



IoD POLICY PAPER

Setting a Meaningful Export Target for Britain

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Introduction

The ease with which UK companies can sell goods and services abroad has moved centre stage in recent years as Britain debates the nature of its future trading relationship with the European Union and seeks to sign Free Trade Agreements with other jurisdictions. To signify its ambition, government has also, unusually, set a policy target of achieving exports worth £1 trillion per year by 2030¹.

In this note we explore whether the £1 trillion headline target is appropriate and consider whether there are alternative measures that better capture what government export policy is trying to achieve. We conclude that because the current target is affected not only by inflation, but also by longer-term global economic trends, a preferable measure would be linked to the volume of trade and set at a level that takes account of trend growth rates. In addition, we also urge a second target: to increase the proportion of UK businesses that are exporters.

Meaningful targets would enable parliament to better judge the success of government policy designed to support exporters, as well as providing government itself with a framework around which it can judge the effectiveness of different policy interventions.

¹ <https://www.gov.uk/government/news/made-in-the-uk-sold-to-the-world-new-strategy-to-boost-exports-to-1-trillion>

The impact of inflation

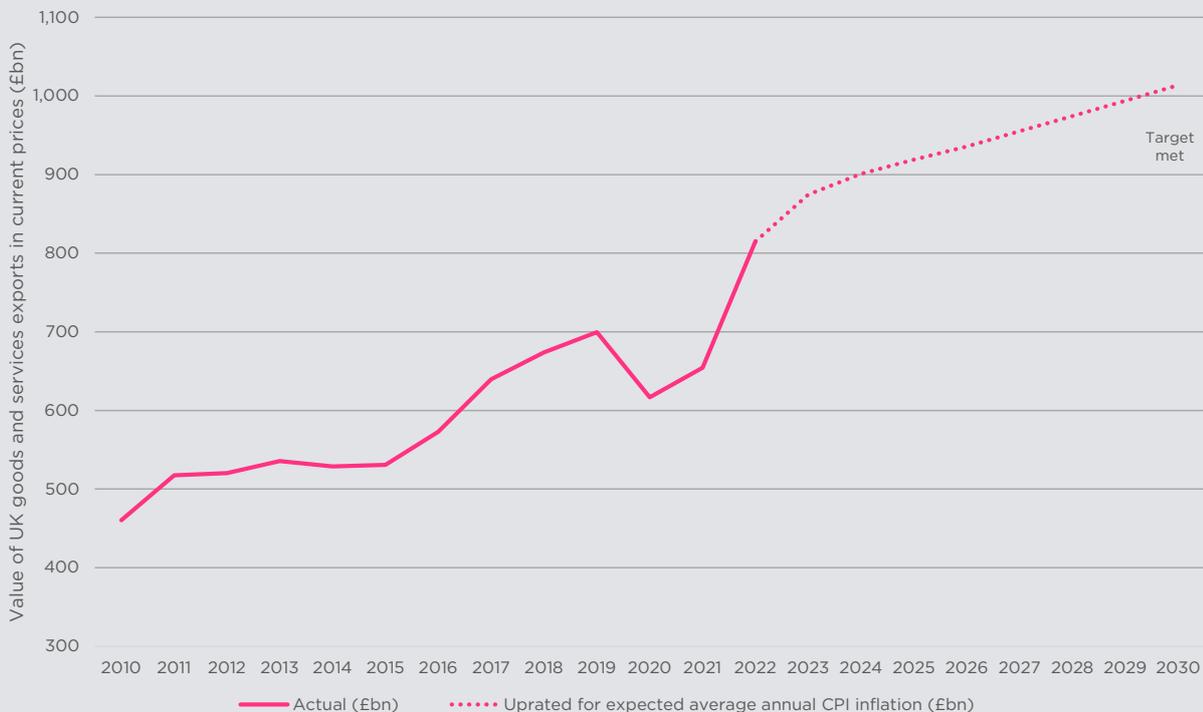
The most recent ONS data shows the total value of exports in goods and services from the UK in 2022 was £815 billion in current prices². At first glance this looks like a strong result. Not only is it up a quarter on the previous year - helped by the recovery of global trade flows after the disruption of the pandemic - but also it easily surpasses in value terms the £700 billion of total exports undertaken in 2019.

From this 2022 baseline, the value of exports would need to rise by 2.7% each year between now and 2030 to hit the government's £1 trillion target, which sounds like a reasonable ambition, until we take account of the effect of inflation.

In fact, uprating the value of exports in 2022 each year by the expected CPI inflation rate from now to 2030 causes the target to be met naturally, as chart 1 below shows.

In other words, the government has picked a target that can be met as prices alter even if the number of actual items being exported stays the same. Even after we take account of the fact that the composition of exports does not map exactly to the items used to calculate the CPI index, this realisation does not inspire confidence that the government has set itself a target that measures anything meaningful either in policy terms or in how it relates to the lived experience of UK businesses.

Chart 1: total value of goods and services exports in current prices 2010-22, then uprated by CPI.



Sources: ONS (actual); Average of independent medium-term annual average CPI forecasts, HM Treasury August 2023 p20. Latter years assumes BoE target of 2% CPI inflation.

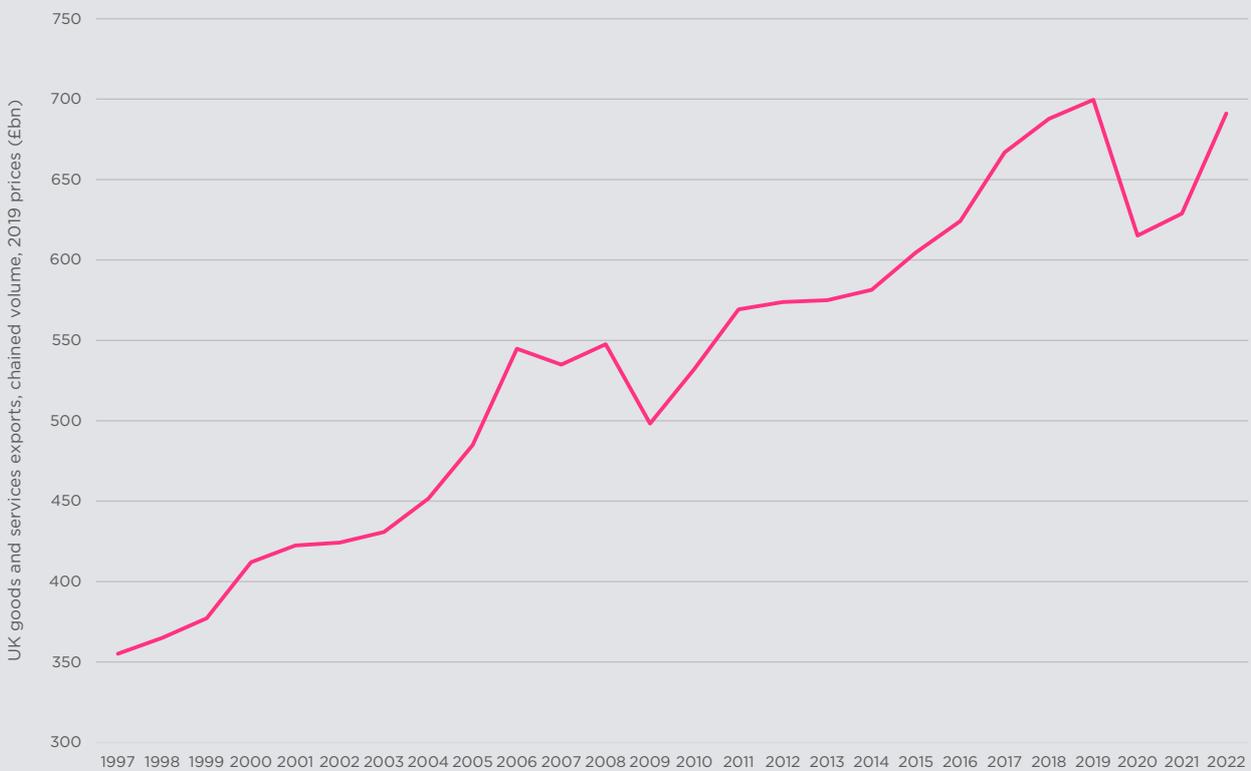
² Balance of Payments method, used for calculating GDP. Includes precious metals.
<https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/uksecondestimateofgdpdatatables>

A volume-based measure

Therefore, as a first step, the government would be better to set an export target using a real-terms data series. This suggests using the separate ONS chained-volume measure that, while also expressed in billions of pounds, removes the effect of inflation by capturing the volume rather than the value of goods exported, and then expressing that in 2019 prices. This is also the measure that feeds into the national calculations of GDP and balance of payments.

Looking at UK export performance through this lens tells a different story. When expressed in 2019 chained volume prices, the total value of goods and services exported in 2022 was £691 billion which, although an improvement on 2021 as international trade recovered in the aftermath of the pandemic, was still below the £700 billion achieved in 2019 (see chart 2 below).

Chart 2: total value of UK exports of goods and services 1997-2022, chained volume measure



Sources: ONS (actual); Average of independent medium-term annual average CPI forecasts, HM Treasury August 2023 p20. Latter years assumes BoE target of 2% CPI inflation.

IoD member experiences

Our own internal data, gained through surveys of IoD members, is consistent with a story of trade volumes that have weakened in recent years. We find a small yet measurable proportion of UK-based firms – around one in ten of our members – that tell us they used to export but do not do so any more. Further exploration suggests the main reasons are the new barriers to trading with the EU, not helped by further pressures during the pandemic. Others, particularly smaller firms, tell us that while they are still exporting, they have seen a decline in business. Larger firms have generally been able to adapt better, although the cost of exporting has in some cases risen³.

Some firms have reoriented away from the European markets as a result of Britain leaving the EU. However, while that can fill some of the revenue gap, they tell us that seeking new markets can feel like second best: compensating for difficulties by reorientating is very different from entering new markets to achieve greater overall growth.

That being said, there are some positive signs for the future: when asked to compare the last 12 months to the next in terms of outlook for exports, more IoD member firms are expecting growth than decline. Our survey data from August, for example, shows 20% of businesses anticipating higher levels of exports over the next year compared with 7% expecting lower levels. 35% are not expecting a change in exports at all.

35%

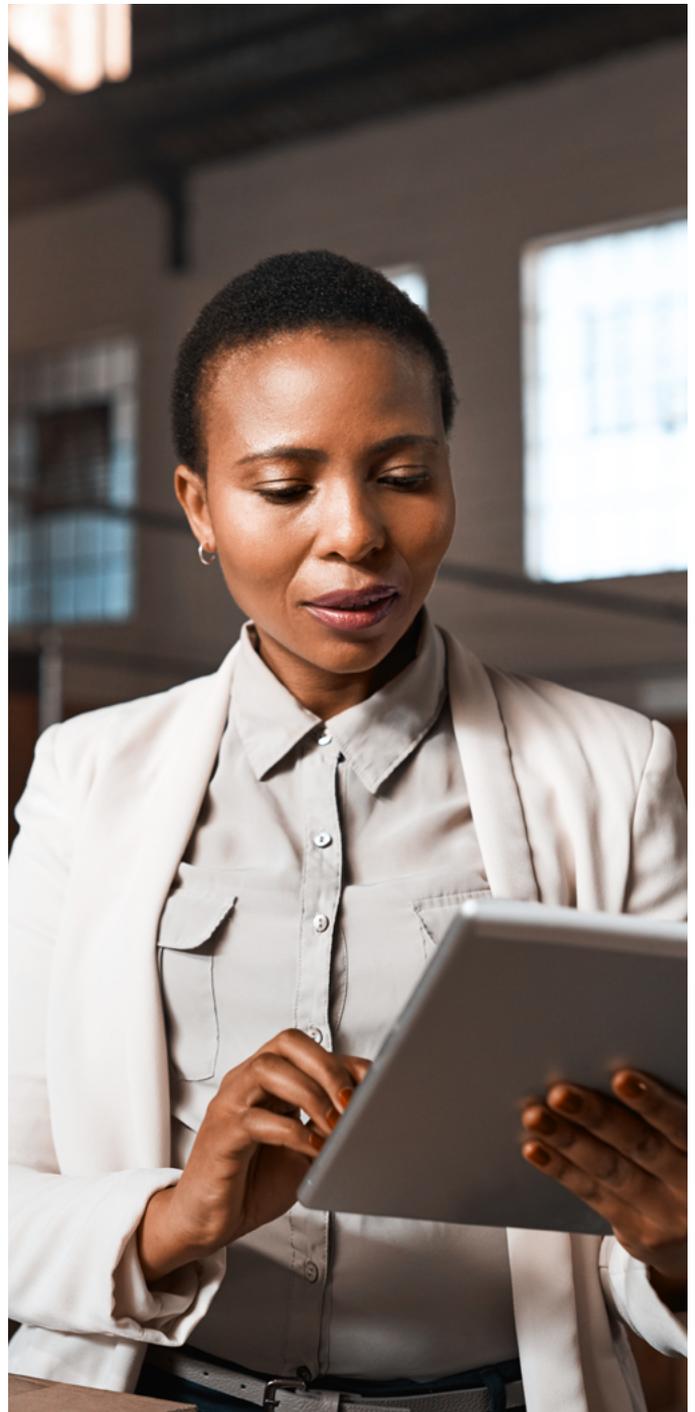
of businesses are not expecting a change in exports at all

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7%

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³ Exporting in a post-Brexit world: an agenda for the UK government. IoD 2023



Longer-term trends

A further issue that arises when setting an export target is that, over time, cross-border trade correlates to the strength of both the national and the wider global economy. The general long-term trend of increases in global prosperity and living standards would, all else being equal, therefore be expected to link to increases in both the value and volume of goods exported from Britain. There are of course years when this does not happen, due to slower growth or recession either at home or abroad, but the underlying trend is positive.

For example, even after removing the impact of inflation, the average growth rate of export volumes from 1997 to 2019 was 3.2%. Without adjusting for inflation it was 5%.

Within this, there is some variability, as can be seen from chart 2. For example, exports fell by 9% in 2009 following the global financial crisis. However, the overall trend is clear: Britain's export volumes have tended to rise over time as the broader national and international economy has grown.

Therefore, when setting an export target, we need to be mindful of what might reasonably be expected due to the long-term trend rate of export growth given Britain's position in the world even before the impact of any additional policy measures is considered.

Our proposal

So, what would a reasonable target be? Our discussion so far suggests it should be expressed in volumes rather than current prices, and it should also take account of the long-term trend rate of export growth.

Using the ONS chained volume measure, then applying the pre-pandemic long-term trend of 3.2% growth, would give a target of £890 billion by 2030 in 2019 prices.

Stretching this to £900 billion by 2030 would therefore feel like a reasonable target. In particular, by extrapolating from the previous long-term trend rate of growth, it would send a strong signal of the government's ambition to ensure that the experience of exporters hasn't been dented in the long run either by leaving the EU or by the pandemic. True, it doesn't give any leeway for 2030 being a recessionary year, but given the target is being set seven years in advance and based on a historical long-term trend, it should be able to take account of peaks and troughs along the way.

To obtain a full picture, however, we also think it appropriate for the government to also set a second target to increase the proportion of all companies that currently export. Doing so would align the actions of government to the real situation faced by businesses such as those we represent and ensure that the impact of policy measures designed to make it easier for exporters is fully captured. We know from our own data, for example, that some companies have decided in recent years that exporting is too costly: were firms such as these to start exporting again, even if only a little, it would say something important about the impact of government policy.

The most recent ONS data, taken from the 2021 Annual Business Survey, gives a figure of 11.4% of all UK businesses that exported goods and services in that year, varying from 10.6% for businesses employing under 50 people to 40.5% for businesses employing over 250 people⁴.

In the last ten years this proportion has fluctuated between 9.3% (2016) and 11.6% (2013) with no discernible trend. We therefore suggest the government should set a target of achieving a step-change in the proportion of all businesses that export to, say, 15% by 2030 which is equivalent to an additional 90,000 exporting firms. This would focus government attention on ensuring that products and services that are potentially exportable are identified and the relevant firms supported to take their first steps to find markets outside the UK.

The national UK data also masks considerable differences in different parts of the country. The Institute of Exports, for example, highlight the discrepancy between London and the South East and other UK regions and nations in terms of services exports⁵. We urge the government to actively consider the role that each UK nation and region can play in increasing the proportion of businesses that export in the UK as a whole, to increase government focus on local development across the country and broaden the potential for future economic growth.

⁴ In contrast, around 60% of IoD members are exporters.

⁵ https://cdn.ymaws.com/www.export.org.uk/resource/resmgr/docs/policy_papers/IOE&IT_GlobalHorizons_Final_.pdf

Conclusion

In summary, the government's target of £1 trillion of exports in current prices by 2030 is not sufficiently stretching. Instead we urge:

- A chained-volume target of £900bn of exports in 2019 prices by 2030
- A second target of 15% of all businesses exporting either goods or services by 2030

To help achieve the latter, there should be a focus on the appropriate contributions to be made for regions and nations of the UK.

Taken together these two targets would be sufficient to form a judgement of the success of government policies in a way that feels meaningful to the real-life experience of business today.

The Institute of Directors will continue to track the implementation of policy designed to spur exports and hold the government to account in evaluating the impact of their measures.

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The Institute of Directors is a non-party political organisation, founded in 1903, with approximately 20,000 members. Membership includes directors from right across the business spectrum – from media to manufacturing, professional services to the public and voluntary sectors. Members include CEOs of large corporations as well as entrepreneurial directors of start-up companies.

The IoD was granted a Royal Charter in 1906, instructing it to “represent the interests of members and of the business community to government and in the public arena, and to encourage and foster a climate favourable to entrepreneurial activity and wealth creation.”

The Charter also tasks the Institute with promoting “for the public benefit high levels of skill, knowledge, professional competence and integrity on the part of directors”, which the IoD seeks to achieve through its training courses and publications on corporate governance.

iod.com



The logo for the Institute of Directors, consisting of the letters 'I', 'D', and 'O' in a stylized, serif font.