Trade and UK Productivity: From Global Markets to Local Gains

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Bart: Is the rollercoaster of tariff announcements, renouncements, digressions and escalation driving you crazy. Are you begin to lose track of what this means for your business, for the UK economy or globally? Do you wonder how all this uncertainty will impact on your investments and policy decisions? Then it's time to take a step back and seek the big picture.

Welcome to productivity puzzles.

Hello and welcome to Productivity Puzzles, your podcast series on productivity, brought to you by The Productivity Institute. My name is Bart van Ark and I'm a professor of Productivity Studies at The University of Manchester and the Director of The Productivity Institute, a UK wide research body on all things productivity in the UK and beyond.

Welcome to episode 12 of Productivity Puzzles, the last one in Season 3. For all previous episodes of this season or previous seasons, please look in your platform or go to The Productivity Institute website just in case you miss some of the previous shows. The summer might be a really good time to catch up with some of those.

In this last episode, we finish with a bang. But hopefully a somewhat different bang than the one that we are focusing on today that has shocked the world. How the tariffs have created all this turmoil in recent months. But this won't be your “umph” podcast on the trade war although we cannot entirely avoid talking about it, of course. But we also want to step back a little bit and discuss why trade actually matters for productivity.

We'll discuss what the current state of UK trade is, following the twin shocks of Brexit in the pandemic, but also dive into the more structural issues that have left the UK vulnerable to trade shocks such as deindustrialisation and low investment and weak productivity. And we'll look at the role of services trade, which is quite often overlooked as a key driver in the UK economy.

And then finally discuss what kind of trade policies and international agreements could help rebuild the UK trade strength and boost productivity. So a lot to talk about, and as always, I will do that with a terrific panel of experts. First, Jun Du is a professor at Aston Business School and the Director of the Centre for Business Prosperity, which works on a broad range of topics on trade policy, internationalisation strategy, global value change, sustainable transformation, and resilience.

Jun's research, also for TPI, focuses on the drivers and barriers to productivity, growth, and economic development, particular through the lens of international trade innovation and firm dynamics. Jun, welcome to the show. Great to have you on.

Jun: Thank you for having me.

Bart: Next, Emily Fry is a senior economist at the Resolution Foundation since March 2022, where she focuses on the intersection of productivity, trade, and energy and living standards in the UK.

Emily has also been one of the main researchers on the Resolution Foundations 2030 inquiry, which was finalised in 2024. Great to have you on today, Emily.

Emily: Thanks for having me.

Bart: And last but not least, our third panellist brings the practical experience to the discussion. Alan Lowry, who's the CEO of Environmental Street Furniture, a global designer and supplier of outdoor furniture solutions in Newtownabbey, in Northern Ireland.

And in his 12 years at the helm of the company, Alan has made ESF into a thriving international exporter, now serving clients in over 27 countries, including some of the world's leading theme parks. Alan, great to have you with us today.

Alan: Thanks Bart. Delighted to be here.

Bart: So let's get started, and maybe we should start with something that we quite often take for granted, namely that productivity and foreign trade go together.

It's something that goes back as far as Adam Smith's specialisation thesis in the Wealth of Nations back in 1776. But to be frank, Donald Trump isn't the first one to challenge that idea. So it might be good to remind ourselves of what is this really about? So, Emily, why does trade matter for productivity?

Emily: So the first fact is that countries are really good at making different things. They're a bit like people in that way. We all have different skills. Countries also have very different skills. So there could be a world where each country makes everything that we want to consume, but in that world, you'd end up with a lot fewer products and it would probably be pretty expensive to make a lot of them.

For example, if we imagine that people consume a lot of coconut water in the UK. It'd be very difficult for us in the UK to grow coconut trees and then make that into coconut water to consume if we wanted to do that end-to-end. So, if we think about the world where we do trade, that means we can have much more variety and lower prices.

And I think one kind of surprising thing is that even when countries make similar things, they still trade with each other. So if we look at the UK, for example, our biggest export last year was cars. And our biggest import last year was also cars. Why might that be? Well, there could be a world where we say, let's all drive the cars that we make in the UK.

We can all drive Rolls Royces and Bentleys, but actually we like a bit of variety. And some people in the UK want to drive Fords and Volkswagens and also want to drive cheaper cars as well. So you can get both that variety effect, but also the price effect. And so when you are thinking about productivity, we can think about how trade opens us up to different and also better inputs into our production processes. So we can buy services, we can buy goods from overseas, and we can include them into our supply chains. We can take part in much bigger supply chains that are quite complicated and it would be very difficult to do that if we had to make everything entirely at home.

The other reason that, you know, it's quite interesting that we all good at making different things is that trade also reinforces that that point that it makes sense for us to specialise and it makes sense for us to specialise in what we're relatively good at.

And that is, as you know, we've referenced Adam Smith already, this is a big Ricardian theory, but it's known as your comparative advantage. And in the UK we've got these advantages in almost every single services category, but also we've got several pockets of goods categories like art, whiskey, and cars. And specialising in that way means that you can focus where you're most productive.

You don't have to do everything yourself. And you can also benefit from a much bigger marketplace when you do do that trade liberalisation, you can sell into significant economies of scale.

Bart: So this is a good start and I will come back in a minute to the counter argument, but Jun, Emily talked very much about the economy and why this is important for the productivity of the economy. But why is it also important for firms to be involved in exports?

Jun: To be able to trade internationally is really important for firms. Maybe not just for the firms who trade directly, but also for firms who trade perhaps supplying or being customer of somebody who trades. I guess the first thing to say is that it indicates firms that are sufficiently productive to be able to afford to trade as trade can be quite expensive.

Think about upfront costs of getting products and services researched, marketed, compliances checked, and other fixed costs of, for example, logistics and distribution to name a few. So for that reason, more productive firms select themselves into exporting, and that is for a good reason, because exporting can be really beneficial.

By accessing large markets, often in fast growth economies, firms enjoy higher level of economies of scale, which means lower marginal costs. That means growing revenue and profits. You are not just relying on local, loyal customers. You are also extending the life cycle of your products, and often being able to charge higher price in niche and premium markets overseas.

So spreading your sales across regions and countries also reduce exposure to risks and shocks, which means more control of your cash flow and risks. Quite importantly, exporting makes firms more competitive. Why? Because it makes you think of your competitor so you can improve the quality and adapt quickly and learn from the best, because foreign customers often demand higher standards.

In addition, it strengthens your brand, attracts talents and increase the choices for finance and investment. Exporters are seen to be more ambitious, more innovative, and therefore more future ready. And just very briefly, importing is also important because it allows you to access to more type of inputs, higher quality, cheaper, and that allows you to innovate and be specialised.

So I guess in short, firms, trade and productivity are very closely linked. Importing and exporting firms are on average, more productive, and by engaging with trade, they grow faster, learn faster, and survive better.

Bart: So good for economy, good for firms. Now, Alan as I mentioned, when you got the leadership over ESF, you moved the firm from being essentially focused on domestic type of activity into an exporting company.

So everything that you've heard so far must ring very true for you. But how did this actually go in practice? How did you make that move and what did you have to change as a business in order to become an exporting firm?

Alan: I think one of the challenges for any small businesses, and Emily and Jun have already said this, that they tend to be very niche.

They tend to specialise in what they're good at. And the problem for us as a business was we are based in Northern Ireland and the product line that we sold was street furniture, which is like litter bins and benches and bollards. So the market for us, even throughout the UK and Ireland, was quite limited.

We were enthusiastic. We wanted to grow the business, but our growth potential was really not there for us without going into the export market. So we made the decision, we didn't take our whole product range to the export market, and I think quite often the small business makes that mistake. Not everything is exportable.

When you go into different countries, there's already companies there who can make product probably better than you, probably cheaper than you. They don't have tariffs, they don't have cost of shipping and so on. So you really need to know your value proposition before you start looking at the export market.

And then you need to decide where it is that your products best fit. For us, it was the Middle East. And we started working in Dubai and Qatar, we're now doing a lot of work in Saudi Arabia where I was just last week. And those markets have opened up to us because we've gone to the markets, we've met the people, we've showed them what we can do.

You know, again, back to working to your strengths. We do a lot of customisation. One of our core customers is theme parks. We supply a lot of products into some of the world's largest theme parks where we develop litter bins and benches and planters and stuff to meet their theming. They talk about the immersive environment and you'll know if you've ever been to like Disney World, you'll park in a car park called Mickey Mouse or Donald Duck and that's part of the immersive environment.

So we do that with street furniture. And that's very much our value proposition. So that was what we took to the export market. Not our whole range, but a range that we felt really fitted very well.

Bart: So the point on the value proposition I find really important. If you go outside, it's probably if you find any customer, but certainly if you move abroad, overseas, you have to really do this. But once you had that value proposition in your mind, how did you find out that, for example, the Middle East was your market? Did you get help from government or did you just do market research yourself?

So how did you move yourself to the markets you really wanted to be?

Alan: I think there was probably a mixture of everything. I'm a great believer in getting in front of people face to face, but there's no point doing that without having the market research initially. So a few years ago, Department of Business and Trade started opening offices in the devolved nations.

Prior to that, it was all very London focused. But they opened in Scotland, Wales and Northern Ireland and we're able to use the British embassies for research to set up meetings, to set up discussions with potential customers, potential distributors. We also have Invest NI, which is another government backed organisation based in Northern Ireland so that they can do that, but they can only do so much.

Eventually you have to get on an airplane and you have to get there and you have to go and sit in front of people. Because you just don't know until you actually meet them, you just don't know, whether that's going to work for you or not.

Bart: Now, I wanted to go back to the arguments against, because as I said, we're living in a world where a lot of people are not convinced that this is really going to work and that it will work for people in generally.

So there's the argument that, yes, exports are good, but it means we have to import as well. But, these imports also kill off a lot of existing industries and makes a lot of people losing their jobs and all the risk related to that. There's a lot of talk about unfair competition where you can have endless discussion about what exactly is unfair, but nevertheless that sentiment is clear. There are discussions about race to the bottom. That if you are in this sort of international game, you have to lower your cost over and over again in order to provide a commercial proposition.

So Jun maybe start with you, what about these arguments? They're real, right? And how do they weigh against the positive arguments?

Jun: I think as a whole trade has been beneficial for the world. So as we all know, the average effect does not mean that it's distributed evenly.

The distributional effects of trade benefits hasn't been arranged or supported in a way that it's supposed to be.

That does not undermine the fact that the trade as a whole is beneficial. Now it's quite a separate question to think about unfair competition, the lack of level playing field for firms to compete in the global markets. I guess that steps into the domain of industry policies. Traditionally in, you know, the decades before now we are living in, I think the market has been considered relatively free.

The World Trade rule has governed that quite well until recently. Now recent time is entirely different period, the rise of industrial policy everywhere, including the West, including traditional China, South Korea, Japan, that has disturbed the global order in a way.

So that's why the industrial policies have been invented and used more and more widely. Just alone last year there has been 30,000 entries of export control in various countries globally. So that's a shocking number. And that just means that we are in a stage that the global order is being reshaped. And states and countries, governments have to watch out for their companies and to help the firms to compete globally.

Bart: So Emily, from your point of view, what sort of is driving these counter arguments, what is sort of behind that kind of trend and why is that sort of thrashing a lot of the arguments that you put forward upfront on the positive side of this?

Emily: Yes. So with kind of the arguments against free trade, I like to think about it in two places.

So, first, on the kind of prices, consumption side of thing, which is very widespread across an economy. So when you have, you know, quite open economies, quite a lot of free trade, it does mean that the prices for the goods and services that you're buying are typically going to be lower than they would be if you didn't have that free trade.

So, for example, if you think about kind of the recent period in the UK, the last kind of 20 years or so, there's some goods in the UK that are really highly import intensive. The price of those goods rose by about 30% over the last 20 years, whereas the ones which were less import intensive grew by about 60%.

So you do see these kind of different price profiles for the different types of goods, depending if you have that international competition. But on the other hand, you can think about kind of the jobs and the kind of firm production side of things. And if you are a very productive firm, you might say, great, you know, I've got a big market now I can sell to theme parks.

I can sell internationally because I've got a really great product. But if you are a slightly less productive firm, that's where you are creating some losers. As soon as you kind of liberalise in trade, you start creating an environment where some of those companies face this globalisation, this international competition, and those firms might get kicked out of the market, and lead to some workers losing their jobs.

So that's where you see very concentrated pain. And in particular, in those industries where they have slightly less productive markets, and that's where it really comes against the industrial policy point. Are there some areas where you want to protect, even though you might not be as productive at them?

Bart: Now, Alan, when you made this journey of becoming an exporting company, probably not everyone in your company or around you was always applauding and saying, this is great what we're doing here. So how did you actually deal with the concerns that were there about the battle you have to go in order to become a really successful exporting company?

Alan: I think we were very careful to try and bring the staff with us. You know, we tried to engage with the staff as much as possible. We find staff engagement and staff retention exceptionally important. I think whenever you're telling staff they're maybe going to get a chance to go off to Orlando or Dubai for a few days to work, sometimes it gets quite a good reaction.

People like to travel, they like to see around the world. But from a business perspective, you know, we try our best to make as much as we can within Northern Ireland, within the manufacturing facilities we have here. But that's not always possible. You know, we recently completed a job in a park in Hong Kong.

And because of the time it was going to take to ship the goods to Hong Kong, we actually had to make them under license in the Philippines. Now that doesn't affect our productivity at the end of the day. What it does is it means that we keep our customer happy, and that we're able to react to it.

Similarly, we found importing product, there used to be a lot of cast iron foundries around the UK. And due to government legislation to do with smog and various other things, they were all shut down. We still have a lot of customers who want to buy cast iron products, and the only place we can cast customers in China. So we have to import those from China.

Because there's nowhere in the UK that actually makes them any longer. So there are arguments in both sides with regards to importing. But also from our perspective of actually manufacturing overseas as well, when the specialisms are there and we can use our licenses to allow us to do that.

Bart: The question is, how did we get here? Because if you just look a little bit historically at this, then the UK wasn't always a very exporting oriented country. Even if we go back just about 50 years, in 1975, only 30% of our total output, our total GDP was being exported. And by the early 2000s this was 60%. It has really gone up very quickly over time. Since then, it slowed and it even declined in recent years.

So Jun tell us a little bit, very briefly, how did we actually get to this point where we are today?

Jun: I think it's really good question.

The first thing is to say that UK's trade openness has expanded rapidly from 1970s, and that has been partially driven by joining the EU as a single market. So trade as a share of GDP has rose steadily reaching nearly 60 percent by the early 2000, reflecting the UK's specialisation in services and global value chain.

Now, the period between the 1990s to 2000 saw several factors reinforcing this force. First thing, globalisation is partially fuelled by affordable information and communication technology, transport and trade liberalisation. There are many, many trade agreements have been signed originally and globally, so that fuelled globalization.

The rise of China, EU enlargement and trend of the fragmentation of production, which has been across board. So that separated the production and consumption and further separated different stages of production that has fuelled globalisation. And UK has been one of the global players in that arena.

Now global financial crisis in 2007 to 2010-ish, that has disturbed the trade, but trade has recovered quite significantly afterwards. But after mid 2010s we've seen a range of shocks that impact the trade in a more fundamental way. First thing is COVID. COVID shock lockdown has disturbed the global value chains in a very significant way, and that triggered rethinking of resilience versus efficiency.

Brexit, the UK's departure from the EU single market and customs union reintroduced the trade frictions, and especially in goods. Exports to the EU have become slower, more costly and more complex. Service trade has fared better - I think Emily will touch more later - but overall, I think what we observe is over time, UK economy as a global trader has become less competitive.

If we take the percentage of global exports of the UK in total as an indicator, UK's share of the global exports has generally declined over time steadily from 11% in 1948 - that is just to count goods - in 2019, now you add services and goods together, that's only 3% that just indicate on average the competitiveness has diminished in a very significant way.

Bart: Okay, good. So that's a really good quick overview of history. Thank you for that. So Emily, we've arrived at real time, today, and as I promised in the beginning we will talk a little bit about the Trump tariffs. So give you the two minutes to take us about the impact of the Trump tariffs on the UK economy as you currently see it.

Emily: I guess just to kind of start with the basics, obviously tariffs are basically a tax on imports. It's not that we don't have any tariffs anymore. The UK does actually still have an average tariff rate of around 4%. And typically higher income countries have tariffs in around this range. What is unusual is raising them quite as substantially as Trump and the US does seem to be at the moment.

And the reason that economists dislike tariffs is that it really distorts the incentives. It distorts what you make. So if the kind of tariffs come into place, it is likely that the trade war will negatively affect the UK economy. But the extent of that is a huge range. And the big thing that is at play there is to what extent do countries retaliate.

The UK so far has said, actually we'd like to stay quite open. We've obviously negotiated a deal with the US that has said let's reduce some of the tariffs on specific products. So looking at some of the steel and autos tariffs, but at the same time next week those tariffs could be jacked up again.

So it's all very uncertain at the moment. But if countries do retaliate in a similar way to China, then you do see this kind of escalation of some of the trade impacts, and that would kind of lead to a GDP potentially being worse including for the UK. There's a lot of choices at play here.

And I think that the UK is kind of looking at those choices at the moment and looking at the evidence because a lot of the evidence has said retaliation is very painful. It is very harmful for the countries that are retaliating. So even if tariffs don't get implemented, the big conversation that's happening is around higher trade policy uncertainty, and that can really affect firm behaviour.

And we've seen it in the reverse. So when you have lower trade policy uncertainty, we saw that when kind of China had agreed to accede to the WTO, but hadn't actually acceded to the WTO, its exports went up by a lot. They grew very quickly on the expectation that they would join there was less uncertainty around what tariffs rates that China would have in future.

But it can also happen in the reverse. Having that higher trade policy uncertainty can delay some firm investment can mean that trade does reduce even if you don't have tariffs actually implemented to the extent that they've been discussed so far.

I think the other point that's worth referencing is how will prices be impacted? And this is where it gets really tricky to understand all of the different dynamics going on in UK trade. And this is really what the Bank of England will be thinking about. You could have goods diverted to the UK that could reduce prices domestically because instead of sending products from China to the US, it sends them to the UK, you would've kind of in theory expected to see that the US dollar appreciate after implementing its tariffs.

But it seems that we're seeing the reverse. We're seeing the US dollar depreciate. And then you've also got this question of to what extent are supply chains reorienting themselves? So if it's slow and smooth, then that's kind of one scenario and you don't end up with a big price shock.

But if you're moving to a world with kind of fragmented bits of the world trading with each other in smaller trading blocks, then you might see an increase in price levels. And that would be kind of a real challenge in terms of the global trading system.

Bart: Yeah, and you've written this all up very nicely in a piece by the Resolution Foundation called Trump Tariff Turmoil, triple T, which I can highly recommend.

And of course is in our show notes. Lots of other interesting stuff in our show notes, by the way, because various people in institutions, including Jun herself of course, have been writing in quite an important way. Now, I think what's interesting about what you're saying, Emily, is that I think what these tariffs do they're shocks, right, and therefore a lot of uncertainty.

And what Trump does is because he changes things every time, there's almost a continuous shock, creating more and more uncertainty. On the other hand, and I think Brexit is a good example, there's a slow burning effect of sort of slow globalisation, harder to do international trade and so on and so forth.

It has different, very different effects. And I wanted to ask you that, Alan, really. I think on, on the one hand there is sort of this overall trend that it is harder to export. And on the other hand there is all these kind of shocks and all the turmoil that Trump is creating, and that's just creating the uncertainty.

How are you responding to those two different things?

Alan: I think one of the things about small businesses is that they're very resilient. I think you have to be, you know, when you have staff to pay at the end of every month and you have suppliers to pay, you have to be resilient. You have to react to these things as they happen.

If you give an example from our business, we were very much export focused. In 2020, 80% of our sales went to export markets. We then hit COVID and in 2021, only 8% of our sales went to export markets. So that was a reduction of 72% of our sales. Now we had to be resilient and react to that so that we could keep our staff, we could keep everyone on site and so on.

So, you know, the tariffs are very similar to that. You know, there are generally ways to react to it. There are generally ways to be able to work around it. Obviously the UK government are working very hard at the minute with trade negotiations. They're working in a UK-EU reset which could be very helpful.

Again, being based in Northern Ireland, we have been penalised quite a lot with the Windsor framework and a number of other things that, while it should give us unfettered access to both jurisdictions, quite often the paperwork and all of the red tape that comes with that is very difficult. I have the privilege of chairing the Federation of Small Businesses in Northern Ireland where we have over 6,000 members and there's over 180,000 members of the FSB throughout the UK.

And most of them don't export. And when you ask them why they don't export, they could cite a whole list of reasons. And the more things like tariffs and other things that come along like that, the more reluctant small businesses are going to be to even enter into that export market. So we need to make it easier for them to see past those.

We need to look at ways that we can show them that other companies can go and be successful, and that it's not just all roadblocks, because quite often that's all they see.

Bart: It's really interesting what you're saying here because, you know, as you say, I mean, small businesses and businesses I think generally are quite resilient to respond to these kind of things.

So, as economists, we're all very worried about all the turmoil and all these different announcements happening all the time. But you are also at the same time really pointing at the fact there's a lot that we can do ourselves. So, you know, reduce the number of regulations to export, make the paperwork easier, use information technology much more efficiently.

I mean, I still hear that you have to do a lot of real paperwork instead of using IT and so on and that in a way is a much bigger cost factor and could impact your productivity much more substantially because it's one of those slow burners, as I mentioned it before, over time.

All right, well, we need to move on. Coming up next, we're going to look at some of the somewhat deeper structural issues. Why trade hasn't been helping productivity recover. Because as we been talking about this in the podcast all the time, productivity is slow despite all that trade. And what do we really need in terms of better trade policies to make things work?

But before we get into that, here's a quick update on what else is happening at The Productivity Institute.

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Bart: Welcome back to Productivity Puzzles. In this episode, we're diving into the thorny topic of trade and productivity, and to find our way through this, I'm joined by Jun Du of Aston Business School, Emily Fry of the Resolution Foundation, and Alan Lowry of Environmental Street Furniture. Now before the break, we talk mainly about why trade matters for productivity, but equally we also know that productivity matters for trade.

So Jun, to what extent has the weaker productivity performance of the UK economy actually created a somewhat fragile exporting base for us?

Jun: That is a great question. The short answer is the UK weak productivity performance hasn't just made exporting harder. It actually undermined the very mechanisms through which trade drives productivity.

De-industrialisation. Not just in the UK, more broadly in the world for many countries, US, Japan, Canada, and some European countries. So this meant the share of manufacturing sectors shrank over time, which can be sometimes more productive than services and definitely often have higher potential to trade, especially in goods.

So that explains structurally why trading goods has been weakened in the UK. And we just mentioned in the first half that over time the UK's contribution in global exports has also declined in a very big way, ranging from 11% in the 40s to 50s to 2019, only 3% of the world exporting in both goods and services are provided by the UK companies.

So the UK wasn't alone in that broad trend. But I guess, in addition to the broad trend shared with other countries, there are idiosyncrasies which relates with UK economy and the experience UK has been had. First of all, I think we've seen the emergence of the fragile exporter base. Most UK exports are generated by small groups of highly productive firms, where many SMEs still don't export or drop out quickly if shocks happen.

Since Brexit, what we know is that export values and varieties have fallen and many small businesses unable to trade and they struggle with going back to export market and that impacts on productivity. Second, I think what we've seen is the broken link between the learning by exporting channels.

In the past, firms enter EU market, scale up, improved what they do, and then they can expand globally. But Brexit raised some cost and reduced the certainty and persistence of exporting, and that impacted on their ability to learn and scale globally. Third, I think what we've created and seen is new import frictions, and these often go unnoticed and undermentioned, but they matter.

Higher input costs, delays in borders and fragmented regulatory standards reduce efficiency. When firms can't get the component, the data, the services in need to produce the products and services they need, then productivity take a hit. We also have seen the retrenchment of global value chain, the R&D and headquarters of some functions of some big companies they move abroad away from the UK and service trade, one of our strengths, is also underused because of the complicated rule if trading globally on services.

So this is especially for digital and professional sectors where post Brexit rules and mobility barriers have made it harder to trade cross-border.

And I guess finally the two fundamental issues. One is skill gap. The other one is digital divide also matters because of the skill shortage, skill mismatch and gaps. Therefore, firms are unable to learn as quickly as they should. The digital divide means the small business, which are already weakened, with their digital ability are unable to seize opportunity to really upgrade their technology, to seize opportunity to become efficient in global market.

Bart: And in research at The Productivity Institute, we have indeed looked at the effect that lack of innovation by firms is impacting export. So we generally find that if firms are innovative, then they tend to export more.

So it's really sort of that positive cycle that you're talking about.

Alan, so, we talk a lot in this podcast series about entrepreneurship and business culture and the struggles that particular small, medium sized enterprise have, therefore have to focus on the international markets.

So what has made a difference in your firm to make that step in order to really be successful in the big world of exports?

Alan: It's a well known fact that, you know, doing business is expensive. I think over the last few years there’s been a, a coin of phrase the cost of doing business. And most SMEs have got very limited resources.

So if you want to get involved in export sales, you really have to commit to it. I think Jun already mentioned earlier about so many companies have gone in. dipped their toe in the water with export sales, had a couple of bad experiences and pulled away again. They then tell a lot of their peers the same thing, and then people are reluctant to get into it.

So you really have to commit to it. You have to be willing to make sure that you put enough money, enough resources, enough manpower behind it to be able to go to the markets, to be able to meet with potential customers and to follow it up. I remember very early in my career, my first export market from Northern Ireland was to the Isle of Man, which was a long way for me at that time, but I actually visited the Isle of Man for 18 months before I ever got an order.

And the reason for that was that they wanted me to prove to them that I was actually there for the long haul, that I was actually willing to commit to it. And we've seen that time and time again. You know, small businesses go out, no one knows their name, they don't have any credibility, they don't have any, past performance they can lean on.

So you really have to be willing to go take your innovation, believe, as we said earlier, in your value proposition. Get it in front of people and it's going to take a bit of time. It's going to take resources, it's going to take, there's a lot of help there. I already mentioned earlier about the Department of Business and Trade.

I volunteer as an export champion for them. I go and speak at a lot of events encouraging small businesses to start to export. Our previous government had a 1 trillion by 2030 target they were aiming for. Our new government have done away with that now, but that was good because it gives people something to focus on.

You were able to measure that. You know, if there's no way of measuring it, there's no way of making sure that we're going the right direction. So, you know, the government are already working on things like the business growth service that's going to be launched this summer. I've been involved in that with the Prime Minister's office, and I sit in the forum that's working in that.

There's also things like the Export Academy, which while it sounds like going back to school, it's actually a really good package of products available for free online by DBT, which takes away a lot of that stigma. And that stops businesses getting involved in it so you don't have to do the journey on your own.

Bart: Yeah, and I think that's really important because as you say, quite often, small, medium enterprise don't know how to find their way into this. And if that help is there that you use, and it's really good to hear from somebody who's actually experienced it, why this is actually working now.

Bart: Now we're talking very much about goods here, and trade is largely about goods. But I think some of the great work that you have been working on, Emily, is emphasising the role of services. Because what of course has happened in this process of de-industrialisation that Jun was talking about is that we actually have become a services economy.

And actually we've been pretty good in exporting services because that hasn't suffered as much from the kind of decline that Jun was talking about as the goods sector of the economy.

Emily: Yes. And I think, Jun mentioned that the UK's share of global trade has been kind of declining overall when you look at goods with services.

But if you look at services, then our export share has actually been growing of the world. So, for example, that the UK services exports to our key partners have actually grown faster than how much they've been buying from the rest of the world over the last 10 years. So we are services exports to India up about threefold since 2016. They've doubled to the US and Singapore.

It's also just a really important part of our economy. You know, around 10% of jobs now in manufacturing, whereas you have 80% in services of which maybe like a bit less than half of those are in tradable services. And those tradable services, I think in the past have often been thought of as things like banking, and you think about the global banking system.

But now we think about things like higher education. So all of the universities, export some of your very highly skilled services to people who come from around the world to consume higher education in the UK.

You've also got things like information communication technology. You've got digital services, you've got management consulting. And I think what's interesting about services is they're set up to trade quite differently. So goods, you typically need it to cross a border at some point. So if you have a particular good, you need it to go across a border, physically, it needs to get into a ship, get into a van and be transported to its final destination.

Whereas services can be traded in quite a few different ways. Sometimes they have movement across borders. And so things like higher education, you might see some people traveling from France to the UK to consume higher education. But many don't actually need that cross border movement.

You can deliver a consulting service very easily digitally now. And there is this curious kind of moment when Brexit happened, we thought that the services trade barriers that we were implementing were pretty high because we thought that, you know, the single market in the EU is really well integrated, so leaving it leads to some kind of non tariff barriers.

But what we have seen is a really surprising resilience of the UK services trade. And there's a couple of hypotheses that I think are quite interesting about why that might be. One is thinking about other business services and services firms who started with relatively less remote trading before Brexit and the pandemic. Actually the pandemic enabled so much to go online and these services were able to increase the share of services that they were done remotely rather than see such a dip in delivering those services.

Another hypothesis is that services can be traded via subsidiaries as opposed to kind of directly by crossing a border. And there's some really interesting research Breinlich and Magli who found that at a firm level, the switch to selling services through their affiliates was much more pronounced in firms operating in the EU compared with non-EU before and after Brexit. So overcoming kind of the trade barriers that were implemented might have enabled us to really build out the strengths in our comparative advantages.

Just one more quick point, we often kind of talk about services and goods aren't actually separate categories. They're super integrated. If you have an iPhone, you also have many services attached to it. You are advertising it, you are marketing it, you are designing it, all of which are services.

And so some of the really interesting work that's been done on services is around that the linkages between services and goods. And you do see that kind of allowing foreign companies into a services market can be really beneficial for the productivity of manufacturing firms. So you can see that kind of intersection between services and goods in trade as well.

Bart: Yeah, and that is also one of the criticisms, of course, of the Trump tariffs, right? It's very focused on goods and he doesn't talk about services because he doesn't care. But these things are so intertwined that we should be worrying a little bit that indeed these tariffs that are affecting goods will also have his implications for at least making it much harder for our services sector to be productive.

Finally, I think we need to talk a little bit about where we're going. What kind of trade policies, what kind of international agreements could really help us to rebuild the trade strength of the UK and to boost productivity? And I suppose this is partly about creating the right conditions and it's partly about getting the fundamentals right of this.

And Alan, I'd like to start with you here, particularly on the conditions because it's, it's very difficult to think how we can even start to bring the house back in order here. But it seems to be there are two things that are really important. One is that the UK will need to continue to diversify strategic trade partners. You are operating with 27 exporting markets. So we need to really have this sort of broader range.

And secondly, I think, you know, particularly for you in Northern Ireland, but it's true across the UK, we need to consolidate, our relationship with the EU and build on the UK-EU trade reset. So where do you think the priorities are going to be here?

Alan: I think there's already some good work being done on this part. We've seen a lot of announcements over the last 12 months. Things like the CPTTP agreement that's now in place. Things like the EU-UK reset, you know, even simple things like if you're traveling a British passport into Europe, you can't use eGates at the moment.

Now we've been told as of last week, that's now going to change, but that could cause an extra hour or two hours of a queue in passport. Again, it's maybe just something else that would put people off wanting to export. Why would I go to do that? So, you know, the more the government can actually move some of this legislation.

Quite often when you go to these export markets, it's an open door. It just needs to be pushed. But if you don't make the effort to get there, to push it, you're never going to know. So, you know, I already touched on things like the Windsor framework, all the additional paperwork that we have within Northern Ireland. And similarly within the UK, I actually have to employ an additional member of staff since that was all introduced, just to fill in the paperwork daily.

So when we're back to talking about productivity. It's affected my productivity because I now have someone that's not productive at all because literally all they do is fill in paperwork for other people to do it. So, you know, there's a lot of people with the right ideas. You know, there's a lot of people who have got great concepts of how it needs to work.

I think we just need the government to understand what firms need to be able to make it easier for them to be able to do business and export a lot easier.

Bart: Yeah. So Jun as Alan already said, there are things in progress. I mean we have the CPTTP, we talked already about the UK-EU reset. There's the new deal with India. Do you think these things are substantially substantive in order to create an environment that would be much more positive expert, even leaving the tariffs aside, which obviously are a shock and don't help, but are we moving in the right direction?

Jun: The answer is yes, but at the same time it's no.

Yes. I think we have made great progress. I think it's not just Indian deal or CPTTP or the US-UK deal or intention to deal. All these things are great. I think it's in a direction. But as we know, trade deals themselves don't do really much. And even their benefit is for the long term. But as trade economists understand this very well, the greatest benefit of having trade deals or trade agreements is the provision of certainty or the reduction of uncertainty. Because uncertainty is bad and providing that certainty means there's investment, there's incentive to invest, and that there's ambition and you increase the confidence of businesses, especially a small business one.

I think it's worth mentioning that the May Summit between the UK and EU has been great in a way that it sets ways to resolve short term problems in the next couple of years. We know the negotiation, the real negotiation will be hard, will take time. But I think, you know, the solutions, the direction is very clear.

Also, it sets up the framework for long-term collaboration, which is the first step of building, you know, the trust is needed and the goodwill that is very much needed to deepen that relationship. So in that sense, it's really great. At the same time, it's going to provide the tangible benefits for agrifood sector trade, which some might argue it's negligible for the economic size.

But nevertheless it's absolutely essential for the business within that sector. And linking the emission trading scheme is going to be very important to mitigate the risks that that's done down the line. And also linking the energy integration is potentially going to reduce the high electricity cost of UK firms, which has been one of the growth barriers.

So all this is great, but I would argue it's probably not enough. Trade or trade policy should be considered as a productivity lever. So therefore the trade strategy or trade policy shouldn't be considered really standalone. It should link with whatever it works and work as a lever for long-term growth.

So what I would like to call pro-productivity trade policy. So that means we need to integrate the trade with other policy, skill policy, innovation policy, investment policy, to all work in a coherent way, in the same direction to drive growth.

Bart: So you're already moving us from the conditions which are very important to the fundamentals, and that's really where I want to end, Emily, with you. This point about aligning trade policy with industrial policy and innovation policy and skills, what are the priorities here? If you would, and you are advising government as Resolution Foundation, what are you advising government to do to really make sure that these are not sort of isolated policy areas, and where are the opportunities to really bring these different policy areas together?

Emily: I think Jun and Bart and Alan, you are right. It's essential for all the policy areas to be joined up, but make sure that we are not doing an industrial policy over here and a trade policy over here and a strategy over there, and really thinking about them as a cohesive whole. I think one of the interesting areas where this kind of comes together is thinking about what's the regional policy and, you know, if we take services as the example here, you can think about, okay, their services exports are really very concentrated in London and the Southeast at the moment. There's a little bit in in Scotland as well, but they are really kind of concentrated.

Are we comfortable with that? Is that something that we want to happen in the long run or are we looking to enable some of that services trade to be done out of different regions in the UK. And you really do come up against quite a number of different questions when you start thinking about that. You say, okay, should it be the case that we build houses? Where should we be build building houses? Should we be building houses in places that, you know, mean that we can create some other agglomerations, and create them outside of London and the Southeast?

Or should we be reinforcing some of the agglomerations in London and the Southeast and making sure that more people can live and benefit from more higher productive areas. I think what's interesting when you look at like regional variation and wages is a lot of that regional variation is within industries.

And so when you're thinking about industrial strategies and when we're talking about trade, we often talk about industries and sectors as the first step, but actually a lot of the productivity variation is within the firms within those industries. And so really thinking about kind of what are the operations that firms are doing in different parts of the UK, and thinking about the different tasks that are being done and the different types of firms that are operating around the UK, and how they can be distributed so that some of that productivity is more even, I think will be interesting.

But it could also contrast against some of the bigger picture goals around, you know, how do you create growth as a country. So I think there are a lot of trade-offs, that the government will be facing in its industrial strategy.

Bart: It's quite a challenging task also obviously where the public finances are not looking the most rosy. So that's going to be another challenge where the investments that the government can make to support these initiatives can be or can go. Look, I think, we achieved what I hope we would achieve in this podcast. And that is that, yes, these tariffs are obviously creating more uncertainty and more turmoil, to use that terminology again.

But at the same time, I think you all three have been talking about what is the bigger picture here. And even though the UK has been losing out, a lot on international trade, at the same time there's a lot of initiative going on to think about how it can recover as a major force of growth in the global economy because it's so important for the growth of our domestic economy.

That's partly true for goods, but it's very much also important for services. And then, Alan, I think you are sort of, on the ground practical kind of experience about how companies can actually move to become real exporting companies is very, very important because that's obviously where it all needs to happen, policy aside.

So thank you for making these contributions. Jun Du, Emily Fry and Alan Lowry, great conversation and hope to see you again at another time when times on trade perhaps are a little bit more rosy than they are today. Thank you for joining.

Alan: Thank you.

Jun: Thank you, Bart.

Bart: Well, that's it folks, for this season of Productivity Puzzles. We are going for a summer break, but we'll be back in September for a fourth season as there is enough to talk about and enough pieces of the productivity puzzle to be solved. So stay tuned.

You can sign up for the entire productivity puzzle series for your favourite platform to make sure you also don't miss any other future episodes. If you'd like to find out more about upcoming shows or any other work by The Productivity Institute, please visit our website at productivity.ac.uk or follow us on Blue Sky and LinkedIn. Productivity Puzzles was brought to you by The Productivity Institute, and this was me again, Bart van Ark at The Productivity Institute.

Thanks for listening and have a great summer.

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