HOUSE OF COMMONS

Business and Trade Committee

Oral evidence: Export-led growth, HC 289

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Watch the meeting

Members present: Liam Byrne (Chair); Anthony Mangnall; Andy McDonald; Mark Pawsey.

Questions 40-64

Witnesses

II: Dr Elena Georgiadou, Lecturer in International Management, Loughborough University, Klemens Kober, Director Trade Policy, German Chambers of Industry and Commerce, and Masamichi Ito, Director of Industrial Research, Japan External Trade Organization.

Examination of witnesses

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Q40 **Chair:** Good morning and welcome to the second panel of the Business and Trade Committee hearings on support for export-led growth. I thank our international experts so much for joining us this morning. You are going to help us by providing a really useful perspective on how we can learn from others. Elena, maybe I could start with you. Could you just give us a starter for ten? How does the support that the UK provides for exporters compare to the best in class from other countries around the world?

Dr Georgiadou: We have reviewed several case studies and collected a lot of evidence. I think we will focus today mostly on the German model and the Australian model. The UK has organised its export support on the basis, the principle, of the whole of Government—and quite successfully to an extent—since 2011 at least. The 2018 export support strategy supported this even further, consolidating the collaboration between Government Departments—the FCO, BEIS and the DIT—and the private sector. However, with the latest one—Made in the UK, Sold to the World—we think that this bond, this close relationship between the whole of Government, various Departments and the private sector has been a little looser—a point that we would like to draw attention to.

Q41 **Chair:** You mean that the integration between Departments is looser than in other countries?

Dr Georgiadou: Between Departments and the private sector. The Australians have been focusing their export support and organising it on the same principle—the whole of Government. They have created a one-stop shop. They have a very well-informed website that potential exporters can visit and get all the information they need—from access to networks, to Government support and funding. It really is a one-stop shop, which is what we would like to see in the UK as well. To an extent, especially in the last couple of years, the UK hasn't fulfilled its mission to the extent that it could have done. For example, the latest—2021—paper on export strategy promised an export academy providing several links and steps that exporters would like to take, but as of 2 March, which was last Friday, it was still not enacted or clear enough.

Q42 **Chair:** Do you mean that the export academy has not been set up—it is not open for business?

Dr Georgiadou: It is not accessible at least. The steps that would be helpful to businesses are not there; the link has been moved. One of the problems we identified in our review is that there is not enough stability in our model, in the sense that there are lots of amendments, reviews and changes. They are obviously always aiming towards greater efficiency. However, that has been very confusing for small businesses that don't have the resources, the knowledge or the knowhow to follow these steps, so it has become less accessible than the Australian or German systems.

To add to something that Mark mentioned earlier, the German model, for example, has been pioneering and very good in its support to small exporters. They have set up a network of various export support offices or "agencies" domestically, so the operationalisation of the support to small companies is easier to access in various regions and locations. It is not only based on a national scheme but operationalised locally.

Q43 **Chair:** So you are drawing out three things there. First, there is an effective whole-of-Government approach in some countries for simplicity of access. Secondly, there are perhaps stronger public-private links. Thirdly, there are, elsewhere, stronger export support offices.

Dr Georgiadou: Yes. They are organised at a local level, not only by central Government Departments—DIT, for example. In Germany, there are 30-plus such offices around the country. In the last few years—this is a point I wanted to make because it is missing from the last export strategy paper—they have also supported the digitalisation that was mentioned earlier. They have added the function of helping SMEs become digital, so the 4.0 centres of excellence work towards upskilling their SMEs at a more local and regional level.

Q44 **Mark Pawsey:** May I follow up on that point with Dr Georgiadou? You mentioned Germany's 30 offices. That comes at a cost, of course, so are we not providing the same amount of financial support as countries such as Germany with those offices?

Dr Georgiadou: I can't compare figures, but what we can definitely derive from our review of the studies is that their support is a lot more targeted at firms that do not export yet but would like to take the leap and engage in that endeavour.

Q45 **Mark Pawsey:** I am trying to get at the value for money, if you like. Is this an area where the more you spend—the more money you put into export promotion and the more advice, support and services you give—the greater the reward in the form of increased exports? Or are these offices sometimes white elephants—things that are nice to have but don't actually deliver? What is your assessment?

Dr Georgiadou: Obviously, the German model works quite well. There are, of course, diminishing marginal returns in the sense that after a point, any further investment in exports would bring minimum returns. We can't really say with certainty what the optimal mix is of investment in exports and returns. What we can say with certainty, though, is that from all the studies and all the other countries that we have reviewed, targeted support for that specific type of firm—the small and micro firms that don't export—has a very positive effect and is cost-effective. There is evidence that there is greater cost-effectiveness on the extensive margin, which is exactly those firms.

Q46 **Mark Pawsey:** We have heard a great deal from you about the German model. We really ought to come to Mr Kober and ask him. Presumably, the German authorities consider these 30 offices value for money because they are continuing to support them. Tell us a little bit about the German approach.

Klemens Kober: Thank you so much. I am very happy to provide you with a German perspective. In our system, we have 79 local chambers in Germany, which represent all 3.5 million companies. The chamber system has stood the test of time, with some chambers older than 500 years. The crucial point here is that these chambers are really grassroots organisations. They are locally based and very well connected with local authorities, politicians and other business networks. As a matter of fact, they deal with the companies on a day-by-day basis because they, for example, run the system of vocational training together with the trade unions. They do certificates of origin and are involved with all kinds of issues and activities so that companies really know them, and they know the needs of the companies.

We as DIHK represent this whole system, and we have also managed the network of 151 chambers abroad—151 locations around the globe—since the 19th century. The real synergies come from this networking. The local chambers are very well connected through us to the chambers abroad, so they always know what is happening on the ground abroad, and relay that both ways, and always continuously adapt their services to needs.

Q47 **Mark Pawsey:** We are interested in value for money, and therefore who pays for this. In many cases, much of the UK activity is funded by central Government, but chambers of commerce are often funded by their members. Who is paying for this very effective regime in Germany—the businesses or the Government?

Klemens Kober: Our local chambers of commerce are membership-based, so the members pay their fees, and on top they also pay for certain services. But many services are free, such as first-time support for SMEs trying to export.

Mark Pawsey: Who funds that—the membership or the Government?

Klemens Kober: The funding is from all the members. All the companies are members, and they pay for everything the chamber system needs. There is a difference with our overseas chambers, where we do not have membership by law, so the membership is voluntary. These companies pay membership fees for services, and then there is support from the Government depending on certain business locations you want to develop. In some countries, you are not allowed to offer some services, so it is quite difficult to run the chambers sustainably. We also have chambers abroad that receive no Government money.

Q48 **Mark Pawsey:** I raised the question about training, particularly in the area of sales skills. Would that be covered by the chamber model? Sales is a skill, and selling in overseas markets is different from selling in a domestic market. Is upskilling to enable German businesses to take advantage of those overseas opportunities included within the facilities offered by the chambers?

Klemens Kober: I looked up the figures for export-related conferences—we do around 3,000 a year. The local chambers and the chambers abroad offer coaching sessions. We also have an export academy, so that is within the range of activities.

Q49 **Mark Pawsey:** Mr Ito, perhaps you could give us a Japanese perspective?

Masamichi Ito: I will explain briefly our organisation's activities. Actually, the Japanese Government do not have a coherent export strategy across sectors, but there are individual export strategies, such as the export promotion of agriculture, products and food, or export promotion for SMEs. The Japan External Trade Organization and other Government agencies implement support measures based on these Government strategies and policies. Our organisation, JETRO, has four priority areas of work based on the Japanese Government's strategy. First, we facilitate innovations through numerous FDIs in Japan, and support overseas expansions of start-ups. This is our first pillar. The second one is supporting exports of Japanese agriculture, forestry, fishery products and food. The third one is assisting Japanese companies with their overseas businesses; it is mainly dedicated to export from SMEs. The final one is contributing to the activities of Japanese companies and trade policy developments of the Government through research. Those are our main four pillars of activities.

Mark Pawsey: That is very helpful. Thank you.

Q50 **Chair:** Can I double-check? In the German model, what percentage of the chambers' budget comes from local businesses, as compared with the state?

Klemens Kober: For the local chambers, there is no money coming from the state.

Q51 **Chair:** It is 100%. Is membership of a chamber compulsory for a German business?

Klemens Kober: By law, yes.

Q52 **Chair:** Perfect. In Japan, do you have a sense of how much money comes from the state and how much comes from business?

Masamichi Ito: Actually, our organisation is fully funded by the Government.

Chair: Okay, so very different models.

Q53 **Andy McDonald:** Mr Kober, I know you have touched on this already, but could you say a little more about how a German company that wants to export gets going with that? I am aware of the Ministry of economic affairs and energy and the three pillars: assisting with market access, reducing risks, and reducing market-entry barriers. How does that fit in?

With companies getting going, how does that play through and allow that German company to begin the process? What does that look like?

Klemens Kober: I am very happy to discuss that. If you read the German foreign trade law, the first sentence says that foreign trade is free, and then you have pages upon pages stating all the limitations and regulations. So you can imagine, for companies and especially first-time exporters or SMEs, they really have to go through a lot of regulations. It is very overwhelming for them to understand what kind of regulations they have in Germany even to start exporting, and then, to import on the other side, which other product regulations they have to follow.

There is a wealth of information out there and a lot of information services that our chambers provide, both in Germany and overseas. The GTAI is, as you said, the third column—an organisation that is purely there to offer market intelligence, statistics and data so companies can read through and understand what potential markets they have or what risks there are. The other pillar is the German Government, of course, which use the embassies more on a higher political level as a door-opener. They have very good contact with the local Governments.

Our chambers are mainly there to help companies understand all this information and make the right assessments, because they have both the experience of understanding countries and thematic issues, such as contracts and liability abroad, and the networks. We have trade committees in every local chamber, so it is a good opportunity to meet other CEOs to understand how they access markets and what difficulties they face. We have B2B matchmaking and we have an export app where companies can get in touch with others.

Normally, the journey of every export starts at home. That is why the companies, and especially small ones, normally turn to their local chambers, which they already know. The chambers will then explain to them what kind of things they have to follow and will move them to the chamber abroad that can help them. In the end, export is just the start of the journey. A lot of companies then want to continue exporting with other customers or even start investing abroad.

Q54 **Andy McDonald:** I note that more than 44% of German SMEs were estimated to be exporters. That is compared with 9% in the UK. That is the model that you have outlined there. I suppose it is self-evident, but are you suggesting there are some lessons for us to learn from the German model?

Klemens Kober: I can only speak for what our companies tell us and how we feel that our system works. We feel that co-operation between Government and business is very crucial. I think there is a bipartisan consensus in Germany that supporting SMEs, but also supporting international trade, is important. Seventy-nine per cent of German exports come from SMEs exporting, and if you look at our jobs, one in every four jobs depends on exports. For the industrial sector, it is more than every second job. So there is a whole understanding that we need trade agreements that make it easier to trade but that also reduce barriers and red tape at home so that that companies can also profit from that, and that we need to offer information services and online portals like the access to markets trade networks.

Then, I would say that a lot of products from Germany are very much in demand globally. "Made in Germany" has a good reputation. Many German companies do not export as a one-off exercise—dropping goods off somewhere—but offer the full package of maintenance services. That is really a commitment to stay engaged in the market for a long period of time. For that, we think skilled workers are the key, and that is what all our companies tell us. We really cherish our vocational training system because it provides us with employees who can really do the job and are motivated.

Q55 **Anthony Mangnall:** Masamichi Ito, can I ask you about JETRO? You have outlined the priorities around facilitating innovation, supporting the export of agrigoods, supporting SMEs and contributing to trade policy development, but if I am a small business, what is the day-to-day process to reach these export markets? Could you walk us through that, please?

Masamichi Ito: There are various measures of SME support. First, we provide information about market valuations, taxation and other issues in each country via seminar or online courses to SMEs.

We also deploy experts. They are generally former employees in big trading firms or manufacturers who worked overseas. They provide hands-on support to SMEs in forming their export plans and will support their negotiations with overseas business partners. Expert support is one of our pillars of SME support.

Q56 **Anthony Mangnall:** One of the interesting comparisons between your model and the German one is that yours appears to be a little bit less formal. You are not asking businesses to have any tie-in to Governments or management, so that makes it a little bit easier. How do you compare yourself to the German model? Do you learn from them? Do you think you are heading beyond their model? Sorry, that is a bit unfair when you are sitting next to your colleague from Germany.

Masamichi Ito: I think the differences between our perspective and the German perspective are partly due to the different characteristics of our organisations. We are a sub-governmental organisation and we are working under governmental policy. I just explained about the support from experts to SMEs. That was originally a policy of the Japanese Government. After the conclusion of the former TPP—not CPTPP, the former TPP—the Japanese Government asked JETRO to formulate that kind of support. The different characteristics are provided by the chamber of commerce and the Government.

Q57 **Anthony Mangnall:** Just two follow-up questions if I may. Forgive me for not knowing this, but what percentage of Japanese SMEs are exporters?

Masamichi Ito: There are many figures on the ratio of exporting SMEs, but the figure I have is related to our Government target. In 2020, 18.2% of Japanese SMEs exported.

Q58 **Anthony Mangnall:** I also understand from the work we have done around this session that you operate something called a trade tie-up programme, which matches sellers of Japanese products to foreign buyers. Could you give us an idea of how that works in practice and how effective it is? There has been an enhanced agreement between the UK and Japan. Obviously, the UK joining the CPTPP is under way. Are you seeing any changes between our two countries? Are you seeing businesses in Japan taking advantage of the roll-over agreement we have with you and indeed membership of CPTPP. Sorry, there is a lot in that.

Masamichi Ito: First, on the matching of buyers from other countries and Japanese SMEs' products, we have 49 domestic offices within Japan. They talk with local SMEs in Japan and know what kind of products or services they have. We sometimes talk to the e-commerce platforms about matching. For example, we are talking with Amazon and Ocado, and they have special pages dedicated to the sale of Japanese products. We will talk with our domestic producers and these platforms. That will be one of the channels for Japanese SMEs and producers to export overseas. That is a brief answer to your first question.

Could you repeat your second question?

Anthony Mangnall: Now I can't remember it! Sorry, that's no good at all. I might come back to you on that one.

Andy McDonald: It was about whether you have noticed any changes.

Masamichi Ito: A very important question. Of course, there is the new membership of the UK in CPTPP. We also have bilateral trade agreements that were previously concluded. There isn't objective data, but we feel that the atmosphere within Japanese businesses is to seek any possibilities for collaboration between Japanese businesses and UK businesses.

Q59 **Chair:** Elena, can I come back to you? If you take a step back, do you have observations about what makes for a best-in-class export promotion service? When you look around the world, what are the key things that stand out for you?

Dr Georgiadou: We have reflected quite a bit on that. We would recommend a hybrid system, and by "hybrid" we mean a step away from the whole of Government. It is one that intensifies a lot these collaborations between the Government and external, private sector partners, as well as chambers of commerce and local enterprise partners. First, it would be a system that provides a one-stop shop, so there is one point of access for potential exporters to get information, such as market intelligence, contacts and the appropriate agents that they would like to access. So step No.1 is a one-stop shop. In terms of step No. 2, ideally, we would like the system to be independent from the participating Government Departments, with really clear and transparent annual reports on its expenditure and its achievements across various activities that it organises.

We think that such an efficient and effective export support system would make very good use of existing resources. It is all about intensifying collaboration and co-operation, both at home and abroad. We would like to see the intensification of that across the whole of Government and, as colleagues previously mentioned, the representation of experts in our embassies overseas.

We have been talking about the upskilling and training of SMEs, which is spot on. It is all about empowering our SMEs at home by providing them with the skills to become independent, so that the system is sustainable. At the same time, from observing other cases and collecting some evidence, we think that a similar amount of upskilling has to happen in our embassies overseas, perhaps with more participation from the chambers of commerce so that there is that cross-fertilisation of business values and some more political values, if you like. Also, we need more training in our embassies overseas in advocacy, the negotiation of contracts and terms of IP.

You mentioned that diplomatic channels can improve the work and guidance on regulatory requirements and give help and support on aspects like this ESG accreditation. In the clean energy sector, for example, companies might need help and support to apply for accreditation.

Following on from what has been said already, we believe in a proactive system, rather than a reactive one—one that starts upskilling SMEs at home, on a more local level, and helping SMEs to develop the skills to become active internationally. We also think that the enhanced representation of technological expertise in diplomatic missions is key.

As was mentioned earlier, we strongly recommend the intensification of support and perhaps even a platform for real-time chat between exporters and overseas embassies, so that there is real-time communication and problem-solving, because a lot of crisis management has to be done with regards to conflict resolution and overcoming barriers. You talked a lot earlier—this links to the recommendations that we are making—about how we overcome those perceived barriers, and not only perceived but real, tangible barriers. That has to start from home and from closer co-operation with SMEs and small companies to show them that it is possible and that internationalisation is a channel of growth for them.

Q60 **Chair:** I like this phrase, "Every export starts at home". Can I come to you, Klemens, and ask for a German perspective on two points that Elena has flagged? One is around governance, and when I visited the headquarters of the German chamber of commerce in Berlin, one of the really impressive things is the way that the governance team, say for Asia-Pacific, includes the chief executives of Robert Bosch and BMW. You have some really powerful industrial players helping lead the governance of the export strategy in a way that is deeply connected to the Government too. Is that important? How important is that in driving exports strategically?

Klemens Kober: It is crucial. As you said, our membership includes all sectors and a whole range of businesses—small and big. That means for us that it is a lot of work because we have to balance out all of these views. As you can imagine, not all the views always go in the same direction, but it is our legal duty to get this input from all of them and then find a balanced position on various positions. When we talk to Government, authorities or third countries, that is a very valuable input and our counterparts feel that that we do this balancing out of different interests to find the overarching interest of the economy. The contacts we have on every level with the Government, both in Berlin and on the European level, feed into trade negotiations and into different channels to break down trade barriers abroad but also at home. If you look at different kinds of regulations that are coming up and the way customs are set up, customs systems are not working that well.

Q61 **Chair:** It is an effective model for flagging issues that business has with Government quite quickly.

Klemens Kober: Also, it is not a one-off process; it is a continuous process of evaluation.

Q62 **Chair:** When the Chancellor, for example, goes to visit countries abroad, there is a very structured process for gathering input from business into an issue list that the Chancellor then advocates for with their equivalent Head of State abroad. Could you say a word about that?

Klemens Kober: Obviously, I cannot go too much into the specifics of these kinds of sensitive missions—but, yes, whenever the Minister or the Chancellor is travelling. As you have been to our headquarters in Berlin, you have noticed that you have the DIHK chambers together with the BDI, which is sort of the German CBI, and the employers' organisation. Together, we are then contacted about a specific visit, and it is our duty to find companies that could accompany the trip and also to bring issues to the table that are of importance. Oftentimes, there is a very short period of notice, so we have to do a lot of work, sometimes overnight, but in the end I think it is worth it.

Q63 **Chair:** Could you say a word about how the public-private partnership is structured in Japan?

Masamichi Ito: In various Japanese business organisations, including the chamber of commerce, there are various channels to talk to the Government about trade policy; for example, for some specific countries' markets, there are committees within business organisations and sometimes Government officials are invited to that meeting and the business side will provide the information about the problem it is facing with respect to local regulation or something. The Government will hear the situation and eventually they may talk on a governmental level or sometimes there will be Secretary of State-level dialogues. We will pose some troubles or problems with respect to business environments and sometimes ask those countries to make some change to their regulation. That is one form of transaction between public and private.

Q64 **Chair:** Perfect. The clock is against us, so that brings us to the conclusion of our panel, but that evidence has been extremely valuable to the Committee. We are really grateful to you. You have told us about the importance of having that one-stop shop. You have told us about the importance of really deep networks, both domestically and internationally. You have told us a lot about the importance of training, especially for SMEs. It needs to be proactive as well as reactive. You have told us a lot about the importance of supporting people with digitalisation.

There have been some really useful pointers for the conclusions that we need to come to in our report. Thank you very much for that evidence. That concludes this panel.