



Our **Business**
is **Wales**

| **fsb**⁰⁸

Policy Paper

Internationalising Welsh Businesses: Trade, Investment and Export

October 2020

Ff/T 029 2074 7406
E wales.policy@fsb.org.uk
W fsb.wales

C/A 1 Cleeve House,
Lambourne Crescent,
Caerdydd, CF14 5GP

Swyddfa Gofrestredig | Registered Office:
National Federation of Self Employed and Small Businesses Limited,
Sir Frank Whittle Way, Blackpool Business Park, Blackpool, FY4 2FE
Cofrestrwyd yn Lloegr Rhif | Registered in England: 1263540



**Our Business
is Wales**



About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Throughout 2020 FSB Wales is speaking to businesses the length and breadth of Wales through our campaign *Our Business is Wales*. The conversation will be used to inform practical policy suggestions to improve the business environment for SMEs.

Introduction

Wales faces a dramatically changing and challenging global economic environment, and post-Covid-19 and post-Brexit, Welsh firms will need the support of a Welsh Government with a clear vision of how to traverse this new terrain.

This is a terrain of diversifying supply chains, but also of new challenges to businesses trading internationally from the UK. In an environment of fewer open borders and uncertainty about future tariff and regulatory regimes for firms trading from the UK, Wales needs to use all levers at its disposal to remain competitive and facilitate sustainable growth.

This changing environment also provides new opportunities and can be a catalyst for action to build new markets, or expand on existing ones. The Welsh economy has long struggled with the need to diversify its export base with exports historically driven by a small number of large companies.

With an uncertain environment for our establishment markets, it is more important now than ever to build Welsh business from the ground up, with the aim of making them competitive in the global market. An SME focused international strategy for international trade, export and investment is a key part of that aim.

This paper considers the challenges and needs of SMEs in export and international trade, what the opportunities and the wider benefits of a strong SME exporting sector are, and what role Welsh Government should play alongside the UK Government in placing Wales on the best possible footing for international trade. The paper also makes the case for an arm's length body, which we have nominally called 'International Wales', to market internationally and to coordinate Wales SMEs toward strategic export markets.

1. SME Firms and Export

According to the Economic Intelligence Wales Report (Feb 2019) of the £16.5bn exports of goods during the 2017-18 financial year, 70% could be identified with large firms, leaving £5bn as unidentified. Some of this will be large firm exporters that have not been located, but SME exporters will account for a proportion, with the majority more likely to be from medium as



Our Business
is Wales

fsb⁸

opposed to micro or small firms.¹ Information on the value of Welsh services exports is less reliable and detailed, with the latest data (available for 2016) suggesting a value of £5.6bn.²

DESTINATION EXPORT



According to the FSB's 2016 report on SMEs and UK exports 'Destination Export'³:

- 40% of exporters are start-up businesses.
- 76% of export destination decisions are driven by a direct approach from local markets – this suggests there is a gap in coordination and scope for impact through governmental international strategy.
- The EU single market remains the top trade destination for both UK and Welsh small firms and will likely be for some time to come. Welsh SMEs that do export are four times more likely to export to an EU destination than a destination outside the EU.
- Around one fifth of FSB's membership in Wales exports, with around 13.5% of our members importing goods or services. Generally, this is in line with the UK average.

These general trends are confirmed in other and more recent studies, including figures looking at Wales in particular. As the UK Export Finance survey noted:

- SMEs based in Wales that only have domestic customers grow at 8%, compared to 20% for those that export abroad.
- 20% of Welsh SMEs state that concerns about cash flow or lack of working capital limit the extent to which their business exports internationally.
- Over three quarters (76%) of Welsh SMEs would find a finance service to be useful.

¹ Export Finance Wales (Economic Intelligence Wales: Feb 2019), available at https://developmentbank.wales/sites/default/files/2019-02/English_Bespoke%20Report_FINAL_25%20Feb2019.pdf

² Ibid.

³ 'Destination Export' (FSB: 2016), available at <https://www.fsb.org.uk/static/e0e19b59-9d58-4a4f-bb59f080cbf2d05a/fsb-destination-export-report-2016.pdf>



**Our Business
is Wales**



- The research has also confirmed that UK SMEs are not fulfilling their export potential, due to a number of barriers. It is now estimated that 19% of SMEs nationwide believe they could export but do not.⁴
- Exporting SME respondents to the Export Finance Survey served around 30 separate markets, including the UAE and China. The two most common export markets for Welsh SMEs were France (48%) and the USA (35% exporting). For the majority of exporting SMEs, export sales represented a small share of total revenue.

The picture this data shows us is one of a large concentration of exports among a small number of large firms. It also shows us that companies that do pursue export paths to growth often do so more quickly than those that do not, and that we are at present not fulfilling our economic potential as a nation due to low rates of exporting.

Why don't SMEs Export?

So, if the UK and Wales do not fulfil their export potential, why is this the case?

Research for UK Export Finance (UKEF) note that 60% of all potential exporters cite access to finance as a key barrier to export.⁵ When considering export, over three quarters (76%) of Welsh SMEs state that they would find a service that lends capital to international exporters while they await payment, and insures them if their customers do not pay, to be useful,⁶ underlying the fact that many exporters and prospective exporters are unaware of UKEF products such as the export finance guarantee.

According to Economic Intelligence Wales report on 'Export Finance in Wales'⁷ of February 2019, barriers to SMEs increasing overseas trade included:

- transportation costs
- the levels of overseas competition
- poor knowledge of overseas markets
- foreign exchange risk
- lack of finance to help with exporting.

The same source found that there was a significant knowledge gap about support available:

- less than one quarter of exporting SMEs had sought export advice.
- Over 85% of SMEs that currently exported did not use any specific export finance products, such as the UK export finance guarantee.
- Of SMEs not currently using export finance, around 30% were interested in export finance products, including working capital loans, bond support for overseas contracts,

⁴ Business News Wales, 'Welsh SMEs that Export Grow at More than Twice the Rate', 24 October 2019, available at <https://businessnewswales.com/welsh-smes-that-export-grow-at-more-than-twice-the-rate/>

⁵ Business Leader, 'Do Export Businesses Grow Faster than Other Businesses?', 21 October 2019, available at <https://www.businessleader.co.uk/do-export-businesses-grow-faster-than-other-businesses/74687/>

⁶ Business News Wales, 'Welsh SMEs that Export Grow at More than Twice the Rate'

⁷ Economic Intelligence Wales, 'Export Finance in Wales' (February 2019)



insurances/guarantees to cover non-payment risks and foreign exchange support to guard against currency fluctuations.

This indicates the knowledge gaps, the current lack of awareness of export support and access to finance, and the needs of SMEs. The next Welsh Government, Business Wales and the Development Bank for Wales can have an influence upon these areas.

Identifying types of SMEs in exporting

The 2016 FSB research 'Destination Export'⁸ analysed export challenges identified by firms, and classed companies by 3 types, disregarding those who would not consider exporting) While certain challenges are experienced at a similar level across all three groups, there are also some significant differences; each group presents a unique profile, finding certain challenges more prevalent than others do.

- *Exporters (those who export)*
- *Considerers (those who say they would consider exporting)*
- *Lapsers (Those who have exported in the past)*

The responses on the relative importance of different barriers to export indicate a need to segment and tailor support to firms on with different practical experience of exporting.

Some barriers were common across all three groups – such as 'finding customers'. The work also found that those who export have tended to do so 'reactively' or 'opportunistically', rather than 'strategically' as part of their business model. This suggests that there is room to fulfil this strategic outlook through a centrally coordinating body, and provide a 'match making' service for SMEs and key international markets. An arm's length body, along with Business Wales and Development Bank could make an impact in this area.

However, a number of challenges were perceived as different by those with experience of exporting and those who did not. Understandably, 'Considerers' therefore face a greater challenge in knowledge gap than the other groups, but that these would become less so later on in the export journey. It is also likely that many issues are perceived as challenges, rather than experienced as challenges. This suggests a role for peer-to-peer learning but also a centrally organised marketing and a practical toolbox that brings SMEs on to the start of their export journey.

This also suggest the need to develop a 'portfolio' approach to different sectors and types of business, so as to ensure that there are suitable linkages and new 'opportunistic' links made by SMEs through Welsh Government institutions building international networks.

2. Delivering on Internationalising Welsh Businesses

Current developments in Welsh strategy and legislation

⁸ 'Destination Export' (FSB: 2016)



The Welsh Government has recently produced its International Strategy. The Strategy main aims are to:

- raise Wales' profile on the international stage
- grow the economy by increasing exports and attracting inward investment
- establish Wales as a globally responsible nation.

Welsh Government "have chosen to showcase three distinct industries in which Wales excels and which demonstrate how Wales is a nation committed to creativity, technology and sustainability – cyber security; compound-semiconductors and the creative industries."

The strategy involves actions over the next 5 years, including 'Increase our presence in EU member states', work with the Welsh diaspora, and to 'coordinate our international activities and empower key Welsh organisations'. It also looks to work in partnership with the UK Government to increase their profiling of Wales.

It aims grow the contribution that exports make to the Welsh economy by 5%, and promote magnet projects alongside building on wales reputation for research excellence and graduate start-ups.

In a response to the consultation, FSB Wales has welcomed its aims and actions, but noted its success will largely depend on the practical steps and mechanisms for delivery. It is also disappointing that the strategy did not include a single reference to SMEs.

The strategy notes that:

"For the first time in its history, Wales has a Minister with responsibility for international relations, but many of the levers for international relations and trade lie beyond the Welsh Government and sit with the UK Government."

Significantly, there is a developing export strategy, which is the first of its kind for a Welsh Government. This is a significant step and provides meat on the bones of the international strategy, and has potential in internationalising smaller Welsh firms. It is important that every part underpinning the International Strategy have an SME 'proofing' and focus.

How building the export capabilities in Wales aligns with economic development 'at home' is a key question in developing thriving economy for SMEs. It is important that there is a clear read across from domestic through to international policy, and vice-versa.

The strategic framework is taking shape. The practical mechanisms for delivery also need addressing and need to work in tandem with the framework and vision for trade and investment policy for Wales' small businesses, and geared toward developing and building the capabilities of the Welsh economy to be competitive in the new post-Covid global economy.

- The next Welsh Government should develop its international strategy providing more detail in its export and investment strategies.
- Delivery should be a key part of the export strategy with clear roles for the international offices and a clear ambition to work with UKTI wherever possible.



Our Business
is Wales

fsb⁰⁸

- Business support services in Wales such as Business Wales and the Development Bank should be given a clear mandate to support export in line with the Strategy, and liaising with international offices.

Internationalising Welsh Small and Medium-Sized Businesses

Trade, export and inward investment should align with what FSB has called an economic development model to address the 'missing middle' in the Welsh economy. That is, it is important to develop the stock of embedded and sustainable medium sized firms to provide for a stronger base for the Welsh economy that also avoids capital flight and builds capacity and capabilities in Wales.

Export is a clear driver toward developing growing firms and innovation. In diversifying the export base, the next Welsh Government should set clear ambitions to grow more Welsh medium-sized companies that are locally anchored and globally competitive, by helping this cohort of firms to address the potential of export markets, and to take a 'let a thousand SMEs bloom' approach.

In terms of institutions, FSB Wales has supported the policy of looking to build arms' length institutions (such as Transport for Wales and National Infrastructure Commission for Wales) to provide a central point to coordinate action in complex fields, to provide an independent evidence base and to better engage with the public. We believe International Wales would help coordinate the threads and provide a practical mechanism to deliver on a trade and investment strategy.

It is vital that Wales is able to have a clear vision of a trade and investment strategy, a clear view of the means by which to fulfil that vision and bring SMEs on board while building them toward it, and strong mechanisms and institutions both home and abroad able to help deliver practically on that vision.

- **The next Welsh Government should set a clear ambition to grow a cohort of Welsh medium-sized businesses that are locally anchored but globally successful.**

'International Wales': An Arm's Length Body for Internationalising Welsh Businesses

An arm's length international trade and investment body should be created, tasked with delivering a strong 'International Wales' brand. As noted, governance in Wales has made recent use of arm's length bodies as providing independence and expertise that can promote trust with stakeholders and provide a bulwark to day-to-day politics that tends to promote short-term thinking and prevailing political winds. The International Wales agency would also provide this seamless and stable long term strategy for development.

What International Wales Should Do

The aim of International Wales would be in building the capabilities, capacity and competitiveness of SMEs in Wales. It would do this by:

Ff/T 029 2074 7406
E wales.policy@fsb.org.uk
W fsb.wales

C/A 1 Cleeve House,
Lambourne Crescent,
Caerdydd, CF14 5GP

Swyddfa Gofrestredig | Registered Office:
National Federation of Self Employed and Small Businesses Limited,
Sir Frank Whittle Way, Blackpool Business Park, Blackpool, FY4 2FE
Cofrestrwyd yn Lloegr Rhif | Registered in England: 1263540



**Our Business
is Wales**



- gearing suitable SMEs for export;
- expanding the opportunities for SMEs through export opportunities and networks;
- facilitating different types of international networks and across different markets;
- leveraging strong international links to pitch for inward investment
- supply chain management to maximise the value of inward investment to SMEs and building skill capacities and firm capabilities for innovation in future.

Enterprise Ireland is an example that could be followed. As described on its website,

“Enterprise Ireland is the government organisation responsible for the development and growth of Irish enterprises in world markets. We work in partnership with Irish enterprises to help them start, grow, innovate and win export sales in global markets. In this way, we support sustainable economic growth, regional development and secure employment.”

Enterprise Ireland operates a number of overseas offices and provides specific market strategies such as their 2017-20 Eurozone Market Strategy and their international events programme. This chimes well with some of the potential functions of Welsh Government’s existing overseas offices and has a strong focus on internationalising the Irish economy, be they start ups or existing exporting businesses.

On international trade and investment, the Scottish Government has Scottish Development International (SDI) whose task it is to deliver inward investment and ensure the overseas presence is delivering to the Scottish Government’s strategy.

A recent OECD report has made a strong, independent case for what it terms a ‘regional development agency’, based on Wales’ economic needs.⁹ As the OECD report puts the case for such an agency:

“There is a rise in the use of regional development agencies among OECD countries. Reintroducing a regional development agency that is strategically oriented to support the implementation of regional development and investment policy could boost the potential of policy delivery and also build implementation capacity in the public and private sectors. It is critical that such a body be able to work across policy sectors and levels of government, have a national-level and subnational presence, be adequately resourced and have decision-making power within defined parameters. The Welsh Government’s experience with regional development agencies is mixed and it would be important to learn from the past while also capitalising on previous practical experience.”

The effectiveness of International Wales functions and the scope of the global areas within which it can market will also depend on its budget and whether the next Welsh Government sees export and international strategy as priorities. We suggest that in order that we build the SME sector’s capabilities and capacities for future economic innovation the next Welsh Government should view international trade, investment and export, as a high priority. It is therefore vital that

⁹ The Future of Regional Development and Public Investment in Wales, United Kingdom (OECD 2020), available at <https://www.oecd.org/unitedkingdom/the-future-of-regional-development-and-public-investment-in-wales-united-kingdom-e6f5201d-en.htm>



**Our Business
is Wales**



International Wales has the financial capacity and the independent authority to make this priority a reality.

Many Welsh people and people with a familial or other connection with Wales, who live in other countries, some of which are key markets. Historically Wales has not been good at utilising this overseas footprint to our economic advantage as happens in Scotland and Ireland. We would therefore see this as a key role for International Wales.

How International Wales fits in the Welsh economic development ecosystem

As noted, international trade has cross-governmental responsibilities, as such, this coordinating body should also coordinate the relationships across UK and Welsh governments, including across Welsh Government departments, the Wales Office as well as the UK foreign and international trade offices.

Similarly, in the new International Wales agency, export and inward investment should be brought under the same banner and form part of the same agenda. Potential impact will be lost if export and inward investment fall under different responsible bodies.

It is vital that International Wales has a clear role and remit based on international activity and a focus on opening markets for SMEs, building links to those SMEs, and leveraging investment to the benefits of wider businesses in Wales. It is also important that it is clear how it relates to, and works in partnership with, the business support and economic development ecosystem in Wales and the UK. For example, International Wales should work to complement Business Wales efforts in developing businesses and to help build them toward export, and be sharing information and data as appropriate to help make this so.

In this example, Business Wales would be about building the capabilities for firms (which would include for export where appropriate), and they would pass on prospective exporters to and work with International Wales to help on that journey. It is important that this feel seamless for the business user of these support services.

We have noted the importance with all Wales' arm's length bodies that there is a mapping exercise, which will be available publicly on all 'arm's length' bodies' websites, indicating how these bodies mutually reinforce each other, what their respective roles and responsibilities are, and whom is the central point of contact. This should include protocols on how and where these bodies work together to guard against duplication and ensure efficiency across the bodies and a seamless understanding of the strategy around internationalising Welsh small businesses.

As with other arm's length bodies, International Wales must have clear lines of accountability and scrutiny to the Senedd, and afforded the autonomy to be trusted and its expertise respected across the political spectrum. It must be a body crafted in the era of devolution, responsive to Welsh democracy as it is today, and accountable to the people of Wales through their Parliament.

The Elephant in the Room – is this the Welsh Development Agency (1976-2006) mark II?

Ff/T 029 2074 7406
E wales.policy@fsb.org.uk
W fsb.wales

C/A 1 Cleeve House,
Lambourne Crescent,
Caerdydd, CF14 5GP

Swyddfa Gofrestredig | Registered Office:
National Federation of Self Employed and Small Businesses Limited,
Sir Frank Whittle Way, Blackpool Business Park, Blackpool, FY4 2FE
Cofrestrwyd yn Lloegr Rhif | Registered in England: 1263540



Our Business
is Wales



Any discussion of arm's length body faces the discussion of whether this is a rehash of the Welsh Development Agency, which had a successful period in bringing inward investment, but was a part of the so-called 'bonfire of the Quangos' in the early years of devolution. As such, any discussion of an arm's length body raises questions about the legacy of the WDA.

It is now over 15 years since the WDA was abolished and the international trade and investment environment has moved on substantially. As such, much of the legacy discussion is academic. What is suitable for one period may not be for another.

It should be noted that at different times of its existence all parties supported the WDA model. It was proposed by Plaid Cymru, introduced by a Labour UK government and was a key part of previous Conservative UK governments' approach to the economy in Wales.

In any case, any new body would not be tasked with the same functions and would set out in a different context – it would fit with a different international strategy and its link built in to the current Welsh settlement.

As the OECD notes, it is important to look too at ways in which the WDA was effective, and learning from its mistakes. The latter was largely that it was not focused enough on benefits to SMEs, and without an SME focus, any new agency misses on much of the economic, social value of investment on the wider community. Building into the strategy these multiplier effects and the use of supply chain management as a pivot on which to build skills, experience and capacity for future innovation needs and future high skilled Welsh economy that can be globally competitive.

- **The next Welsh Government should introduce an International Wales arm's length body to help support international trade, investment and export in Wales.**

Wales Brand

International Wales would be tasked with building investment opportunities and opening up markets for Welsh firms to export, should also be tasked with strengthening the Wales brand internationally.

This should include promoting the strengths of the brand, while deepening the trade and investment aspects. This should be done in conjunction with the Visit Wales branding and should align the needs of SMEs in Wales to the Visit Wales brand, in order to ensure buy in across the nation to utilising the strengths.

However, there is also a need to deepen the brand in terms of the entrepreneurial opportunities of Wales in the World both in export and for investment, and it should be part of the arm's-length body's remit to provide for this. It should build this according to the priorities set out in an international strategy.

- Strengthen the Wales brand and policy geared to ensuring those strengths are amplified.
- SME engagement is key to ensure buy-in and involvement by Welsh smaller businesses in the Welsh brand, and a process that can also broadcast the support and opportunities to export.



**Our Business
is Wales**



- Welsh Government institutions should champion small business brands in sectors and industries where Wales and/or the UK has a competitive advantage to target markets abroad.

Conclusion

While progress has recently been made in moving towards a clearer and better targeted international strategy, and development of export strategy, we believe there is still significant work to be done, and the mechanism for delivering on the strategy and coordinating the role of internationalising wales' smaller firms needs addressing. We believe that there is a strong case for an arm's length coordinating body on international trade and investment to help on this.

The importance of taking a stronger and more coordinated position on this policy area has become increasingly urgent with Brexit, and the process underpinning, in order to maintain Wales' position in a key market, but also to provide a means for taking the opportunities available in the global market in a challenging environment.

We provide some outline ideas here – we hope that all parties will engage constructively with small businesses to provide a programme of rebuilding and recovery for the next Senedd term.