, South America and beyond, just as investors from these economies are becoming increasingly important investors into London-based businesses.

Table 1.1: Total middle class consumption, top 10 countries



N.B. Values quoted are in 2005 purchasing power parity

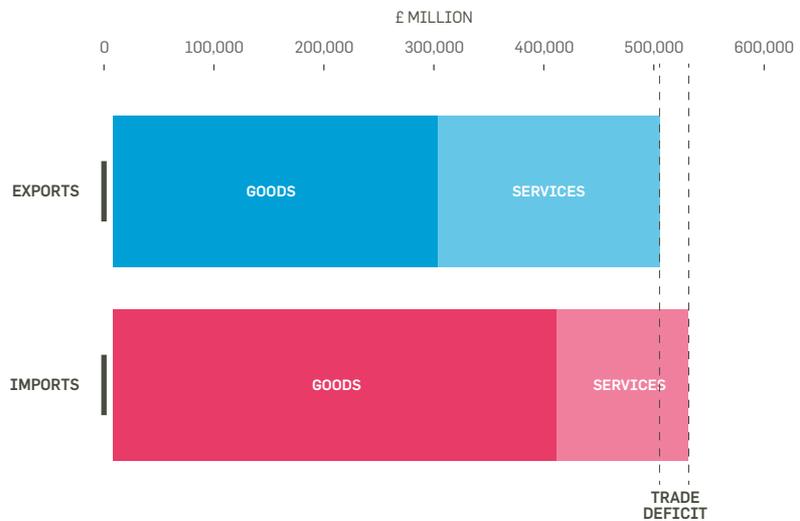
Source: Homi Kharas and Geoffrey Gertz, 'The New Global Middle Class: A Cross-Over from West to East', in Cheng Li, ed., *China's Emerging Middle Class: Beyond Economic Transformation* (Washington, DC: Brookings Institution Press, 2010).

UK exports today

The UK's long history as a trading nation continues today; we are ranked as the sixth largest exporting country overall and in terms of service export sales the UK lies second in the world behind the USA.²⁰ As growth moves from Europe and the USA to the developing economies of the southern and eastern hemisphere, our ability to trade internationally will become ever more important as a source of economic growth.

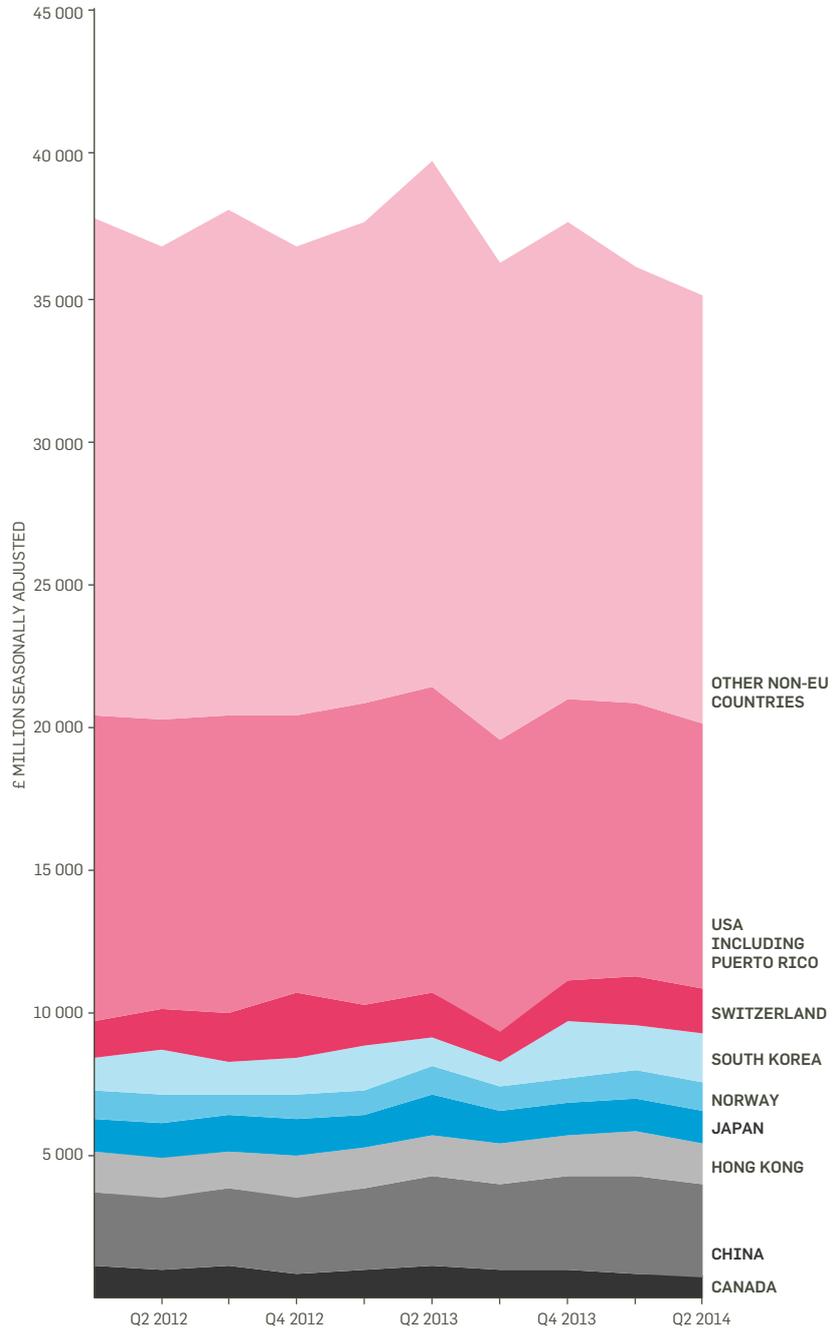
The UK is currently a net importer of goods and a net exporter of services. In 2013, the value of goods exported from the UK reached an all-time high at £304.7 billion but these were more than matched by an increase in goods imported of a record £412.5 billion. The most traded goods in the UK are cars, air and space craft and related machinery, pharmaceutical preparations, and refined and crude petroleum. The value of services exported was £201.7 billion compared to an imported value of £102.5 billion.

Figure 1.1: UK Trade figures for 2013



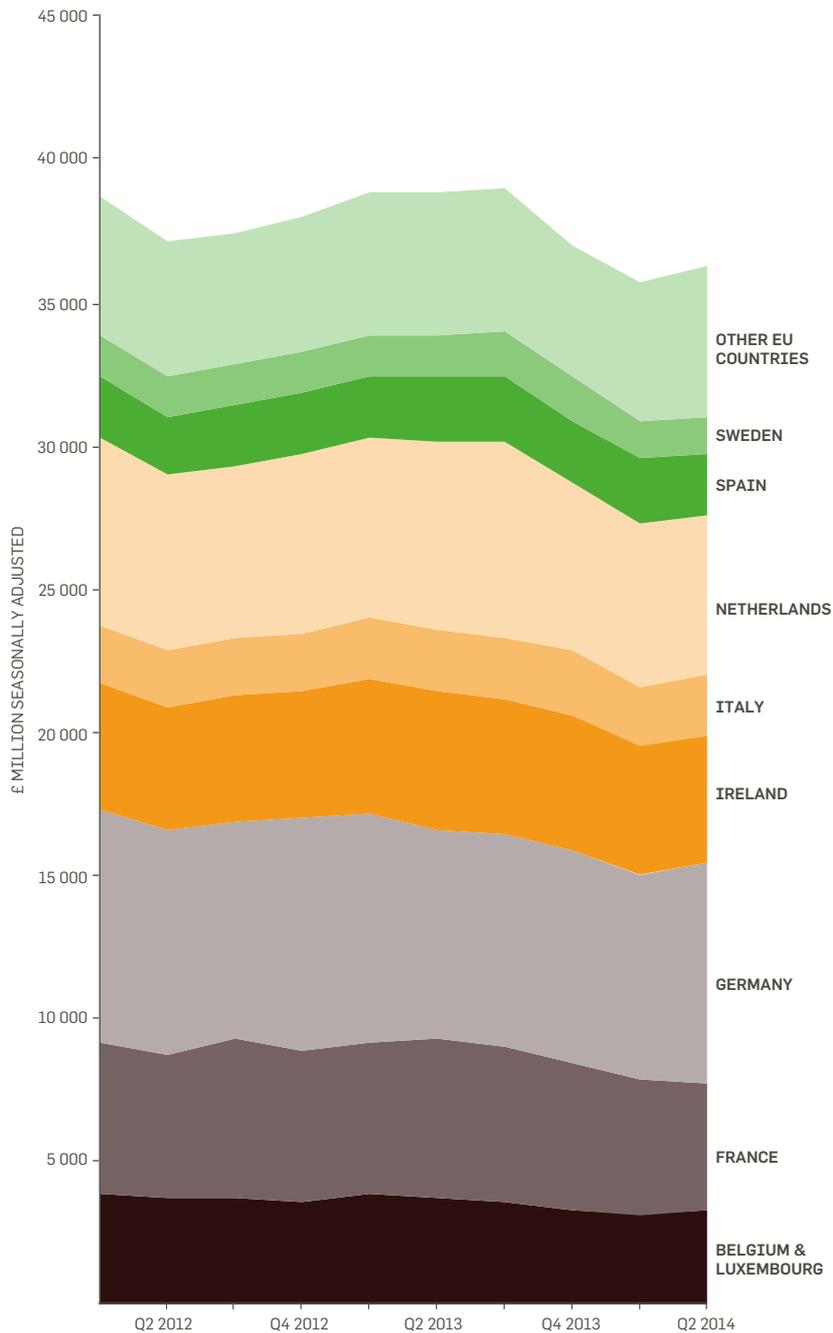
Source: ONS UK Trade

Figure 1.2: Trade in goods with selected Non-EU countries



Source: ONS, UK Trade, July 2014

Figure 1.3: Trade in goods with selected EU countries



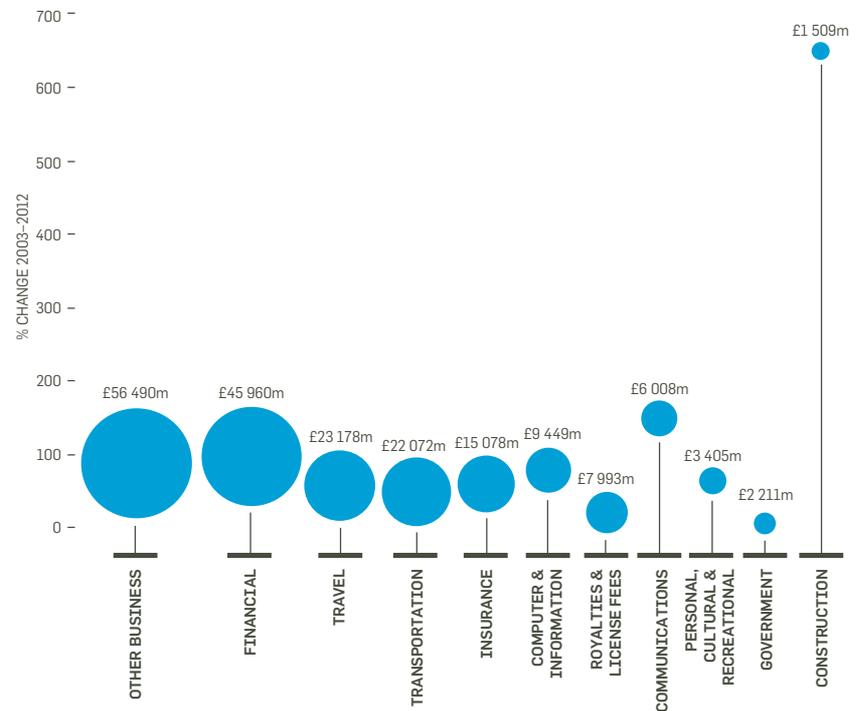
Source: ONS, UK Trade, July 2014

Trade is increasing around the globe: in 2013 trade in goods grew by two per cent to £16.1 trillion and services by five per cent to reach £4 trillion. The fastest growing service sector exports between 2008 and 2013 were computer and information services (up by 9.1 per cent each year), followed by personal, cultural and recreational services (8.9 per cent) then by other business and professional services (6.8 per cent).²¹

UK service exports

The top five service exports for the UK, which account for 84 per cent of the service exports, are other business services, financial services, travel, transportation and insurance. The ONS collates data on service exports that cover the provision of services by UK residents to non-residents. Trade in services is disaggregated into 11 broad categories of services, as shown in Figure 1.4. Further details of what is included within each service are given in Appendix 1.

Figure 1.4: UK service exports 2012 by value and growth rate between 2003 and 2012



Notes: Other business services covers a broad range of services including trade related services such as merchandising, operational leasing, and consultancy services such as advertising, engineering and legal services.

Source: ONS, *The Pink Book*, 2013

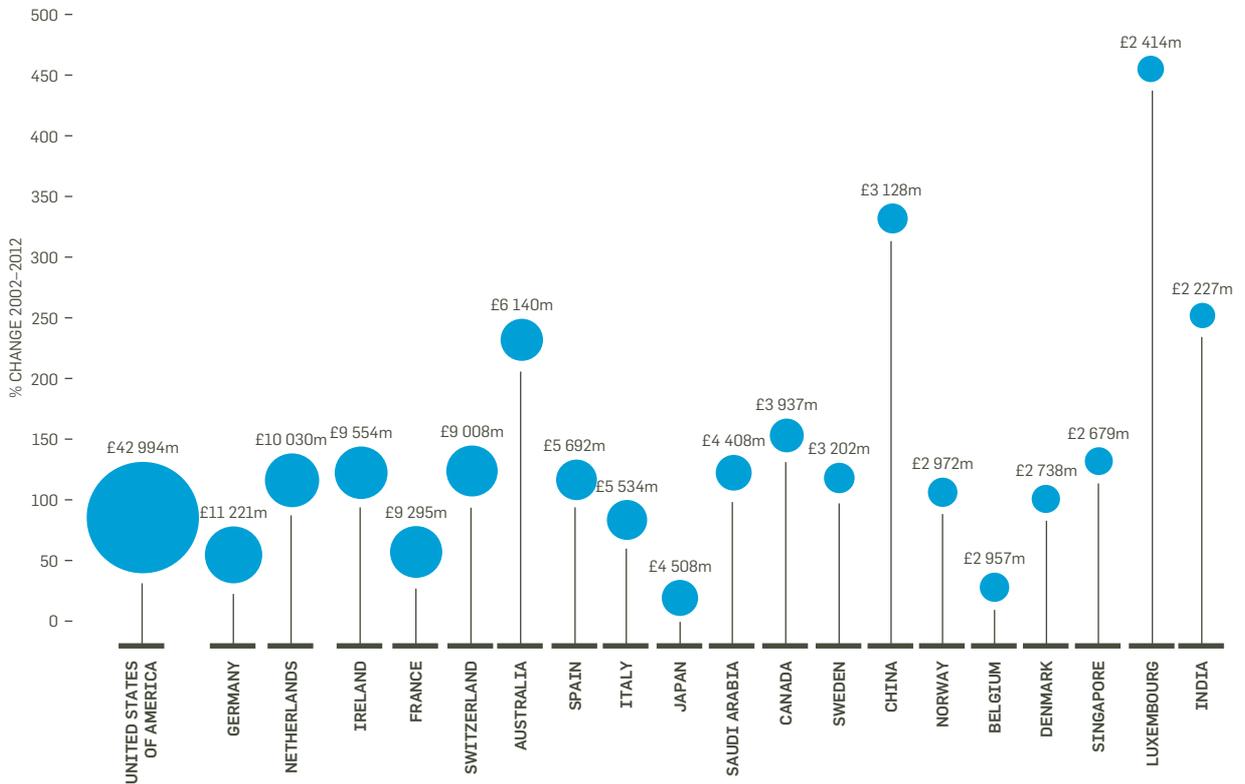


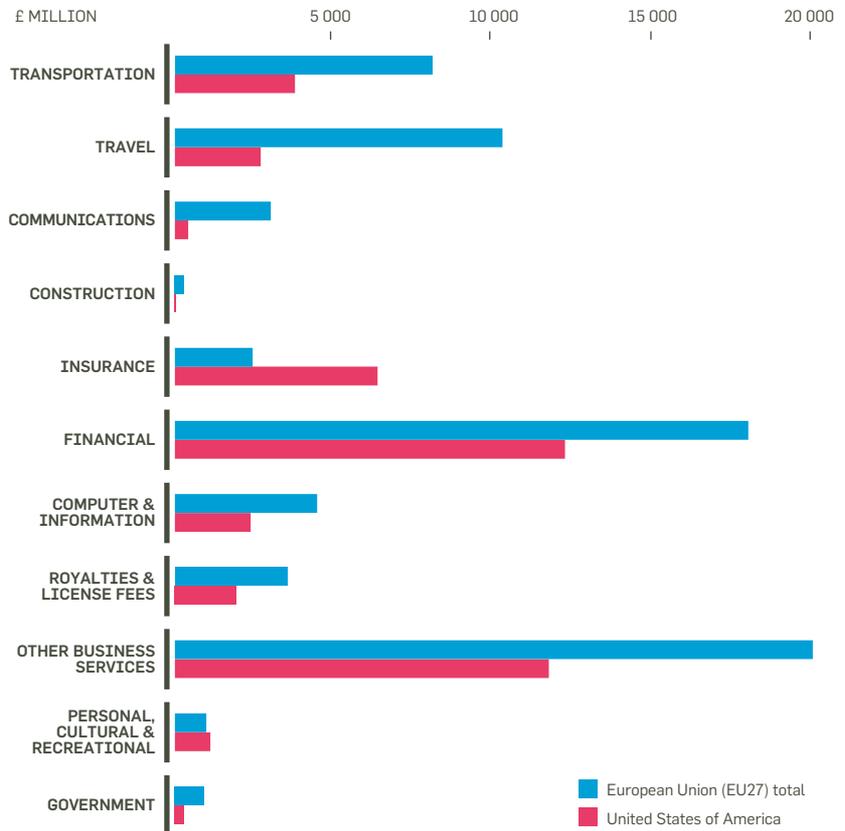
Figure 1.5: Destinations for UK Service Exports by value and growth rate to 2012

Source: ONS, *The Pink Book*, 2013

In 2012, the USA accounted for 22 per cent of UK service exports, more than Germany, the Netherlands, Ireland and France added together. The most rapidly growing significant destinations for service exports (markets worth more than £1 billion) are Luxembourg, Brazil, China, India, Russia, Australia and Poland with growth rates of between 226 per cent and 446 per cent see Figure 1.5.

In 2012, 60 per cent of service exports from the UK went to the EU and USA (these large markets together account for around 39 per cent of total global wealth). As we saw earlier, both of these regions are projected to have lower growth rates than elsewhere, which is why UKTI has identified 41 high growth countries for exporters to encourage companies to broaden out their exporting base.

Figure 1.6: UK service exports to the EU and USA by type of service

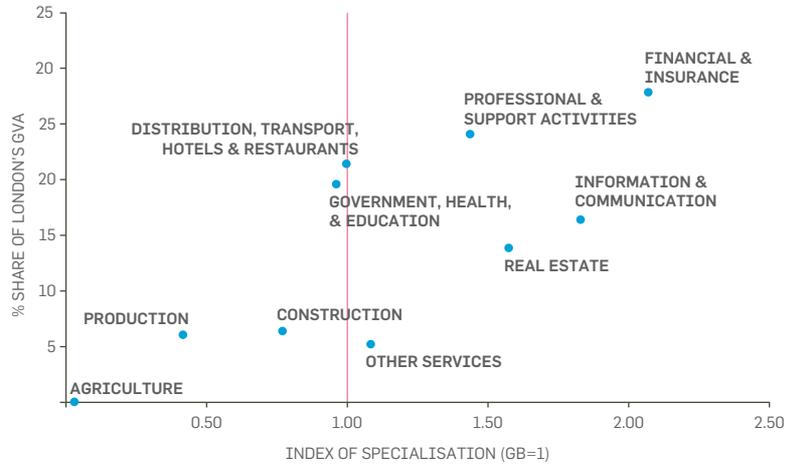


Source: ONS, *The Pink Book*, 2013

London exports

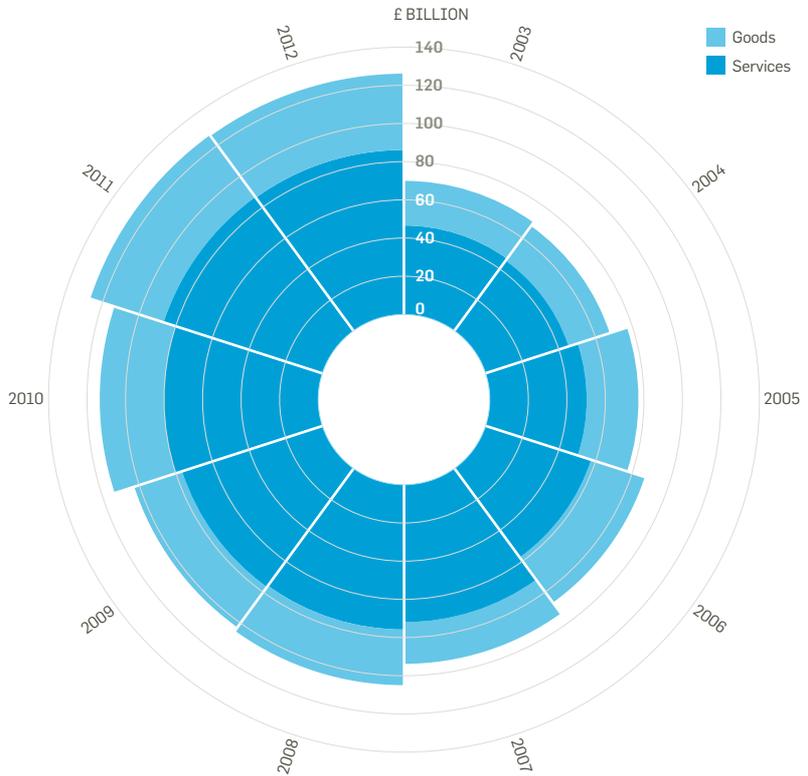
London's economy was worth £309 billion in 2012, up by two per cent on the previous year, and accounted for 22.4 per cent of the UK's total GVA.²² London's economy is dominated by service industries with specialisms in financial and insurance activities, information and communication, professional, scientific and technical activities and real estate activities. London is well placed to help meet the global increase in demand for services.

Figure 1.7: London's economic specialisms



Source: Business Register and Employment Survey, ONS.

Figure 1.8: London's export performance



N.B. These figures do not include a specific allocation to London of the role it plays in financial services exports.

Source: GLA Economics for service exports and UKTradeInfo, HMRC for goods exports

London doubled the value of its exports between 2001 and 2012 to reach an estimated value of £127 billion in 2012. This means that London accounts for around half of the UK's service exports, but plays a lesser role in the export of goods, where it accounts for 13 per cent of the UK total. The growth rate has stalled in recent years.

London services exports

London contributes just over half of the UK's total service exports. The London Business Survey, conducted during the Summer of 2014 by the ONS and GLA, will provide information on the number and characteristics of London companies that are exporting and the continents that they are exporting to. Until this survey reports, there are unfortunately no official statistics measuring service exports for London. Both BIS and GLA Economics have previously estimated figures. In their latest estimate using 2012 data, GLA economics calculate a figure of £87.1 billion for London service exports. However, their methodological approach does not separate out the regional contribution of the Financial Services sector in London.²³ Given that financial services are a key part of London's economy and the UK's second largest service export, excluding this will under-estimate the contribution of London to national service exports. If we include a conservative estimate of the financial services export (based on 50 per cent employment share of the sector in London) then service exports for London increase to £99.4 billion in 2012.

The relative size of the bubbles in Figure 1.9 indicates the value of exports within the sectors. Financial services is the largest sector and is also the fastest growing, as indicated by its position in the vertical axis, having doubled in size over ten years. The second largest contributing sector is for travel reflecting London's attractiveness to overseas visitors. The red line on Figure 1.9 shows the amount of growth of exports from the various sectors – after financial services, services between related enterprises and architectural, surveying and construction have been the fastest growing exporters. The growth rates of 'architectural, surveying and construction' exports are likely to be linked to the successful delivery of the 2012 Olympic Games which showcased British urban design and raised the profile of the industry overseas. Recent research has estimated that the growth of cities across the world will offer a global market for integrated urban solutions of £200 billion by 2030 and that at least £25 trillion will need to be invested in urban infrastructure worldwide over the next 20 years.²⁴

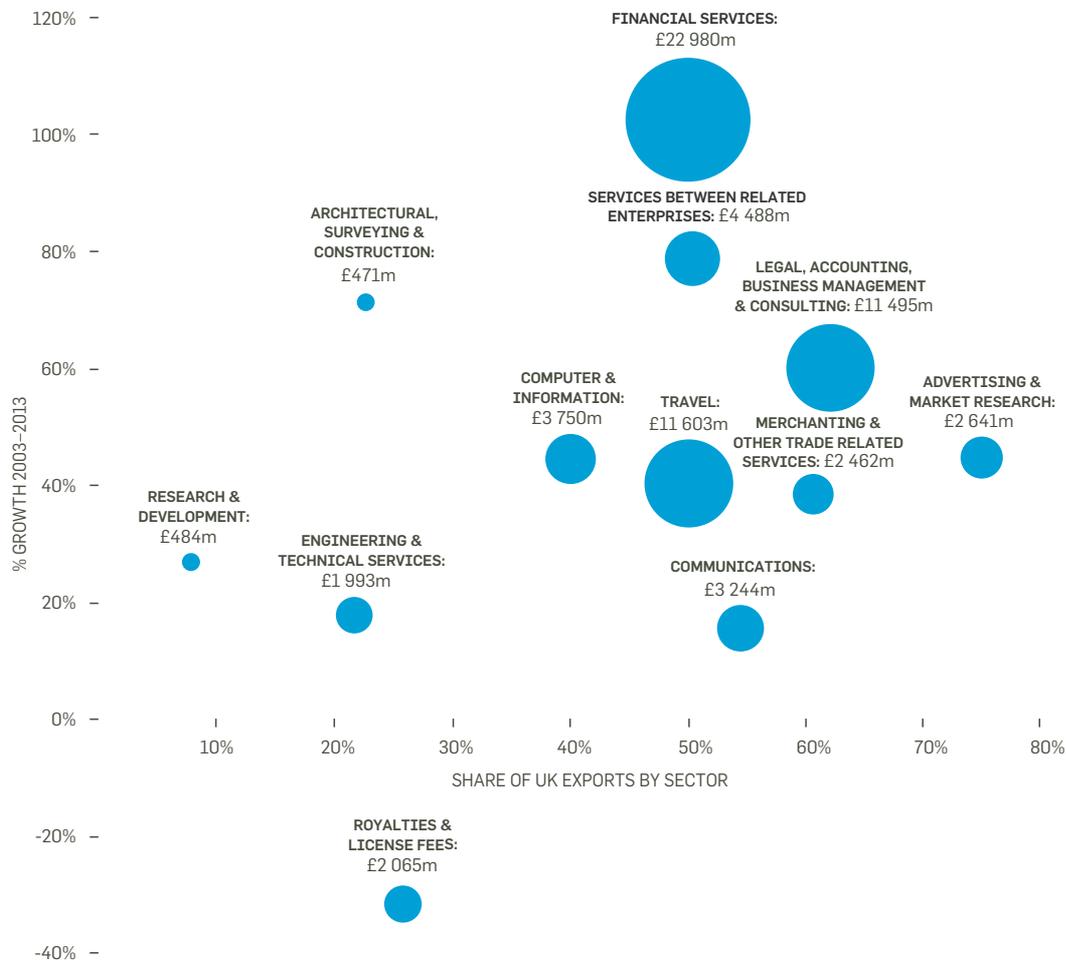


Figure 1.9: London's key service sector exports, their growth rates and contribution to UK exports

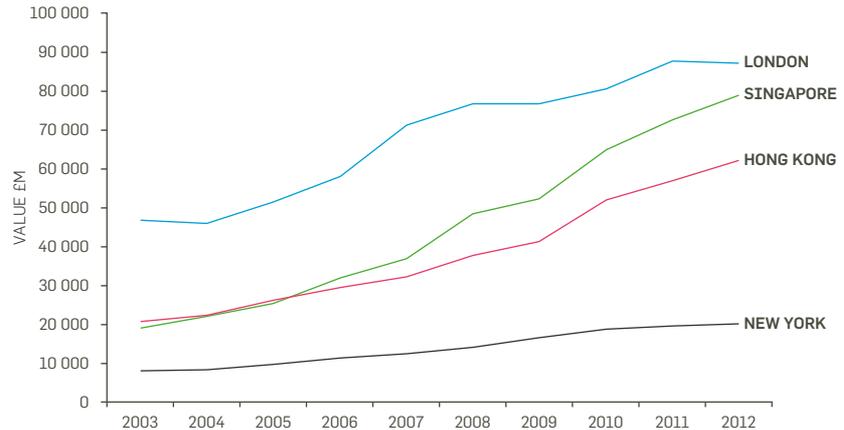
Source: GLA Economics with financial services estimate calculated by Margarethe Theseira

The horizontal axis in Figure 1.9 shows the proportion of UK service exports that originate from London. It shows that London plays a key role in exporting 'advertising and market research', 'legal services, accounting, business management and consulting services' and 'merchanting and other trade related services' where they account for more than 60 per cent of national exports.

It is also worth comparing London's export performance to that of other major trading cities for whom comparable data are available, and we have compared it to Singapore, Hong Kong and New York. Although London still exports more services than these competitor cities, it is rapidly losing its dominance. London's rate of increase of service exports

(186 per cent over the last decade) is lower than the rate achieved by New York (250 per cent, albeit from a much lower base) and substantially lower than the stellar performance achieved by both Singapore (400 per cent) and Hong Kong (300 per cent). There is much work to be done to boost London's export performance.

Figure 1.10: City level service exports



Sources: London data, GLA Economics; New York, Brooking Institution, Export Nation 2013; Hong Kong, Trade in services 2012, census and statistics, Hong Kong Government; Singapore, International trade in services 2012, Singapore Government. NB. Data converted to £ using Bank of England average annual exchange rates.

Singapore's service exports were worth around £78.8 billion with a third of the contribution being from transport services. The Port of Singapore is the busiest container transshipment hub in the world, handling 32.6 million standard containers in 2013 and providing access to 600 ports in over 120 countries.²⁵ Singapore's Changi airport is the sixth busiest in the world for international passenger transport with 53.3 million passengers, ranked behind London's Heathrow airport, the second busiest airport in the world, which handled 67.4 million passengers in the 12 months to June 2014.²⁶

The most rapidly growing exports are services around intellectual property. The Singaporean Government has identified the development of intangible assets as a growth area for Singapore and in April 2013 accepted recommendations from the Master Plan to guide Singapore's development into a global IP hub for the Asia region.²⁷ Singapore's financial services exports have increased by 200 per cent over the last decade compared with an increase of 100 per cent achieved in London.

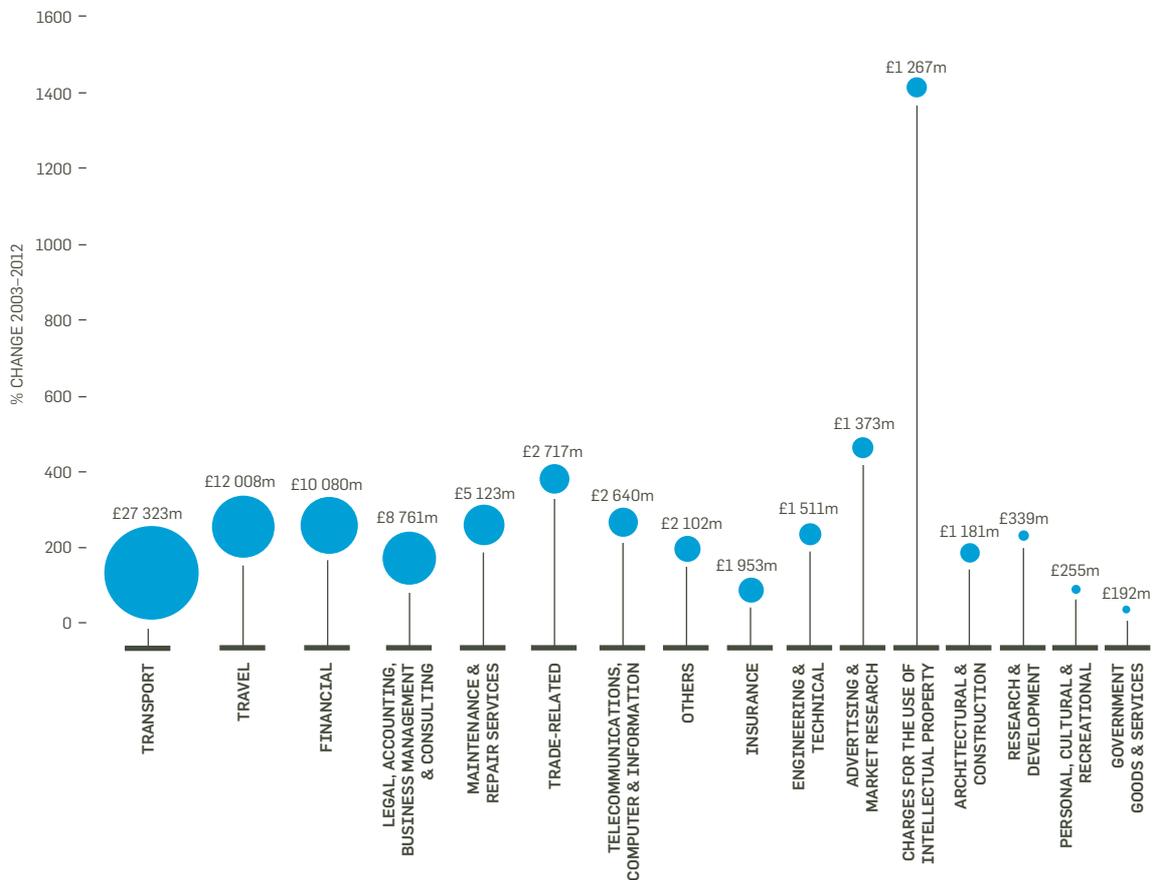
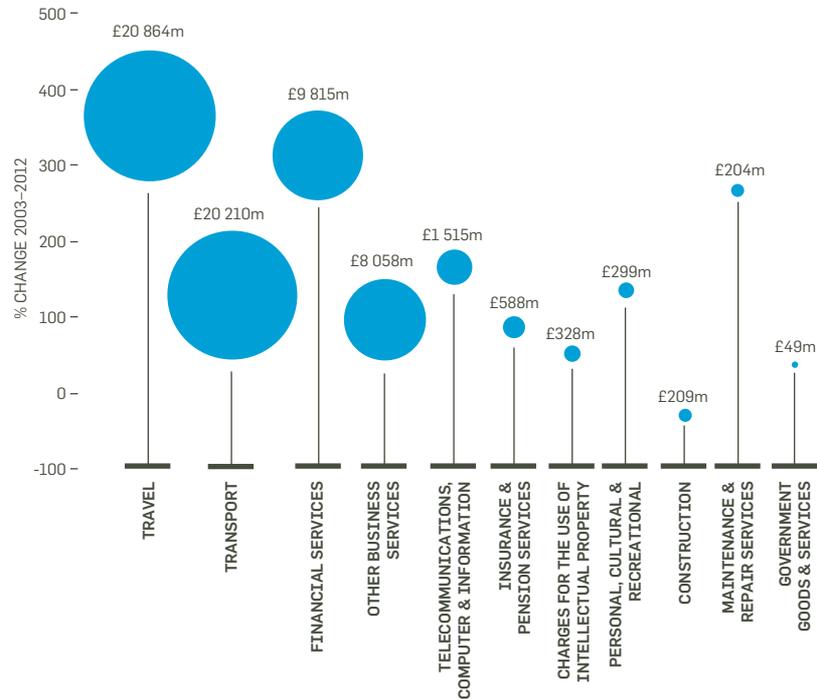


Figure 1.11: Singapore service exports and growth rate by sector
 Source: Singapore international trade in services, 2012, Singapore Government.

Hong Kong's service exports were worth £62.1 billion with travel and transport services together accounting for two thirds of this. Hong Kong's airport is the third busiest in the world and handled 61.2 million passengers in the year to June 2014.²⁸ The Port of Hong Kong handled 22.4 million standard of containers in 2013 and connects to around 550 ports worldwide.²⁹

The most rapidly growing sectors are for travel, financial services and maintenance and repair services (although for the last category from a low base) which have each grown by more than 250 per cent over the last decade.

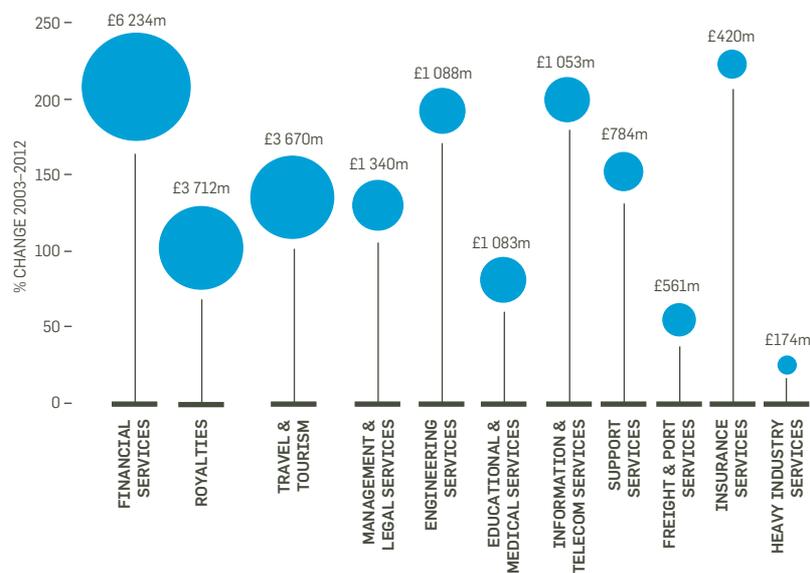
Figure 1.12: Hong Kong service exports and growth rate by sector



Source: Hong Kong trade in services 2012, census and statistics, Hong Kong Government

As in London, New York's biggest service exports are from the financial services industries which have grown by 200 per cent over the last decade. But New York's total service exports are about a fifth of London's, worth around £20.1 billion in 2012. Service exports in the USA are much more widely distributed between different cities than in the UK, and New York does not play the same pivotal role in service exports for the USA as London does for the UK. New York also benefits from a much larger domestic market than London.

Figure 1.13: New York service exports and growth rate and percentage share of USA exports by sector



Source: Brookings Institution

London Goods Exports

Data on exports of goods are far more comprehensive than data on exports of services. HM Revenue and Customs (HMRC) publish international trade in goods data as the ‘Overseas Trade Statistics of the UK’. They collate data collected by the Customs Handling of Import and Export Freight system and release these at a London level to twodigit Standard International Trade Classification.³⁰ However, as London is home to many company headquarters it may be over-allocating values for exported goods that are manufactured in other parts of the country.³¹ London is less significant nationally for goods exports than it is for services exports, reflecting the sectoral composition of the city’s economy. In 2013, £32.7 billion of goods were exported from London: 11.6 per cent of total UK exports (see Figure 1.14). The highest level of exports achieved in recent decades was in 2011, when London companies exported £36.2 billion worth of goods. Despite a reduction from the peak over the last couple of years, between 2003 and 2013 the amount of goods exported from London has increased by 40 per cent.

Figure 1.14: Value of Goods exported from London companies 1996 to 2013 (by Standard Industrial Trade Classification level 1)



Source: HMRC, UK Trade Info, extracted October 2014

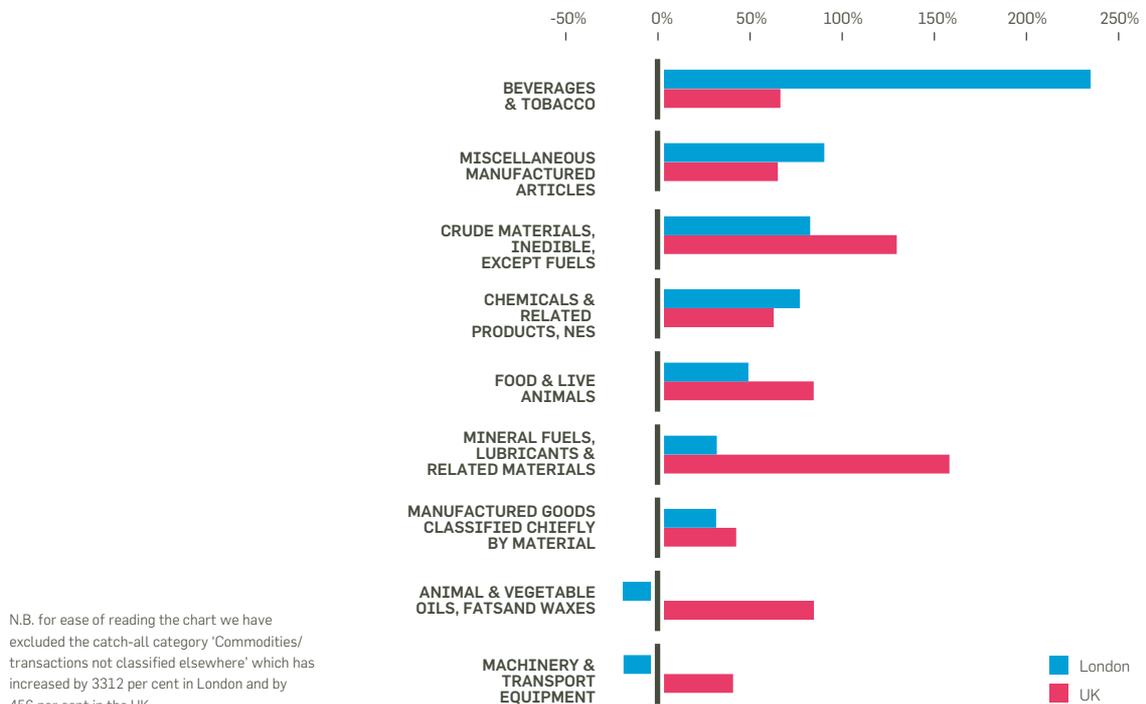
Looking in more detail at the subcategories of goods that London was exporting, the largest category in 2013 was manufactured items (comprising ‘miscellaneous manufactured articles’ and ‘manufactured goods classified chiefly by material’) worth £19.1 billion, and since 2003 exports of these items have been growing more rapidly in London than nationally. ‘Miscellaneous manufactured articles’ includes printed materials such as books and newspapers, plastic packaging and imitation jewellery. The second largest category of goods exported was ‘Machinery and transport equipment’ worth £4.9 billion, although the export of these goods has declined for London, unlike for exporters based in the rest of the country.

The trends of London’s goods exports do not simply follow the national picture. Between 2003 and 2013, goods exports from London companies increased by a lower rate than the national level, at 40 per cent compared to 59 per cent.

Some large changes took place in relatively small sectors. The largest drop in exports from London companies was for ‘fixed vegetable fats & oils’ which dropped by 91 per cent between 2003 and 2013. The fastest growing category (though small in absolute terms) for both London and the UK was for commodities/transactions not classified elsewhere³² up by over 3000 per cent between 2003 and 2013 to a value of £0.3 billion in 2013.

There has also been a resurgence of exporting of beverages and tobacco from London which has increased rapidly in recent years from a low of £0.25 billion in 2003 to £0.83 billion in 2013, but it has yet to recover to the levels achieved in 1996, of £1.14 billion. There has been significant growth in medicinal and pharmaceutical products (which falls within ‘Chemicals and related products’) highlighting that London’s life science firms have been taking advantage of growing global opportunities.

Figure 1.15: Percentage change in goods exported by Standard International Trade Classification code between 2003 and 2013 for UK and London



Source: UKTradeInfo, HMRC

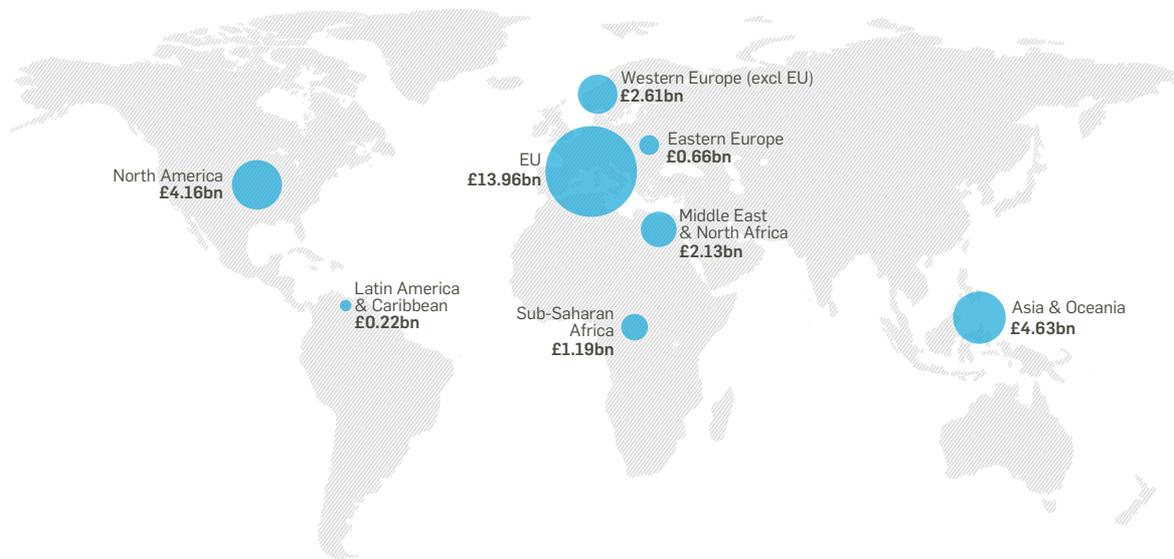


Figure 1.16: London's key export destinations by continent in 2013.
Source: UKTradeInfo, HMRC

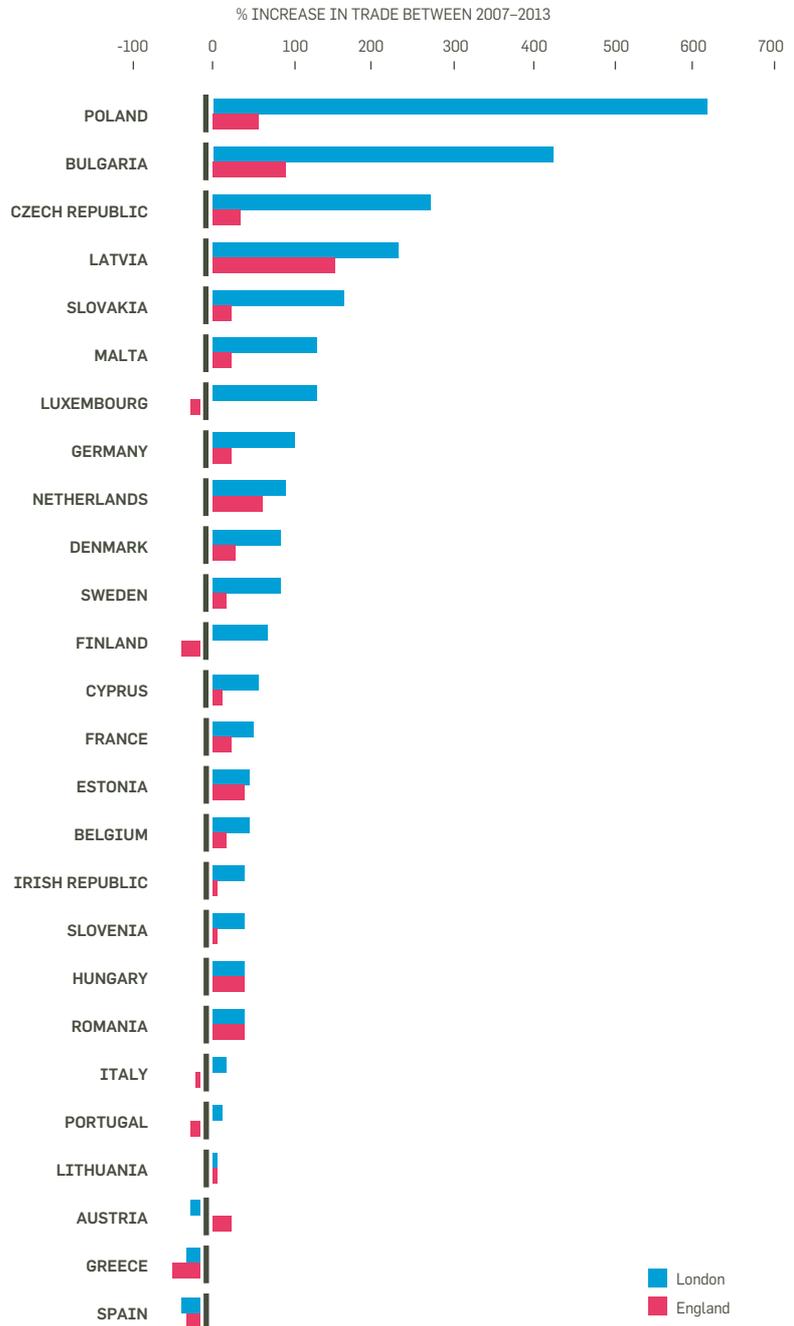
London's key export destinations for goods exports

London's largest export destination is the EU, which accounts for 47 per cent of exported goods. However, the value of goods exported to the EU varies widely year by year: over the past decade the highest level was £14.78 billion in 2005 and the lowest was £8.56 billion in 2010. The second largest is Asia and Oceania (£4.63 billion) which pushed the Northern American market (£4.16 billion) into third place in 2011, where it has remained since.

The EU market is of particular importance to London businesses exporting goods. Since the EU accession of 2007, the rate of growth of exports to the EU from London companies is almost treble the rate of growth for UK businesses overall, at 57 per cent and 19 per cent respectively.

Five countries – Germany, Ireland, France, Belgium and the Netherlands – accounted for over 70 per cent of London's goods exports to EU countries in 2013, and were worth £9.47 billion. But the fastest growing markets in the EU for London businesses are from recent additions to the EU including Poland (up by over 600 per cent), Bulgaria, Czech Republic, Latvia and Slovakia. These five markets were worth just under a billion pounds to London companies in 2013. However, given the slow growth forecasts of the EU, London should look to expand its exports offer to new markets.

Figure 1.17: Change in export values from London and the UK to EU countries between 2007–2013



Source: UKTradeInfo, HMRC

Outside of the EU, the USA is London's largest country market, worth £3.9 billion in 2013, although the amount of goods exported to the USA has shrunk over recent years. South Korea is a rapidly growing new market for London goods, worth £1.45 billion and growing at 32 per cent per annum.

Table 1.2: Top Non-EU destinations by value and growth rates

DESTINATION	VALUE £M IN 2013	ANNUAL RATE OF GROWTH 2006-2013
UNITED STATES OF AMERICA	3,917	-4
INDIA	2,297	9
SWITZERLAND	2,268	5
HONG KONG	1,675	16
SOUTH KOREA	1,447	36
UNITED ARAB EMIRATES	821	7
BOTSWANA	655	83
JAPAN	498	3
RUSSIA	450	7
CANADA	430	0
CHINA	409	4

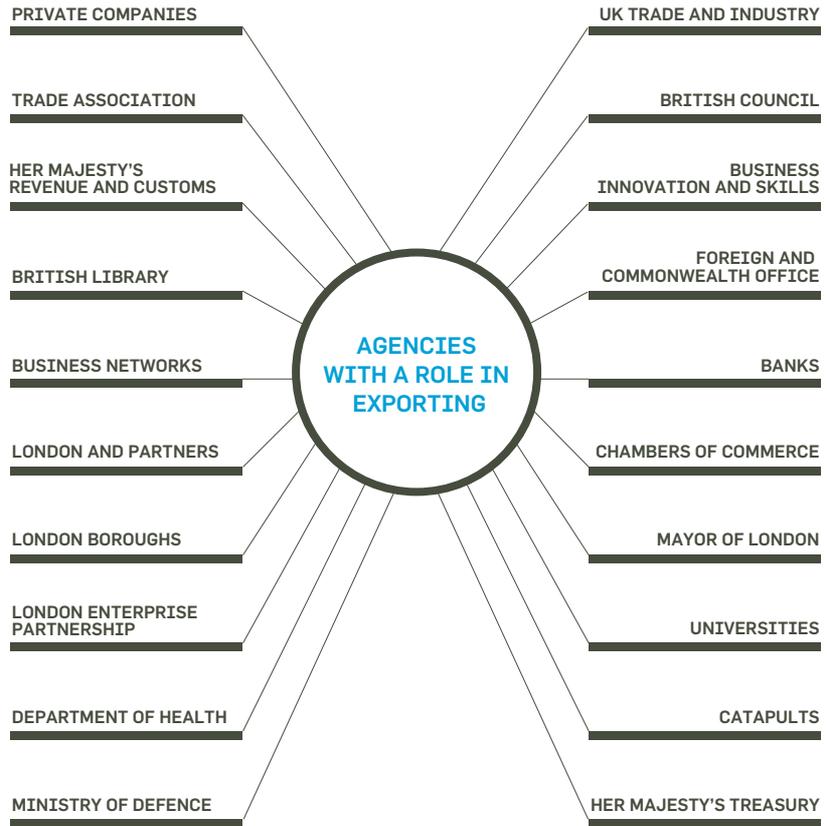
Source: UKTradeInfo, HMRC

2

SUPPORT FOR EXPORTING

There are many agencies that businesses can turn to in order to begin or further develop their exporting practices, and a wide variety of programmes available. This complex landscape, involving both private and public sector export service offers, can be confusing to navigate for companies interested in developing their export potential.

Figure 2.1: Agencies offering support and services to help companies export



Source: Margarethe Theseira, Centre for London

The public sector has traditionally provided support both for exports (the sale of goods and services overseas) and foreign direct investment (foreign investors building new facilities in the UK, or investing in UK projects). Both are important sources of external growth for the economy, as well as areas where economies of scale can be achieved through co-ordinating marketing to and intelligence about potential investors and clients.

While exports are sometimes seen as the opposite of inward investment, the two activities are intrinsically linked: the marketing that supports inward investment may also attract tourists and therefore boost exports, and the embassy that hosts a trade delegation will also provide a first port of call for investment enquiries. Foreign owned companies are also more likely to export than domestically owned firms (60 per cent of foreign owned companies in the UK exported in 2012 compared with 10 per cent of UK owned companies),³³ yet the responsibility for developing international trade for London is divided between national and regional authorities.

National programmes

At a national level, UK Trade and Investment (UKTI) is responsible for encouraging and supporting inward investment, and for working with UK companies to encourage exports. They offer 11 different programmes to help companies export, including intensive support programmes (defined as 6 days or more of advice and support) such as the Passport to Export Service and Gateway to Global Growth, through to a communications review of marketing material.

UKTI assisted 36,900 companies during 2013. UKTI is unable to provide a geographic breakdown for their clients to identify which of these companies are based in London, but the UKTI London Region office intensively assisted 3,300 companies last year. In 2013 UKTI contacted over 48,000 companies in London to signpost their services, which is around six per cent of all companies registered in the city.³⁴

UKTI operates its services on a national level based on sectoral support but has specifically designed two programmes to assist London companies: these are the India Marketing scholarship programme (delivered by a leading management institution in India and designed to ensure that UK SMEs understand the importance of effective marketing in India, identifying key issues and actions to be taken to enable long-term trading relationships) and the Cass Business School Executive Programme (aimed at senior representatives within organisations already working with UKTI designed to cover strategy, international marketing strategy, finance, leadership and international client service management). These schemes have since been extended to other parts of the country. The UKTI and Mayor of London are jointly developing a China Marketing Scholarship Programme.

London programmes

Regional business support in general, and exports and inward investment support in particular, has been in a state of flux over recent years with

the abolition of the Regional Development Agencies and Business Link services, and the establishment of Local Enterprise Partnerships.

In London, the Mayor of London is in the process of developing an exports strategy. In his most recent Economic Development Strategy, the Mayor committed to working with UKTI to develop an Export Promotion Programme to develop a more comprehensive international trade strategy for London, including developing even stronger links with emerging markets, which the Mayor will oversee.³⁵ The Mayor's existing exports plan signposts the offer available to companies through UKTI and his office will support the forthcoming Exports week in November 2014, hosted by UKTI. The Mayor also runs trade missions, in which London companies can join, recently including a visit to India, and a visit to three North American cities to promote London's tech and digital sectors.

Responsibility for inward investment and encouraging overseas students and business and leisure tourists to London falls within the remit of London & Partners (L&P). The organisation is jointly funded through the Greater London Authority and the private sector and provides a tailored service for overseas companies wishing to set up in London, helping them to find business premises and providing advice and contacts to help them establish in the city. UKTI's London trade team is also based at L&P's offices, though they are primarily tasked with delivering the national UKTI programme, rather than London-specific programmes.

While the trade competencies of government are clear, London must play a strong role in informing trade policy. Given recent calls for greater devolution of powers to regionally elected representatives, there is a debate to be had about which organisation is best tasked with setting the strategic direction of London's trade policy. Trade is an integral part of economic development, and the overall strategy for London's economic development is held by the Mayor of London. Given the importance of London in delivering the UK's service exports and the specific role of an elected representative in the form of the Mayor of London setting the economic development strategy, it makes sense for the strategy and targets for the UKTI regional office to be set as part of the wider economic development strategy. This will help to ensure that an integrated public sector offer is made available to companies wishing to establish in and export from London.

L&P also plays an integral role in organising Mayoral trips overseas. For business tourism L&P provides advice on conference and meeting venues, availability and general assistance. L&P provide links to universities and guidance through the application process for overseas

students. They also run the Visit London website, aimed at encouraging leisure tourists to visit.

There are also a number of private sector suppliers of export services. In recognition of changing global trade opportunities, UKTI, the Foreign and Commonwealth Office and the British Chamber of Commerce launched an Overseas Business Networks initiative in 2012 aiming to strengthen the capability of the UK's own global business-to-business network. The network intends to provide better practical information on business opportunities in new markets; services, support and advice within the country; and office space in British Business Centres in selected countries. The 3–5 year process of development will target 41 hard to access, high growth markets. These are:

- **Asia:** China, Taiwan, Vietnam, Malaysia, Hong Kong, Singapore, Thailand, Myanmar, Cambodia, Japan, India, Indonesia, South Korea, Philippines, Pakistan, Kazakhstan
- **Middle East:** United Arab Emirates, Qatar, Kuwait, Saudi Arabia
- **Europe:** Poland, Czech Republic, Slovakia, Hungary, Slovenia, Romania, Russia, Turkey
- **Africa:** Nigeria, South Africa, Angola, Morocco, Algeria, Ghana, Mozambique, Kenya, Tanzania
- **Latin America:** Colombia, Mexico, Brazil, Chile

Business Support Cluster Approach

TechCity was launched in 2010 by the Prime Minister, with the ambitions of raising the profile of London's digital sector, attracting inward investment and steering policy decisions to address barriers to growth and create opportunities for future growth for the sector. TechCity has successfully boosted inward investment into East London with the arrival of 159 tech/digital firms between 2011 and November 2013.³⁶ However, the TechCity website does not explicitly mention a role in relation to exports, and given the widespread publicity which it has gained internationally this is a missed opportunity to boost London's export potential.

Following the success of TechCity in focussing international interest on the emerging digital sector in London, the Mayor of London, working alongside University College London, King's College and Imperial

College, recently launched MedCity to provide a focus on London's strengths in life sciences, including through providing a contact point for international investors.

MedCity

“London is good at clinical trials and discovery; reasonable at development; ok at commercialisation but needs to be better at all of these to compete on a world scale.”

Eliot Forster, Executive Chair, MedCity

The MedCity partnership is a collaboration between the Mayor of London, Imperial College Academic Health Science Centre, King's Health Partners and UCL Partners. It is supported by Higher Education Funding Council for England.

MedCity aims to position the London-Oxford-Cambridge golden triangle as a world-leading, interconnected region for life science research, development, manufacturing and commercialisation. It will provide a concierge service to link up the offer from different partners and help to identify business space for expanding companies. MedCity wants to replicate the international interest that TechCity created and provide reasons for an on-going focus on the life sciences sector. Its biggest ambition is to deploy capital from London's financial sector into life sciences.

The London-Oxford-Cambridge region is a natural home for life sciences, boasting five out of seven of the UK's academic health science centres, six of the world's top 50 universities, and leading medical research institutes including the Wellcome Trust, the Medical Research Council, Cancer Research UK, the new Francis Crick Institute, the national Cell Therapy Catapult, and AstraZeneca's new Global R&D Centre. The NHS in London provides access to over eight million patients, over a third of whom were born outside the UK, making it an ideal centre for research on a wide range of diseases. There are also potential opportunities arising from the commercialisation of GP databases for therapeutic benefits and London is home to the Government-supported Open Data Institute which will provide assistance with data mining of large datasets.

By developing a coherent story for the life sciences sector and spotlighting London as the location for the industry, London-based companies should have a competitive advantage when it comes to marketing their services overseas.

London borough support

The amount of support for local businesses varies widely across London boroughs, with some actively seeking out opportunities to help their local businesses to export more, and others actively promoting industry clusters that are located within their boundaries. For example, the City of London regularly promotes the financial services sector, Enfield has been supporting companies associated with the green economy, and Camden is seeking to support the developing life sciences cluster. However, most of the economic development focus of London boroughs is around the offer of space for businesses rather than any specific role in helping them with exporting.

Hackney Council

Hackney Council has been promoting inward investment and export opportunities using an innovative model that leverages commercial support for their activities. During the Olympics, Hackney set up “Hackney House” as a reception centre and investment suite to showcase local businesses and succeeded in attracting 60,000 visitors over a four month period.

Working with an in-house team of five staff who have private sector experience and have developed a relationship with local companies, Hackney have built up a strong relationship between them and their local business community. Hackney have re-invigorated the concept of sister city agreements based on mutual trade interests. They have partnered with Austin, Texas due to common interests in sporting events, education and young people and took Hackney House to the SXSW festival with a range of sponsorship deals to cover the costs of the exhibition space and event activities. This included British Airways offering subsidised flights for local entrepreneurs to fly out to the event. Hackney returned with £8 million of investment for the local borough and an international awareness of the types of goods and services that Hackney based businesses provide.

Hackney have also set up sister city or localised agreements with Oslo and Barcelona, and are working through agreements with other key creative clusters from around the world to learn from others’ experiences and to provide Hackney based companies with access to a person in each city who can help them to understand how the local market operates.

3

THE BUSINESS PERSPECTIVE

As part of the research for this report, we undertook interviews with companies representing London's key sectors to gain a better understanding of their motivations to begin exporting, identify the challenges that they faced and the ways they surmounted these and to identify the types of public sector services that they would find most helpful. We also interviewed agencies involved in delivering export services for companies to see what factors determined their service offer, and have reviewed other research on the barriers and challenges to exporting.

Fifteen years ago, when we said 'international' we meant Ireland... now we have live projects in Chile, Brazil, South Africa, Australia, Turkey, Scandinavia, France, North America and Germany as well as in the UK. Fifty per cent of our work is international.

Dalziel and Pow, retail brand and design specialists

Who is exporting and not exporting?

A survey by the London Chamber of Commerce in May 2013 indicated that 46 per cent of London firms are exporting compared to 39 per cent of companies at a national level.

Global Cities Initiative research from interviews with companies based in US cities found that companies did not export as they lacked awareness or detailed knowledge about the opportunities associated with exporting, they had a general fear of exports or dealing with the perceived risks, and lacked familiarity with the exporting process in general.³⁷

Our interviews with London companies found similarities with the US findings. The principal reason companies gave for not exporting was that they did not consider that their product could be exported. This suggests that more work could be done to market the opportunities that exporting represents for companies, and specific programmes could be developed to work with companies to help them identify which of their products and/or services are most likely to work in an international market.

Table 3.1: Reasons London companies give for not exporting

REASON	PER CENT OF COMPANIES
Do not have a suitable export product or service	55
Other	26
Have sufficient business in the UK	21
Have difficulty sourcing market information and/or identifying export opportunities	5
Have difficulty finding overseas customers, agents and/or distributors	5
Cannot find the resources to make it happen	5
Language and/or cultural differences with overseas markets	5
Have limited knowledge of the commercial aspects of exporting, e.g. credit terms, collections and finance	2
Have fears of payment problems	2

Source: London Chamber of Commerce and Industry, International Trade Survey, 2013

Initial motivations for exporting

The word ‘serendipity’ arose frequently from the company interviews; chance meetings via existing networks provided companies with opportunities to find new clients overseas. The size and variety of networks in which a company participates is therefore a critical factor in encouraging more exports.

For Space Syntax Ltd, an architectural and urban services company created as a spin out company from University College London (UCL) 25 years ago, their academic networks have been instrumental in opening up new markets for them. The university connection also provided them contacts with ex-students who over time advanced to senior roles within their home countries and then offered opportunities to work with them.

The academic connection has been the bridge that got us over the barrier of lack of cash for speculative sales trips. UCL as a world university consistently in the top 10 is a great door opener...

Space Syntax Ltd

There is an important role for universities in supporting these global networks and in helping to link companies, and although some London universities (including Kingston, UCL and London Southbank) have activities to support entrepreneurship and SMEs there are currently no specific programmes on exports.

For other companies, the intention to export was there from when they initially established as they recognised the size and location of the market for their service offer. For example, AFrame, a company which provides a cloud-based service for collecting, managing and storing professional video, recognised that half of the global video market was based in the USA. Next year they anticipate that 70 per cent of their revenue will be from the USA and other countries. A further reason given by AFrame for wanting to have USA based clients is that it unlocked the ability to raise investment equity from the USA which enabled them to grow more aggressively.

We launched in London in 2009 and hired our first US employee in mid-2011. We formally launched in the USA in 2012. It was part of the plan to operate in the USA as soon as possible. To the US market we are a local business.

AFrame

For other companies, it was a restructuring of their existing client-base that opened up new doors for their exports: spin-off companies moved overseas, giving their suppliers the opportunity and motivation to move into new markets.

A lot of our clients came to us. In terms of design and retail the UK is looked at very well. People are interested in what our clients are doing. We reach out in countries where we have existing clients and piggy back on that.

Dalziel and Pow

On a more local basis, the restructuring of large life science companies and closure of plants in the UK has unlocked a large number of new companies with a global network of contacts.

We've been through the stage of life science monoliths and experienced a system shock which has made them seek ideas from other people... this had significant consequences for the industry. The number of employees dropped by a half and released them into the environment...

MedCity

Benefits of exporting

All of the interviewed companies identified that exporting had led to an increase in sales and company profitability, although there was a recognition that it took time to receive the payback and there was considerable effort involved in becoming a recognised ‘name’ on the global stage.

Case study – Fitzgerald and Law

F&L set up in London in the early 1990s offering corporate structuring and company law, tax planning and compliance, financial outsourcing, ongoing management and monthly accounting, payroll, benefits, HR advice and compliance, audit and statutory financial statements and IT and communications support.

Today, nearly 90 per cent of their clients are overseas companies who are seeking to set up offices in the UK as the entry point for their European operations. Once the client is established in London, F&L will assist them in setting up offices in other European countries – providing a single point of contact for the client regardless of how many countries they are operating in. To be able to offer this service, F&L established a trusted partner network of professional advisors via the GEA Network. F&L manages the whole process of setting up their clients’ offices in countries throughout the world. This new offer is the biggest growth area for F&L, and in just three years now accounts for 10-15 per cent of their company revenues.

Challenges London companies faced when exporting

When exporting, the companies faced a variety of challenges from dealing with food poisoning in foreign countries through to managing clients’ expectations in relation to providing creative services (so that clients understand there is a limit to the number of iterations the project costs covered).

Table 3.2 gives a flavour of some of the more frequently mentioned challenges and how companies said they had responded to them.

Table 3.2: Challenges to exporting and companies' responses

ISSUE	COMPANY RESPONSE
THEFT OF IPR	<p>Chalk it up to experience.</p> <p>Open-sourcing their software and trademarking their company name in key markets.</p> <p>Not working with the client again.</p>
NON-PAYMENT ISSUES	<p>Better credit checking of future clients.</p> <p>Asking for staged payments or upfront payment.</p> <p>Set up linked contracts to manage risk of non-payment and use of sub-contractors.</p>
FOREIGN EXCHANGE	<p>Sometime we win on the FX, sometimes we lose, overall seems to balance out.</p> <p>Have learned to hedge this.</p> <p>Ask for payment in sterling where possible.</p>
BANK RATING OF OVERSEAS CLIENTS FOR CREDIT PURPOSES	<p>Eventually had to move bank as the initial banking organisation seemed to deem foreign clients as higher risk even where we had a long history of payments from them, and were reluctant to extend my overdraft.</p>
IDENTIFYING OVERSEAS CONTACTS	<p>My bank introduced me to the right people.</p> <p>UKTI introduced us to a lawyer who helped us set up in New York.</p> <p>London Chamber of Commerce have been very helpful in connecting me to the right people.</p> <p>UKTI understand what is expected within the market place. They can give you contacts.</p>
MARKET INTELLIGENCE	<p>Accessed a range of materials from trade associations and read their latest surveys.</p> <p>When we were establishing our networks we went to visit the country, we had the language of "accountancy" in common and most of our network is from recommendations.</p> <p>Used UKTI services.</p>
CULTURAL ISSUES	<p>Pulled out of working with China; we found it very problematic and painful. Issues with the language, culture, value, lack of clarity from client, hidden agendas – who is the real boss?</p> <p>The USA only wants to deal with other US based companies; they seem reluctant to dial +44. We set up an office there and staffed it with locals.</p> <p>China has been made possible for us as we have been travelling with connections made through UCL. There is a massive Chinese academic network at UCL. We have been taking advice of people who know China really well and avoided problems such as non-payment. It is a culture shock but it is a great place to do business. We've made use of our personal contacts – trust is important if you want to do business.</p>

The companies that were interviewed represented London's service sector and did not raise any concerns with obtaining financing to enable them to export, although some did mention that tax breaks on exploring new markets would be welcomed. However, other surveys have highlighted that problems with accessing finance are preventing companies from starting their export journey. The British Chamber of Commerce survey highlights that a third of micro and small firms (35 per cent and 32 per cent respectively) have stated financial resources are highly influential when deciding if, when and where to export. A further 20 per cent of medium/larger firms report the same. They also found that awareness of export finance support is still limited.³⁸ The Confederation of British Industries also called for the promised improvements in export finance to be swiftly delivered and intensively marketed.³⁹ In 2013/14 UK Export Finance assisted 130 exporters covering 71 countries to a total value of £2.3 billion (although £1 billion of this was on a single contract supporting Airbus) and used less than half of the funds available to UK Export Finance to assist companies to export.⁴⁰

A survey by the British Chambers of Commerce asked companies about how influential various factors were for companies when deciding if, when and where to export. The results from London companies showed that cashflow and payment risks and ease of accessing the market were the most influential factors, closely followed by access to finance and assessment of size of potential markets. See Figure 3.1.

Future export intentions

The companies interviewed intended to strengthen their presence in the traditional markets of the USA and Europe and expressed strong ambitions to grow their exports more widely. They were actively seeking new markets for their services, with the most commonly mentioned location being Singapore as the launch point to grow their Asian markets. Australia and New Zealand were also high on the list of new opportunities.

In some cases, companies had made a tactical retreat from initial export initiatives, particularly where these had involved establishing a local presence. One of the companies had set up offices in China and India but had closed both of these – the former because China was not yet ready for their service offer, and the latter because they could work through an agent in India to service their clients within that country and did not need the additional expense of maintaining an office.

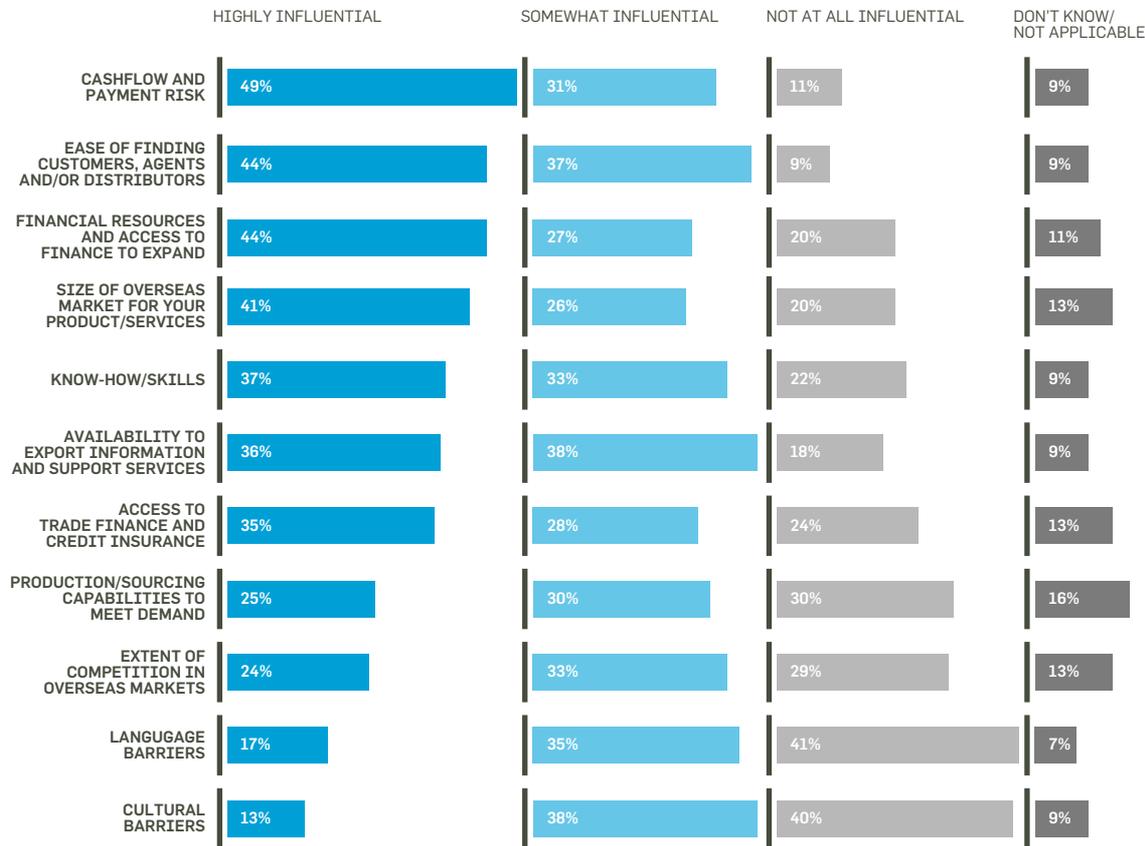


Figure 3.1: Factors influencing potential exporters in deciding if, when and where to export
 Source: London Chamber of Commerce and Industry, Trade Survey 2013

Case study – Dalziel and Pow

Dalziel and Pow are a retail brand and design specialist whose clients include Primark, John Lewis, Samsung, and Next. Over the past ten years they have been actively seeking international opportunities. In recent years their company’s turnover has grown by double digit numbers following this strategy, and they have active projects within Chile, Brazil, South Africa, Australia, Turkey, Scandinavia, France, North America, Germany and the UK. They have previously provided services in Canada, Russia, the Middle East and Asia.

Dalziel and Pow have an in-house business development team who actively seek new opportunities, linked to a new business strategy plan. Their staff speak over 20 different languages between them, which helps when dealing with international clients. They see future opportunities opening up in South Korea, and more growth from North and South America and Australia.

Views on public sector support services

When asked about use of public sector support services in helping companies along their export journeys there was a wide variation in responses, from a complete unawareness that the public sector offered any support with exports, through to a very successful collaboration with UKTI that resulted in the launch of a company by the Governor of Massachusetts in front of 250 journalists.

The most common responses when asked about the services offered by the UKTI were:

1— Lack of awareness of offer, confusion over types of companies that UKTI assist and lack of transparency in accessing services.

Export services are for the big boys who have the ear of the Government. How do they get to join the trade missions?

Professional services company

Awareness of UKTI's offer among businesses is low. A recent survey of UK companies showed that just 54 per cent were aware of UKTI's role in helping businesses do work overseas,⁴¹ and some of the smaller companies interviewed for this report were also unaware of this. It is perhaps in response to this lack of awareness that a new campaign ('Great Business') has recently been launched to promote export opportunities and provide a single point of access to a range of business support services including export advice.⁴²

Another reason that UK companies are not exporting is that they do not recognise that they have an exportable service or good (over half of companies in London who are not exporting cite this as the main reason why they are not exporting according to the LCCI survey).⁴³ Further work may be needed to help companies identify whether their goods or services are actually exportable in the first place before then further engaging with companies to help them to begin exporting.

Other companies were under the impression that UKTI services were solely tailored for larger companies. There was also a lack of clarity about opportunities to join high profile trade missions held by the Prime Minister and Mayor of London, and about how a company would be invited to join the "High Growth Programme" which brings benefits such as matched funding for costs associated with exploring new markets, and access to the Cass Business School executive courses. The cost of joining trade missions was also thought to be too high for small companies to be able to participate.

2—Praise for UKTI market research and communications offer but criticism for lacking commercialism and focus

To do preparatory work to begin to understand the market UKTI laid on seminars, put us in touch with companies that have done what we were looking to do and provided us contacts for businesses in the target countries. You can take as much from these as you want...

Bulletproof

Several of the companies felt that the strength of the UKTI was in the background research, providing general market research and being a first point of contact for them when exploring new markets.

It never felt that they were focussed enough on our sector or our end clients...

Dalziel and Pow

However, there was also strong feedback that the events organised by UKTI were too broad brush and not focussed on individual sectors or helping companies to find actual clients. In terms of lead generation from UKTI activities it was felt that they were sometimes forwarding queries which were too early in the business stage to be of commercial use.

3—Awareness of the availability of in-country connections

UKTI is a hidden gem in the fact that it has so many people overseas who are in post and who are good quality and can effect introductions to local markets and can share experiences. People don't use enough of the overseas network. The real intelligence are the people out in the posts.

Deloitte

Companies reported that UKTI had a wealth of knowledge about the overseas export markets and that some of the in-country staff were highly valued in providing connections. The ability to use space within UK Embassy buildings overseas was also raised by a number of companies who thought that this was very useful and helped to impress potential clients. However, there were concerns that you could be passed through many staff before finding the person who was most able to help with the company's query, and a desire for UKTI staff to come out of their offices more and work with companies and other agencies on a more personalised basis.

Wider government role in encouraging exports

The direct role that government and the Mayor of London play in delivering programmes targeted at helping firms to export is, however, only a part of the role they can play in fostering a business environment that supports exports. The companies we interviewed, and research undertaken by third parties, highlighted a number of areas where government should be aware of the potential impact on exports.

Beyond UKTI's role in encouraging exports, concerns were raised by the companies around potential changes to Enterprise Investment Schemes tax reductions as these were viewed as vital for encouraging small businesses in the UK.

It was felt that more emphasis needed to be placed on improving language skills in education, particularly with respect to Chinese languages, to help improve the appeal of the UK as a destination for Chinese visitors.

There were also concerns raised around how UK banks rate overseas clients, and the negative impact that this was having on credit lines for companies.

It was felt that changes to the visa system were having a negative impact as Britain was no longer viewed as 'welcoming' to overseas visitors, and that the reduction in student numbers from India was related to the removal of the ability for these students to work whilst they studied, which had helped to mitigate the high costs of living in London. A couple of companies reported losing staff who chose to return to their home countries owing to uncertainty about whether their visas will be renewed (although in one case the impact was mitigated by the staff member involved helping their employer to establish a presence in the country to which they moved).

The Mayor stomping around shouting about how good London is – it's useful. It elevates us on the world stage.

AFrame

The Mayor of London was recognised for his role in raising the profile of London on an international stage and for promoting specific events and sectors on his trips abroad, though there was more limited awareness of the opportunity to join him as part of his trade missions.

There was a much stronger recognition by the companies interviewed of the Mayor's role in helping to ensure that London retains a compelling offer for businesses wishing to operate out of the city and to ensure that it was viewed as open for international trading. London ranks more highly on the CityTrak reputation index than the UK, with

a score of 74.44 compared with 65.12 in 2013,⁴⁴ providing an ideal platform for a London's export programme.

Concerns were raised around the high costs of living in the city and housing in particular (also identified by the Confederation of British Industry's recent survey of London's businesses as the "one of the biggest threats to competitiveness")⁴⁵ and what could be done to help reduce them for those living in the city and for those visiting it, including as students.

There has been a growth in private providers of student residences, but some of these are playing on fears and anxieties of overseas students who are paying vast amounts of money. It is an easy but expensive option.

University College London

Mention was made of the need to improve airport capacity and the range of destinations with particular mention of the delays caused when using the VAT refund desk.

London airports and the immigration process are seen as very inefficient compared to other airports. The hardware has improved recently but service levels are very poor. The VAT refund office – people queue for two hours. It needs urgent attention. Four hours at an airport before take-off is a joke. We need a target for waiting times for VAT refunds.

Y&L Europe Co.

Concerns were also raised around the quality of high speed fibre networks and internet connectivity for businesses based in London and how the Mayor can best encourage the suppliers to improve these to all parts of London. The Mayor recently hosted a "Connectivity Summit" at City Hall with internet providers to discuss introducing a connectivity rating scheme for office space across London, using street furniture to improve connectivity and to identifying a range of actions to solve London's connectivity issues.⁴⁶

Some businesses as well as London's business representative organisations have also argued strongly that London needs to remain part of the European Union. London First's Boardroom Barometer showed that 84 per cent of Chief Executive Officers and Senior Executives surveyed across London are in favour of remaining in the European Union. With GDP of \$17.35 trillion in 2013, the EU is the largest economy in the world, ahead of the USA (\$16.8 trillion) and almost twice the size of China (\$9.2 trillion).⁴⁷

RECOMMENDATIONS

The offer of support by the public sector to companies is rapidly changing and there are a number of new initiatives recently launched including a media campaign raising awareness of Government business support services and an e-exporting programme by UKTI that aims to help companies access international e-market places. The following recommendations are made to help steer the direction of future public policy support programmes to encourage more London firms to export their products and goods.

Recommendation 1:

The Mayor of London should take a strategic lead role for trade for London, orchestrating closer co-operation between the agencies involved in export promotion, and developing an Export Plan as a framework for better co-ordination and integration with London's wider economic development strategy.

UKTI have already committed to “working with devolved administrations in the light of their existing national trade and investment programme and initiatives to promote common approaches wherever possible”.⁴⁸ These links need to be strengthened for London given the major role that the city has in exporting services, and may be more effectively delivered if targets are set to reflect London's specific economic profile.

There also need to be stronger links between teams dealing with foreign direct investment and those who are helping companies to export. Given that foreign owned companies have a higher propensity to export it will be useful to provide networking opportunities for their knowledge of and skills in exporting to be shared more widely.

The Mayor of London should seek to orchestrate the work of the different agencies involved in providing export support services to ensure that a coherent offer is available for London companies, with clear signposting between different services. Learning from the experiences and approaches adopted in other cities from around the world – including the extensive work of the Global Cities Initiative – the Mayor should develop an Export Plan which could provide the framework for this co-ordination.

Recommendation 2:

The Mayor of London should lead a programme to help London companies understand the opportunity for export and identify if they have export potential.

The biggest barrier to exporting is companies not believing that they have a product that could be exported. The Mayor should build on existing publicity campaigns – and on the successful history of engaging with London companies around campaigns such as the London Living Wage and the use of apprentices – to promote the message that exporting is good for companies and that there are a tailored range of services to help them along their way.

‘Given the frequent references to banks’ role in supporting companies to export, the working group should also consider the role of retail banks in helping to reach out to companies who would not otherwise engage with the public sector.

The programme of support from the public sector needs to include assisting companies at the very early stages of exporting in order to develop a future pipeline of companies with an ability to export.

Recommendation 3:

The London Enterprise Panel (LEP) should develop a clear roadmap to help businesses along the road to export.

There are many agencies that businesses can turn to in order to begin or further develop their exporting practices, and a wide variety of programmes available. There is an urgent need to simplify access to these services and help companies to identify what type of support is available to them at different points along their path to exporting. The London Enterprise Panel should work closely with the Mayor of London to produce a roadmap that is aimed specifically at supporting London based companies.

Recommendation 4:

The Mayor of London and LEP should use existing programmes and contacts to identify and seize opportunities to boost exports.

The GLA is engaged in a wide range of programmes that seek to attract visitors from overseas. When the planning is in process for these individual programmes there needs to be an additional thread that seeks to identify further opportunities for encouraging business networking opportunities. For example, the ‘summer of high streets’ programme could have included inviting UK retail space designers to showcase their offer to overseas retailers. To help London’s exports grow, every possible opportunity for networking London businesses with potential overseas clients should be identified and seized.

Recommendation 5:

The Mayor of London should continue to promote the ‘London’ brand and develop the city’s infrastructure.

London needs to remain an attractive location for companies to locate in. The Mayor’s London 2050 Infrastructure Plan provides a valuable starting point. The Mayor of London should focus on developing the infrastructure that allows London to remain competitive on a global stage and urgently needs to address issues related to the high and increasing costs of living in the city as well as acting as a voice for London businesses in national policy making.

Recommendation 6:

Government needs to produce baseline data at a city level for locally produced goods and services exports, so that London can properly target and evaluate initiatives.

It is welcomed that the ONS and GLA have jointly commissioned a survey of London businesses that includes questions related to exports. This experimental series will report in autumn 2014. However, given that London’s economy is dominated by companies within the services sector and that it accounts for half of all national service sector exports, it is essential that we better understand service sector exports across the UK. London needs a reliable baseline upon which to develop and measure the impact of public sector policy initiatives including exports from the transport, travel and banking sectors which are not currently measured by the International Trade in Services survey developed by the ONS.

Recommendation 7:

The Mayor of London and Government should continue to evaluate services and work to widen access to programmes.

A recent evaluation of London & Partners’ activities shows a return on investment ratio of 15:1,⁴⁹ similarly the “GREAT Britain” campaign has shown a return on investment of over £500 million from an annual budget of £30 million.⁵⁰ Ensuring that the UK and London offer remains visible overseas is a vital part of increasing the opportunity for exports and the high profile visits and campaigns of Government should continue along with evaluation of activities to enable more efficient and effective targeting of limited resources.

Given the positive feedback from London businesses on the Mayor’s work to promote London on the international stage, the GLA and

London & Partners should seek to make the most of links between trade missions and mayoral visits, and should consider expanding the programme. Recruitment to the Mayor's Export Programme missions should be transparent and the selection criteria made obvious on the GLA website.

There is also a need for greater transparency about how UKTI programmes are accessed, including not only high profile trade missions, but also how companies are selected to join the 'high growth programme' and clarity on the amount of and access to funding for companies to help them export.

APPENDIX 1

DEFINITION OF SERVICE EXPORTS

Transportation Services – This includes sea, air and other (rail, land, and pipeline) transport. It includes the movement of passengers and freight, and other related transport services, including chartering of ships or aircraft with crew, cargo handling, storage and warehousing, towing, pilotage and navigation, maintenance and cleaning, and commission and agents' fees associated with passenger/freight transportation.

Travel – This includes goods and services provided to visitors to the UK who are here for less than one year in duration. Education related travel exports cover the tuition fees and other expenditure of students who are funded from abroad and studying in the UK.

Communications services – This covers two main categories of international transactions: telecommunications (telephone, telex, fax, email, satellite, cable and business network services) and postal and courier services.

Construction services (where projects are based overseas and do not have a permanent base intended to operate for over a year).

Insurance services – This covers the provision of various types of insurance to non-residents by resident insurance enterprises. Insurance services include freight insurance on goods being exported, direct insurance (such as life, accident, fire, marine, and aviation) and reinsurance.

Financial services – This covers financial intermediary and auxiliary services other than those of insurance companies and pension funds. It includes services provided in connection with transactions in financial instruments, as well as other services related to financial activity, such as advisory, custody and asset management services. These services may be charged for explicitly, for example through fees and commissions or implicitly, such as in the price spread offered in market making and foreign currency transactions. Financial services also include financial intermediation services indirectly measured (FISIM). FISIM represents the implicit charges for the services related to borrowing and lending that are provided by monetary financial institutions and paid for by the interest differential between borrowing and lending, rather than by fees and commissions. FISIM is exported by UK monetary financial institutions.

Computer and information services – This covers computer, news agency and other information provision related service transactions. Examples of these services include data processing; hardware consultancy; software implementation; maintenance and repair of computers and peripheral equipment; the provision of news, photographs and feature articles to the media; database development,

storage and dissemination both through the internet and through magnetic, optical or printed media; and direct, non-bulk subscriptions to newspapers and periodicals.

Royalties and licence fees – This covers the exchange of payments and receipts for the authorised use of intangible, non-produced, non-financial assets and proprietary rights (such as patents, copyrights, trademarks, industrial processes, and franchises) and with the use, through licensing agreements, of produced originals or prototypes (such as manuscripts and films).

Other business services – This covers merchanting (which is where a UK resident purchases a good from a non-resident and subsequently resells the good to another non-UK resident without the good entering the UK), and other trade-related services; operational leasing services; miscellaneous business, professional and technical services such as legal, accounting, management consulting, recruitment and training and public relations; advertising and market research and development; architectural, engineering and other technical services.

Personal, cultural and recreational services – This covers audio-visual and related services and other cultural and recreational services. The first category covers services and associated fees relating to the production of motion pictures (on film or video tape), radio and television programmes (live or on tape), and musical recordings. It includes rentals; and fees received by actors, directors and producers. The second category covers all other personal, cultural and recreational services including those associated with museums, libraries and archives, and provision of correspondence courses by teachers or doctors. Income received direct from abroad by examining bodies and correspondence course colleges is also included.

Government services – This covers all transactions by embassies, consulates, military units and defence agencies with residents of staff or military personnel in the economies in which they are located. Other services included are transactions by other official entities such as aid missions and services, government tourist information and promotion offices, and the provision of joint military arrangements and peacekeeping forces (for example, the United Nations).

A range of sources are used to calculate service exports including the International Trade in Services Survey, International Passenger Survey and data obtained directly from relevant industries.

Source: IMF, Balance of Payments Methodology, version 5.

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London has a long and rich history as an exporting city, but patterns of world trade are changing fast with exporters looking beyond traditional markets to the emerging economies of Asia and South America.

Trading Places: Maximising London's Exports Potential looks at the changing patterns of London's exports, at businesses experience of the challenges and barriers they met and at the value and accessibility of services designed to support firms with export potential. It makes the case for London to develop a strategic Export Plan, for better integration of services and for enhanced efforts to make the most of London's huge export potential.

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