

Global North East: Driving growth in North East trade and exports

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North East
Local Enterprise Partnership



North East England
Chamber of Commerce



Department for
International Trade



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Foreword

The priority we placed on international trade in the North East Strategic Economic Plan reflects both our region's industrial and exporting profile and our understanding that the businesses and regions which look outwards for opportunity build their competitiveness and drive higher productivity and better jobs.

We are justifiably proud of our key exporting sectors and businesses – in advanced manufacturing, pharmaceuticals and chemicals, energy, our growing presence in digital and professional services. Over recent years, we have sustained our performance as a net contributor to UK GDP through trade.

We are proud of the North East export capabilities and will continue to work hard to represent these effectively both nationally and on a global stage. As Government works towards the creation of a new strategic approach to promote trade and export we will work with partners in the region to ensure that we understand the opportunities and challenges and take action to support businesses to access opportunities to grow, and to create new, export oriented jobs in the region.

This report is the first step towards this ambition. It sets out a clear evidence base on these issues and our proposals for action in the context of this forthcoming strategy.

I'd like to thank Richard Baker, the North East LEP's Director of Strategy and Policy, and his team for the leadership they have taken to produce this report and also the support we have received from the Department of International Trade and the North East England Chamber of Commerce, from the members of our Strategic Advisory Group and the many businesses and organisations who contributed to producing this report.



Lucy Winskell

Chair, North East Local Enterprise Partnership

In its Plan for Growth, government has set out its intention to produce a new Trade and Export strategy this year. The Strategy will set out a route map to its deliver its vision for Global Britain as we build a new relationship with our European partners and explore new opportunities to trade across the globe, supported by new trade agreements.

There is no doubt that the last few years have been challenging - that much is clear from the data presented in this report. It confirms that the uncertainty of the transition from the European Union and the deep economic shock caused by COVID-19 have had a significant and ongoing impact. However, we take encouragement from the resilience of some of our key sectors and that we are seeing good early results as the Covid 19 lockdown is released.

This report identifies opportunities for further growth for our region in global markets as we look forward in anticipation of the new UK strategy and the work we are doing with partners across the North of England. Our core strengths in manufacturing and energy have proven resilient through the last 12 months and there is potential for increased export-led growth as these sectors continue to grow and diversify in response to global priorities – particularly in the drive to net zero and the recovery from COVID-19. There are further opportunities in offshore wind, electrification, life sciences and in a host of new technologies.

Our service sectors are seeing an acceleration of exports, diversifying our exporting profile and the range of countries we trade with. Digital, financial and professional services are all opportunities to reach out to the world as new trade deals are struck and new trading relationships evolve.

As Government considers its approach to the future, this report prepared in conjunction with our partners, sets out our assessment of our opportunities and challenges, and describes the strategic framework of services and activities we believe are required for enhancing trade support in the North East LEP area to build on our current strengths and to support more regional businesses to internationalise.



Richard Baker

Strategy and Policy Director,
North East Local Enterprise Partnership

Executive summary

The North East has a strong exporting pedigree on which to build and future opportunity as we emerge from the disruption of leaving the European Union and the economic impact of COVID-19.

This report identifies opportunities for growth for our region in global markets as we look forward.

The North East's export ambition

↑ Increase the % of firms engaged in exporting in the North East from 6% to 9.5% by 2030

↓ Reduce the five year attrition rate of North East exporting businesses from 50% to 25%

↑ Increase the % GVA from export of goods and services in North East from 33% to 35% by 2030

Opportunities

- The North East has strong trade foundations, built on bulk, high value manufacturing exports of automotive vehicles into Europe, alongside pharmaceuticals products and chemicals, offshore and sub-sea renewables
- To strengthen of co-ordination of trade and inward investment activities in the region
- To capitalise on the increasing global services exports with a growing presence in professional and digital services
- Disruptive forces including Net Zero, global health resilience and the ageing global population create opportunity for innovation and supply in sectors where we have significant business and research capability
- The acceleration of digital transformation creates opportunity for manufacturing and service exporters
- EU Trade Deal's local content requirements and increased focus on supply chain resilience, post COVID-19, can provide domestic businesses platforms from which future exports can build
- Capitalise on new trade agreements.

Challenges

- North East exports are dominated by larger, foreign owned businesses, with a clear need to increase the number of regional exporting businesses, and to support their growth
- Limited visibility of the potential and current exporter pipeline restricts targeted support action
- Businesses continue to find access to finance for scale-up and export development challenging, and the wider business support network can be difficult to navigate
- The COVID-19 economic shock has forced some businesses to focus on survival, whilst the increased complexity of trading with the EU has discouraged export development
- Restricted travel has required new approaches to overseas marketing and research
- There is a requirement for a stronger exporting culture in the region with a confident and visible North East export message.

North East Exporting insights

Prior to COVID-19, the North East LEP area typically exported over £10 billion in goods and a further £5 billion in services each year.

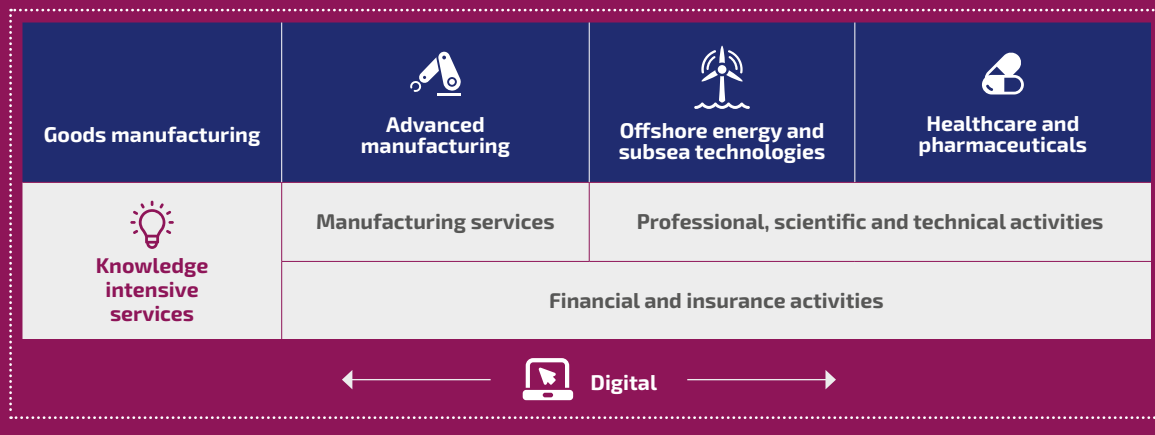
Goods

- Substantial machinery and transport exports to the EU have driven the majority of post 2014 export growth
- Other key sub-sectors are:
 - Medicinal and pharmaceutical products
 - Power generating machinery and equipment
- Despite the strength of machinery and transport exports, the North East export growth since 2014 underperforms England excluding London
- The share of exports contributed by the North East food and drink industry represents circa one third of the average Northern Powerhouse share
- The EU is a the dominant destination market, but significant exports flow to USA, China, Japan, Turkey and Norway
- Comparing North East goods exports per capita, with those from England excluding London, suggests scope to export more in China, South East Asia and USA.

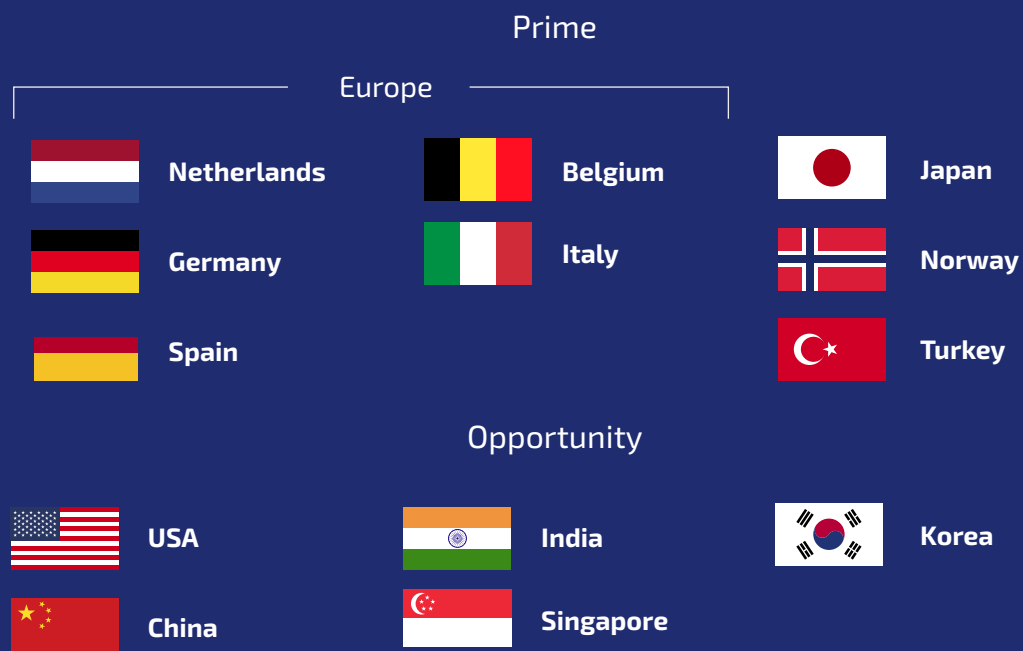
Services

- Export of services is less than the export of goods but is growing consistently and faster than goods
- Largest sector is financial and insurance activities, with the majority of this to Rest of World
- Other key sub-sectors are:
 - Manufacturing services
 - Professional, scientific and technical activitiesUnlike financial and insurance exports, the primary current market for these activities is into the European Union due to our manufacturing output.
- Digital services are growing in export importance, and represent both an export opportunity in their own right and a key enabler of exporting processes.

Our strengths and sector approach



Our target export markets



Sector thinking

1

Increase the depth of understanding of our target market sectors by fully developing the North East export propositions for those sectors, namely advanced manufacturing; offshore energy and subsea; healthcare and pharmaceuticals; digital and knowledge intensive services.

Business level thinking

2

Monitor progress and target exporter development at a business level – brings challenges to secure access to the necessary data, which must be overcome.

Market opportunity

3

Work with business organisations to articulate and share aligned views of market opportunity for target sectors based on industry standard forecasts, in addition to export history.

Support ecosystem

4

Ensure the existing exporting support available is both joined-up and accessible. Identify and close support gaps.

Communication

5

Proactively promote the North East's exporting offer to current and potential export target markets and to investors.

The North East's export ambition



The North East's export ambition

UK exporting ambition

Planning for growth and future industrial and sector policy

Exporting is a longstanding priority for UK economic and industrial policy. In 'Build Back Better: our plan for growth' government highlights two elements, that provide the policy framework to increase exports: from the North East LEP area.

Levelling Up:

UK Government's most important mission is to unite and level up the country. Where people live should not be a barrier to their life chances.

Global Britain:

Developing a new export strategy to align our support for exporters with our plan for growth and sectoral priorities.

In the March 2021 budget, government set the scene for a new trade and export strategy, to be published within 12 months, and for other important economic statements including a set of sector visions.

This work will build on priorities set out in UK Government's 2017 Industrial Strategy which aimed to boost productivity and jobs with investment in skills, industries and infrastructure aligned to the needs of specific sectors.

At a regional level, the North East Strategic Economic Plan and the North East COVID-19 Recovery and Renewal Deal focus on the potential for growth and internationalisation in key areas of opportunity in the region.

UK Government Export Strategy

The 2018 UK Government Export Strategy identified that the UK is not fulfilling its exporting potential – with 30% of GVA coming from export of goods and services in 2017, compared with 47% in Germany.

In order to close this gap, a national target of 35% of GVA by 2030 was set.

Why export?

Government's 2018 export strategy highlights that: Businesses that export are more productive, create more jobs, and pay higher wages. The Office for National Statistics estimates that goods exporting businesses are 21% more productive.

It is estimated that jobs directly and indirectly supported by exports pay around 7% higher than the national median.

Approximately 80% of world trade is estimated to take place within the international production networks of multi-national companies.

North East export headlines

In 2018, the North East region exported

£13 billion in goods

and a further £7 billion in services

168,000

of North East jobs are
reliant on exports

4,500

North East businesses
engage in exporting

North East exporting performance and ambition

Historically the North East region has performed better than the UK average, with 33% of GVA in 2017, but the region is heavily dependent on machinery and transport exports – particularly to the EU – and therefore increasing the value of the region's exports to achieve the national % GVA target is highly desirable.

The 168,000 North East jobs reliant on exports represents only 6.4% of the North East's population, compared with 9.9% average for the UK. This demonstrates the importance of increased exporting to achieve the ambition of 70% of all new jobs being better quality jobs, as set out in the North East's Strategic Economic Plan.

4,500 of the North East's estimated 75,000 businesses engage in exporting, which is 6%, compared with the UK average of 9.5% and 7.5% in the Northern Powerhouse.

The Department for International Trade reported a five-year attrition rate of 50%, suggesting limited longevity of North East exporters. This further stresses the importance of prioritising increasing the number of (persistent) exporters within the North East region.

In response to the UK export growth targets and the current performance of the region, we have adopted the following targets for North East export performance:

- Increase the % of firms engaged in exporting in the North East from 6% to 9.5% by 2030
- Reduce the five year attrition rate of North East exporting businesses from 50% to 25%.

A new context – challenges and opportunities



A new context – challenges and opportunities

Our future is subject to significant changes, which bring continued disruption, but also opportunity.

Post-COVID-19 pandemic

Whilst at the time of publication, UK infection rates are considerably reduced and the economy is being progressively unlocked, the UK still has a long way to go to recover from the COVID-19 pandemic.

We have reason to be positive, with the efficacy of the vaccines, combined with the speed of the vaccination programme, which has led to government's roadmap to opening up the economy, which is anticipated to be fully implemented by summer 2021.

However, success in trade and export activity will also be influenced by the conditions in the global economy, and in particular amongst our trade partners, many of whom continue to face disruption and therefore present uncertainty for the North East.

In this climate, there are three factors in particular that are relevant to the starting point of this exporting report.

Short termism

In an environment where short term survival has been the only focus for some businesses, their ability to consider longer term business development (including new exports) has been constrained, particularly for many micro and small businesses.

Acceleration of digital transformation

As a consequence of the March 2020 instruction to 'Stay At Home', working from home, increased adoption of online retail and other business models have changed working practices, consumer behaviours and mobility trends, including trade models. With restrictions still easing and not yet fully lifted,

it is unclear what the 'new normal' will be, but it is clear that this acceleration of digital transformation will see more online meetings and purchases, and less travel in the future.

Collaboration

Part of the response across communities and the economy has been collaboration. This has been evident throughout the pandemic in policy, in places and in the business community. From business and trade associations facilitating the region's businesses to share and learn; to universities sharing approaches for students; and new forums for local authorities to connect, in many areas barriers were broken, new relationships established, and creative collaboration commenced.

Post EU exit trade environment

The UK's transition agreement with the EU ended on 31 December 2020, with a trade and cooperation agreement reached on 24 December, which "goes beyond traditional free trade agreements and provides a solid basis for preserving our longstanding friendship and cooperation." Whilst the majority of the UK business community welcomed a deal rather than no-deal, the short time between agreement and implementation has impacted imports and exports, and in many cases continues to do so, including:

Short-term and longer-term effects

International trade is considerably less 'frictionless' with our former EU partners, leading to EU exit teething problems apparent for many businesses, in particular SMEs.

The Trade and Cooperation Agreement provides an initial framework for future trading relationships with the EU. Whilst it presents issues for some specific sectors, (e.g. fresh food) the expectation is that ongoing development of systems and practice, and ongoing negotiation will improve the environment for trade into this crucial market and reduce the effect of 'baked-in' issues with the deal, such as the adoption

of the onerous UK REACH system in the chemical sector.

However, the combination of teething problems, the rapid adoption of new systems and regulations, and negative media coverage has undoubtedly discouraged some businesses from exporting.

Distilling the key issues and providing ongoing support is key to encourage UK businesses back to the export table in the short, medium and long term.

UK is open for business

There are market sectors where EU businesses have reduced the number of business enquiries they send to UK suppliers due to both real and perceived supply issues from the UK. Overcoming negative perceptions felt by EU customers is key to protect the opportunity pipeline for North East and UK exporters.

Export opportunity

The ability of successful exporters in the North East to win new business throughout 2020/21, combined with the strong rebound in goods export levels in 2020 Q4, confirm that export wins can be achieved, despite the challenges of the current environment. This is a message that needs to be reinforced to the North East's exporting businesses.

Levelling Up and Building Back Better

'Build Back Better: our plan for growth', incorporates the Levelling Up agenda and is government's plan to drive growth for a global Britain. It commits to developing a refreshed UK export strategy.

Global North East: Driving growth in North East trade and exports aims to ensure that the North East perspective is reflected in forthcoming Northern Powerhouse and national export strategies.

North East exporting insights



North East exporting insights

In 2018, the North East region exported a total value of £20.2 billion, comprising £13.2 billion of goods exports and £7 billion of service exports.

Export of goods

Regional goods exports

The table below shows the goods exports for 2019 and compares the total for 2020.

£ billion	2019	2020
North East region made up of:	13.3	11.6 ↓13%
North East LEP	10.5	N/A
Tees Valley Combined Authority	2.8	N/A

Viewing quarterly goods exports, North East goods show a marginally increasing trend from 2016 Q2 to 2019 Q1, followed by a slight slowdown 2019 Q2 to 2020 Q1, even before the first COVID-19 lockdown. Post lockdown, goods exports showed a strong recovery in 2020 through Q3 and Q4.



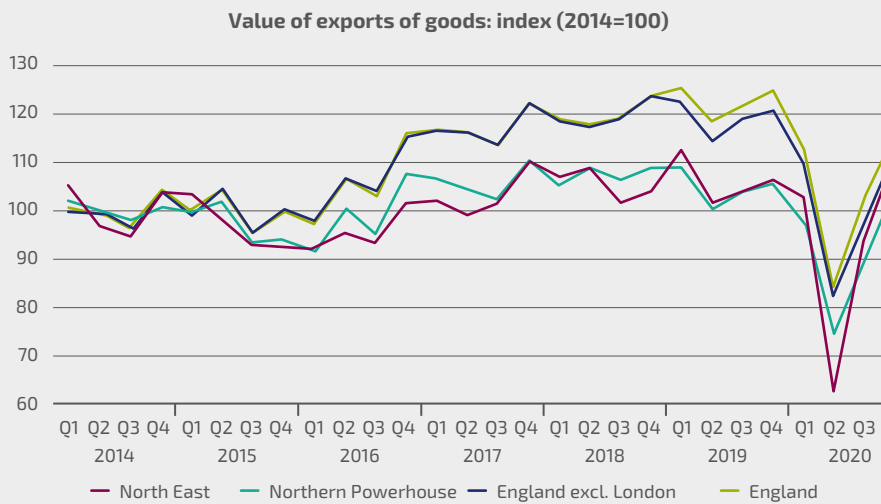
North East goods exports fell hard during the first COVID-19 lockdown, but have progressively recovered through Q3 and Q4 of 2020.

Export of goods from the North East region (value £ millions)



We can see how the North East performed in comparison with other regions if we baseline back to 2014 (aligning with the North East Strategic Economic Plan's reference period):

- This shows that whilst North East goods exports grew 2016-2019, they grew much more slowly than England and England excluding London.



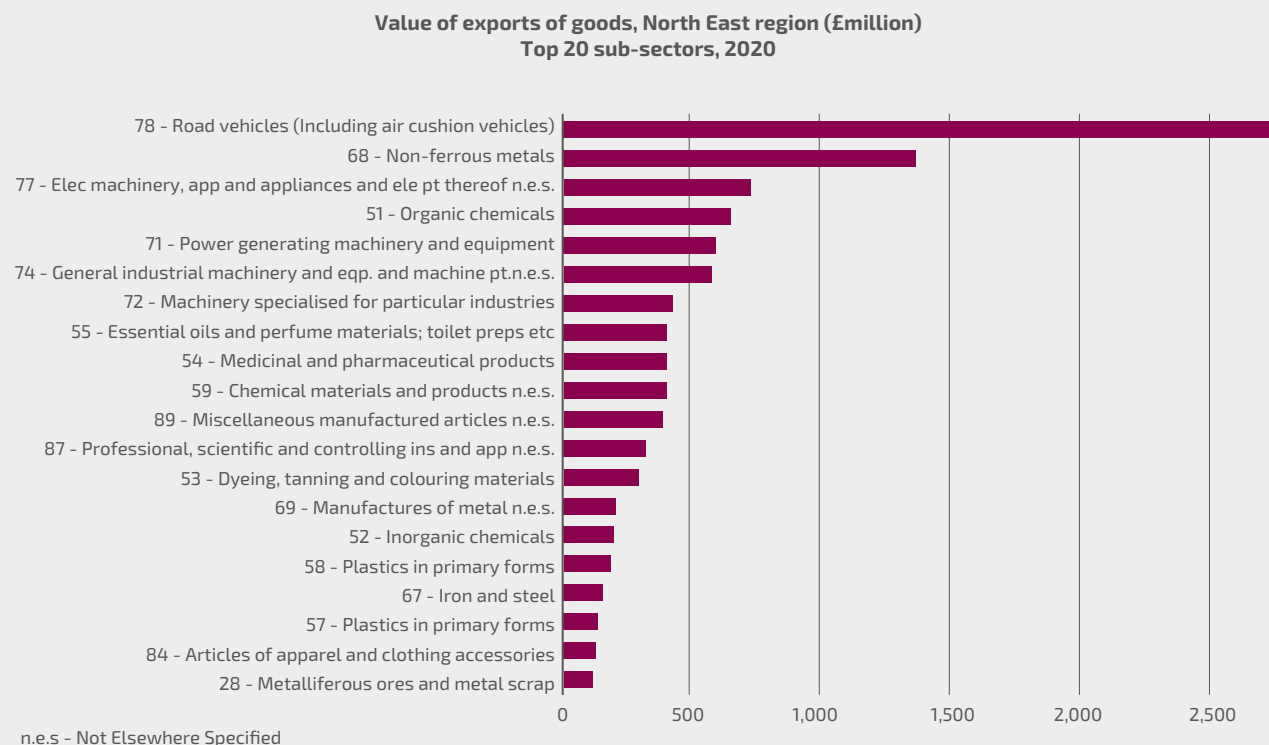
As the North East region is less populous in comparison with other UK regions, comparing the value of export of goods per working age person across UK regions shows that the North East compares well with other regions; exporting more goods per capita than the Northern Powerhouse regional average.



Goods exports by sector

It is important to understand where North East goods export value sits at sub-sector level.

- Dominated by road vehicles (£2.8 billion in 2020), although this was 35% down on 2019
- Non-ferrous metals are primarily from the Tees Valley Combined Authority area
- Prevalence of chemicals flows, shared across the North East and Tees Valley areas
- Strengths in medicinal and pharmaceutical (£0.4 billion) and electrical machinery/power generating equipment (£1.3 billion combined) for North East LEP area.



Comparing the relative share of North East exports by sector, with England excluding London, the North East region performs more strongly than other regions in export value per capita. This is not the case for all sectors.

Medicinal/pharmaceutical and power generating machinery are two strong performing sectors in the North East top 10 where we perform less strongly compared with England excluding London comparator. This could indicate that these sectors have scope to grow their exports further.

Goods exports by market



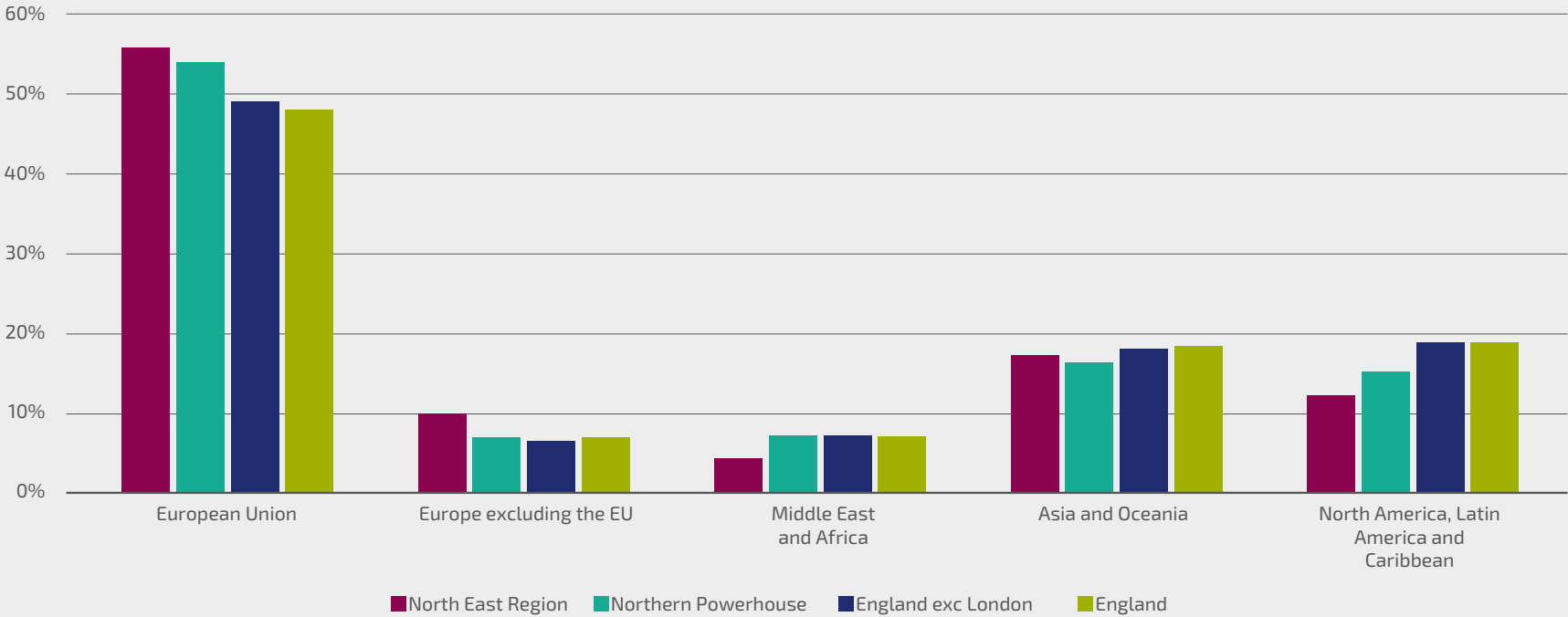
The North East region has a higher share of EU exports than other regions, with 56% of exports to EU in 2020, compared with 48% for England



The North East has a significantly lower share of exports to Middle-East and Africa and Americas

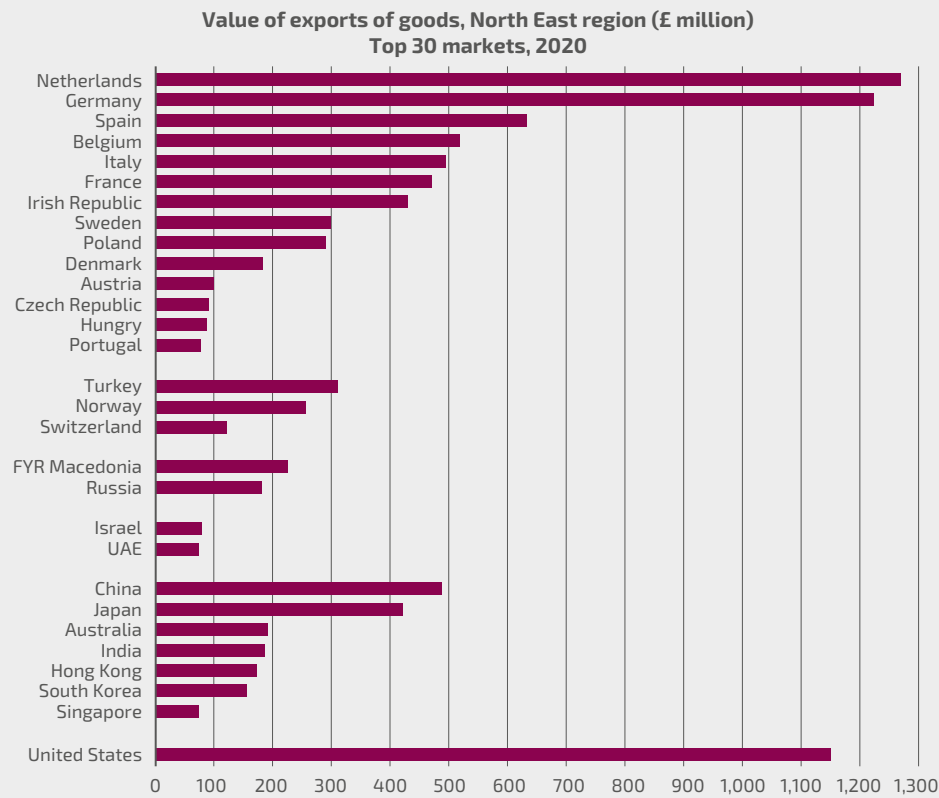
- The North East region performs strongly in non-EU Europe, with some offshore energy related flows to Norway and automotive to Turkey
- The North East region performs closely to the England excluding London benchmark for Asia/Oceania.

Percentage of value of exports of goods by market, 2020

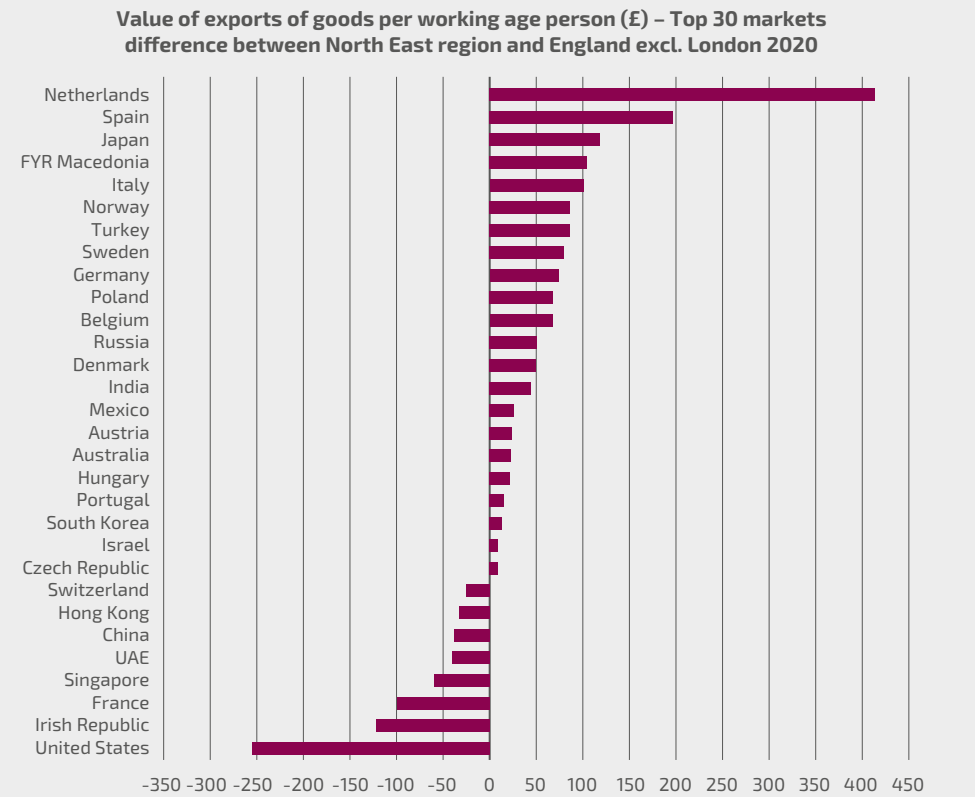


Drilling down into export value flows by destination country:

- North East goods exports are dominated by high values into EU countries, particularly Northern Europe. It should be noted that multi-national company and distributed product flows will not always reflect the final destination of sale of products (e.g. sales may pass through distributors in a given country, representing multiple final destination countries)
- The USA is the third largest export destination country with £1.15 billion.
- There is a growing significance of Asia as an export destination – North East goods exports to China in 2020 (£0.49 billion) were higher than to France. Japan is in North East's top ten export countries with £0.42 billion.



Comparing North East goods exports per capita with those from England excluding London suggests scope to export more in China, South East Asia and USA.

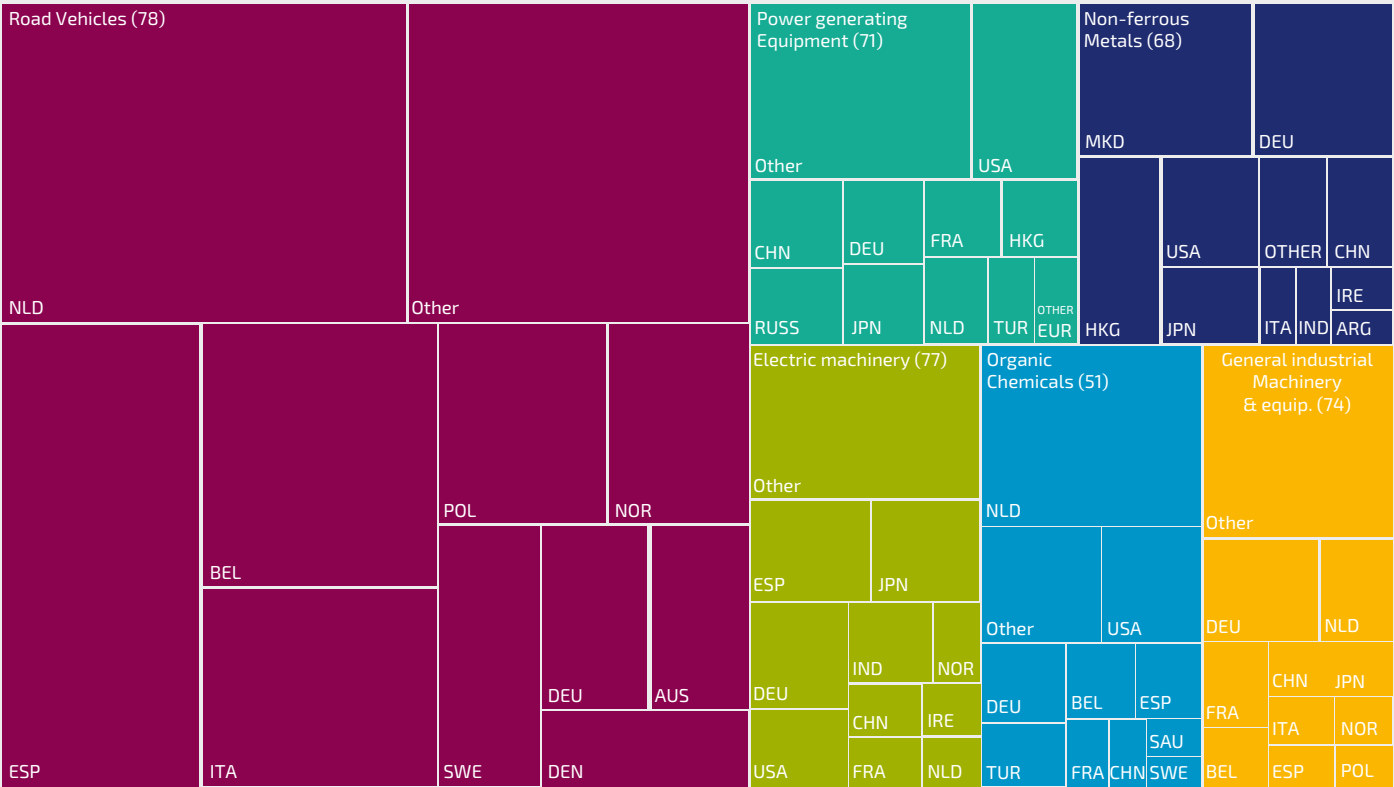


The North East's export of goods is concentrated in a small number of sectors, as can be seen from the chart to the right (by permission from Durham University Business School). It shows the most important sector/market combinations for goods exported from the North East in 2019.

- Road vehicles represent the largest block, within which the prevalent country squares are mostly European
- Power generating equipment heavily features USA and Rest of World destinations
- Electric machinery features a spread across Europe, Asia and USA destinations
- Non-ferrous metals and organic chemicals are dominated by exports from the Tees Valley Combined Authority area.



Most important goods exported and market, in the North East, 2019



Only goods accounting for 5%+ of total exports are included. Source: HMRC Regional Trade Data

Post COVID-19 goods export recovery 2020 Q4

At the time of publication in June 2021, publication of 2020 Q4 goods exports by region/segment and Q1 2021 high level export data provided a mixed picture of performance.



The North East's goods exports have rebounded strongly following the UK's first COVID-19 lockdown, with 2020 Q4 being the second highest value of exports in a quarter since 2014 – the baseline year for the North East Strategic Economic Plan. 2020 Q4 was 9% higher than 2020 Q1.

By market:

- Exports to EU countries recovered to similar levels (+1%) to those in late 2019/2020 – although this apparent recovery is likely to be masking some pre-EU exit stock builds
- Exports to non-EU countries shows strongest levels within the 2014-2021 reference period. Asia was the driver of export recovery, +32% in Q4 compared to Q1 (China, Japan and S.Korea all +30%) and USA also contributed strongly with +5%.



Global North East: Driving growth in North East trade and exports

By sector:

- Machinery and transport equipment fell harder during the first COVID-19 lockdown than all other commodities. It has recovered strongly, and is now approaching pre-COVID levels
- Rebound strength in Q4 is driven by other commodity exports, which reached their highest levels in the last seven years in this period:
 - Non-ferrous metals growth and recovery has been spectacular, based on a single flow of material from the Tees Valley Combined Authority area
 - +71% vs Q1 and +215% vs Q1 2019.
 - Its share of the North East region's exports is significant at 11% for 2020 and 15% for 2020 Q4
 - Pharma exports were 14% down vs Q1 and vs 2019
 - Energy equipment flat vs Q1, but -23% down vs 2019
 - Both impacted by \$ exchange rates, which have become further adverse in 2021 to date.

This tells us that the North East export recovery is being driven by non-EU growth, outside target areas of pharmaceuticals and energy equipment.

Post-EU exit goods export decline January 2021

It is too early to see the full impact of the UK's new trading arrangements with the EU since our exit on 1 January 2021. Early 2021 national data shows that UK goods exports in Q1 fell by £7 billion (8.7%) vs Q4 2020. This fall was exclusively to EU markets, whilst exports to non-EU markets remained stable. Despite limited data so far, it is evident that EU exit has had a negative short-term impact on UK exports. The combination of the late trade deal announcement, stock-building

and the UK entering a further national lockdown have all contributed to this. Data is not yet available to assess regional impact.

Service exports

Service export data is both less timely and granular than goods data, but we can identify some key characteristics of North East service exports.

Overall, service exports for the North East region were £7 billion in 2018, with the North East LEP area contributing £4.8 billion. Whilst lower levels than goods exports, they are growing faster, having increased by more than 60% between 2014 and 2017.

£ billion	2018
North East LEP	4.8
Tees Valley Combined Authority	2.2
North East region	7.0

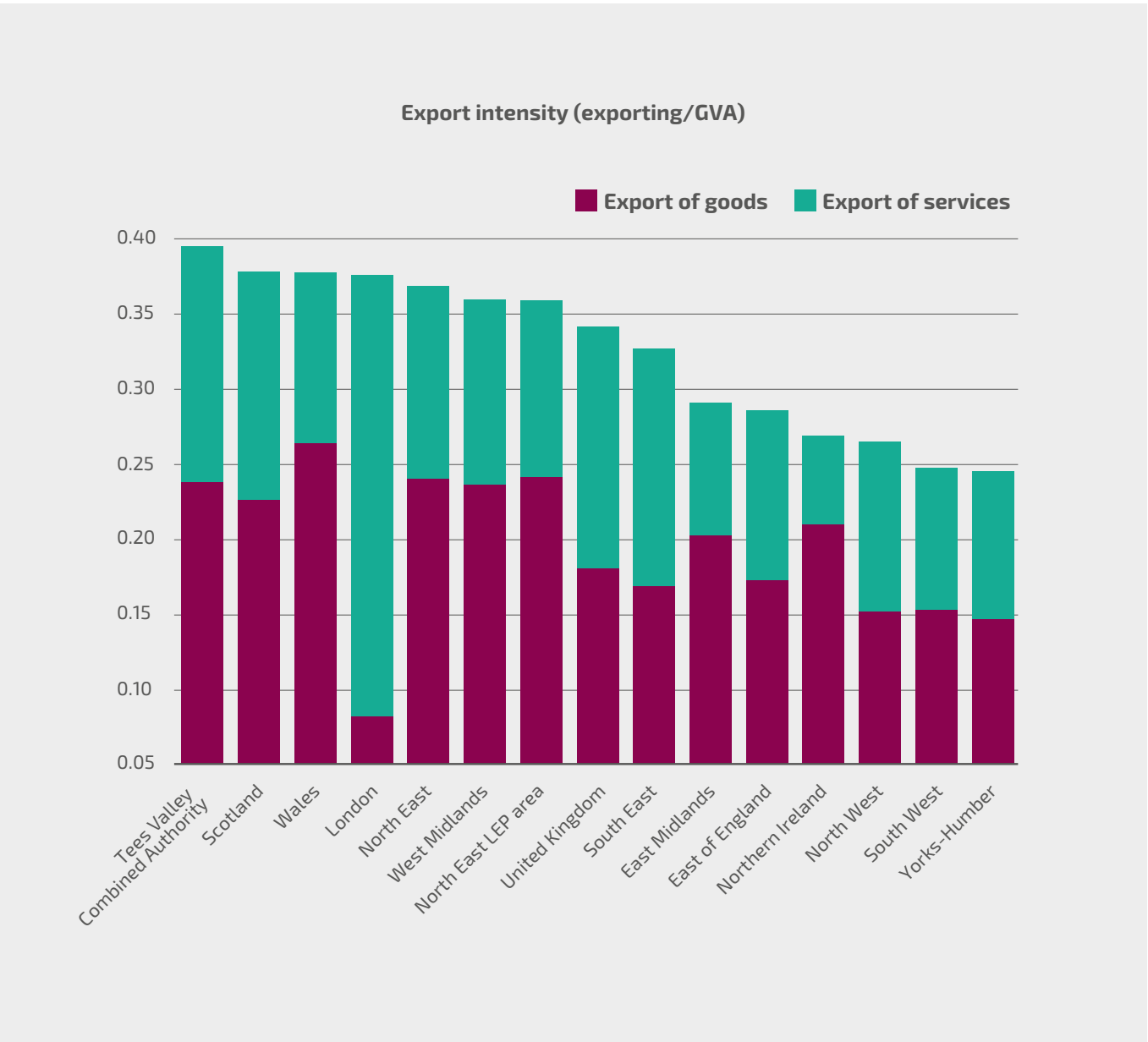
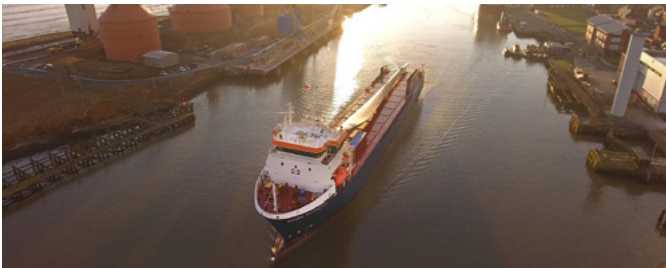
With the Office for National Statistics planning to publish 2019 subnational services data in September 2021, it will be mid-2022 before we can review statistics to show the impact of COVID-19 on services exports in 2020, but given the acceleration of digital transformation, services exports are not expected to fall as far as the 13% reduction in goods exports.



Current North East exporting insights

The graph to the right shows trade intensities across UK regions in 2018 (by permission from Durham University Business School).

- In the North East LEP area, goods export intensity compares favourably with other English regions
- Services however, compares less well.



Current North East exporting insights

North East export of services is far less concentrated than goods, as can be seen from the chart to the right (by permission from Durham University Business School).

Financial and insurance activities are the largest, but manufacturing services, and professional, scientific/technical activities are both significant, which link strongly to the goods export profile.

It should also be noted that:

Within the North East region, 64% of the value of service exports is from the North East LEP area, with more than half of that (35% of the regional total) from Tyneside.

North East LEP area service exports are strong to Rest of World in many of the largest segments.

Relative size of manufacturing-related service exports is low, especially compared with the dominance of manufacturing in goods exports.



Export performance summary

Prior to COVID-19, the North East LEP area typically exported over £10 billion in goods and a further £5 billion in services each year.

Goods

- North East goods exports are currently dominated by flows of road vehicles into the European Union, which have driven the majority of post-2014 export growth
- Other key sub-sectors are:
 - Medicinal and pharmaceutical products
 - Power generating machinery and equipment
- Despite the strength of machinery and transport exports, the North East export growth since 2014 underperforms England excluding London
- The share of exports contributed by the North East food and drink industry represents circa one third of the average Northern Powerhouse share
- The EU is the dominant destination market, but significant exports flow to USA, China, Japan, Turkey, and Norway
- Comparing North East goods exports per capita, with those from England excluding London, suggests scope to export more in China, South East Asia, and USA.

Services

- Export of services is less than the export of goods, but is growing consistently and faster than goods
- Largest sector is financial and insurance activities, with the majority of this to Rest of World
- Other key sub-sectors are:
 - Manufacturing services
 - Professional, scientific and technical activities

Both primarily into EU, unlike the Financial / Insurance exports




Exportable strengths



Exportable strengths

North East sector export proposition

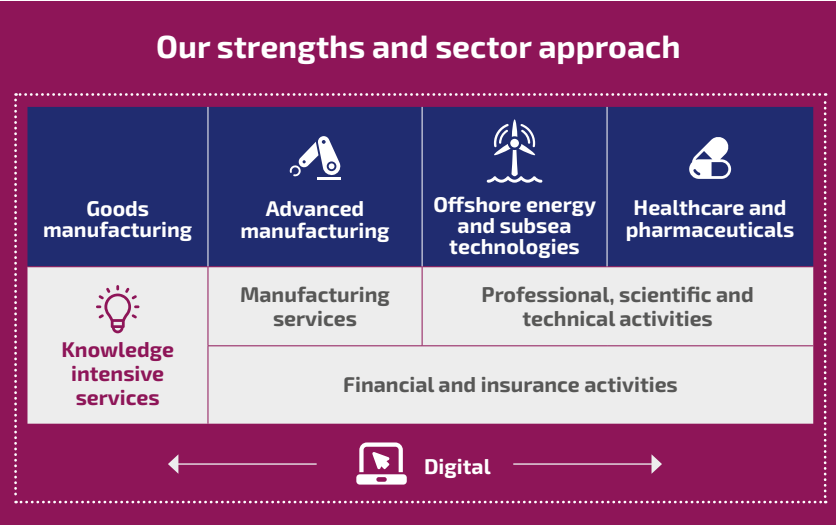
The proposed North East export sector proposition is layered and combines many of the exportable strengths of the North East Strategic Economic Plan. It builds on existing strengths in goods manufacturing in:

-  **Advanced manufacturing**
-  **Offshore energy and subsea technologies**
-  **Healthcare and pharmaceuticals**

We will use the disruptive forces of electrification and automation, along with green energy and ageing, as an opportunity to differentiate and develop new exportable products.

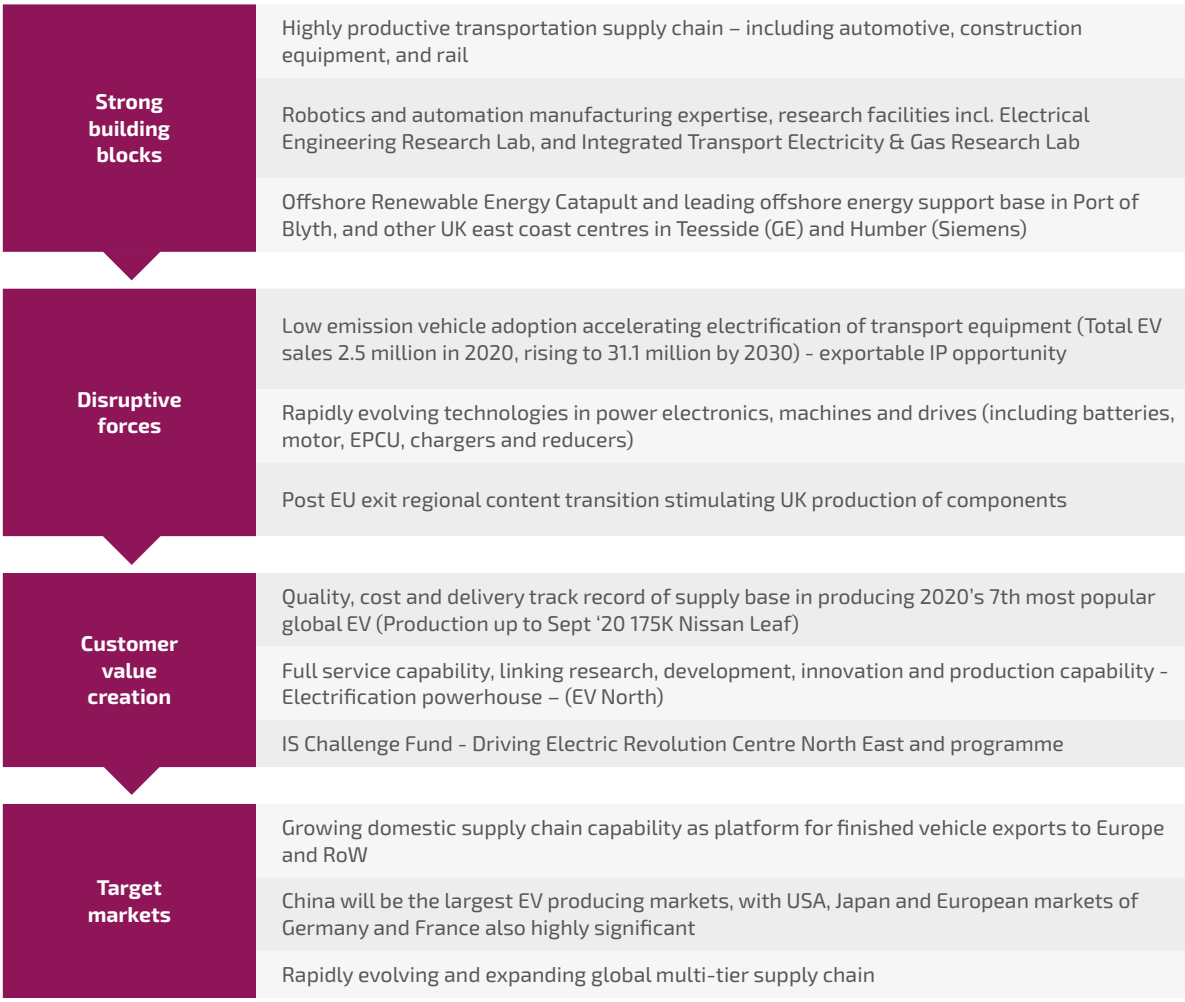
We will also take advantage of the growth in service exports to build on our strengths in financial and insurance activities, and other knowledge intensive services aligned to goods export strengths in manufacturing services and professional, scientific and technical activities.

We'll surround this with digital export innovation, both as exportable IP, but also as an enabler of all other sectors.



The key elements of each sector export proposition are shown in the following diagrams, capturing the 'foundation', 'opportunity', 'differentiator', and 'where' of each proposition.

Advanced manufacturing export proposition





Offshore energy and subsea export proposition

Strong building blocks	<p>Oil and gas pipeline and subsea historical experience (world class test facilities incl. Northern Gas Networks test facility; DNV GL; Smart Grid Laboratory)</p> <p>Proximity to world's largest offshore wind market, with 32% of global offshore wind capacity currently being constructed off UK shores</p> <p>Leading offshore energy support base in Port of Blyth, along with other UK East Coast centres in Teesside (GE) and Humber (Siemens)</p>
Disruptive forces	<p>Global drive to decarbonise energy sources and transition to net zero, and digital transformation driving demand for fibre optic subsea cabling</p> <p>Rapidly expanding global market, with global capacity of 32.5GW (from 162 offshore windfarms worldwide) increasing by >5GW p.a.</p> <p>Rapidly shifting technology as MW/unit increases; floating wind farms emerge and the future supply of green hydrogen – exportable IP opportunity</p>
Customer value creation	<p>Proven North East track record in design, development, installation and operational phases of projects – reduced risk and increased client confidence</p> <p>World leading expertise, such as subsea; cables; pipelines and robotics</p> <p>Collaborative approach to project and asset management</p>
Target markets	<p>Increase penetration of UK domestic market to scale-up future export potential (dependent of position shift in local content requirements)</p> <p>Established export markets in Northern Europe (Netherlands; Belgium; Denmark and Germany)</p> <p>South East Asia (incl. China; Taiwan; South Korea; Japan); New growing markets such as USA</p>



Healthcare and pharmaceutical export proposition

Strong building blocks	<p>Innovative research, discovery, development, testing, analysis and commercialisation ecosystem, with strong skills base</p> <p>Established pharmaceutical manufacturing base; emerging biotech cluster and companies developing diagnostics, medical devices and equipment</p> <p>Four Universities; Hospitals, Newcastle Helix, NETPark; AHSN – NHS; Campus for Ageing and Vitality; UK National Innovation Centre for Ageing</p>
Disruptive forces	<p>Global population living longer and healthier lives – fundamental shift to older population (up to 2050), with rise in chronic conditions</p> <p>Digitalisation, big data and AI accelerating transformation of healthcare (disease focus to integrated approach) and improving drug development</p> <p>Pharma market CAGR 4-5% between 2020 and 2024</p>
Customer value creation	<p>Credible alternative to UK's 'Golden Triangle' of life sciences (scaleup domestic opportunity as platform for export growth)</p> <p>Trusted collaborative development partner – confidentiality of process and product IP</p> <p>NHS and University research environment as a springboard for firm level innovation to underpin exports</p>
Target markets	<p>Wealthy markets with ageing populations: focus on USA, also Europe and Japan</p> <p>High value supply to healthcare growth markets</p>



Knowledge intensive services export proposition

Strong building blocks	<p>Strong local North East financial, legal and insurance firms; location of choice for many national and international service centres; government services</p> <p>Services aligned to complement region's goods producers, in particular to manufacturing and professional, scientific and technical activities</p> <p>Call centre strengths: friendly regional accent and helpful nature evolved into strong customer service ethos</p>
Disruptive forces	<p>Acceleration of digital transformation –opening up of service provision market and need for cyber-security protection</p> <p>M&A and FDI market growth (post-pandemic and EU exit); service sector role in supporting businesses through EU transition and Build Back Better</p> <p>Ongoing trend towards service outsourcing in business environment where service needs are changing rapidly</p>
Customer value creation	<p>High quality, lower cost potential of 'North Shoring', combined with specific service expertise</p> <p>Connecting high quality network of services locally, often translating expertise into markets where North East clients operate</p> <p>Services as an exportable commodity, but also as an enabler of North East goods exporting growth</p>
Target markets	<p>Global, but primarily those with similar language; accounting/legal systems; responses to marketing:</p> <p>USA; global MNCs; Australia; Canada</p>



Digital export proposition

Strong building blocks	<p>Established strengths in software development, programming, service centres and gaming; skilled and less costly workforce; high latency network infrastructure.</p> <p>Rapidly growing North East FinTech sector, MedTech, GovTech, Connected Construction expertise; and AI / VR / Augmented Reality technical expertise</p> <p>IC3; Digital Catapult, National Innovation Centre for Data (Newcastle Helix); Centre for Public Health Data</p>
Disruptive forces	<p>Acceleration of digital transformation due to COVID-19 lockdowns – step change of how we work and how we buy</p> <p>IoT enabled smart controls of remote / mobile electrified assets</p>
Customer value creation	<p>Sector specific tech solutions and digital as an enabler of transformation in other sectors</p> <p>Linking digital development to other regional strengths: FinTech; MedTech; Smart controls for asset management</p>
Target markets	<p>Global, but particularly successful in those with similar language; financial systems - USA, Australia, Canada</p> <p>Global MNCs key opportunity</p> <p>To lesser extent, traditional EU markets</p>

Priority markets for the North East LEP area



Priority markets for the North East LEP area

In order to recognise the importance and differing needs of existing strong export markets and those which require development, we will break our markets into two categories:

- 1. **Prime** representing combination of current significance and relative strength
- 2. **Opportunity** representing growth focus or potential to improve underperformance

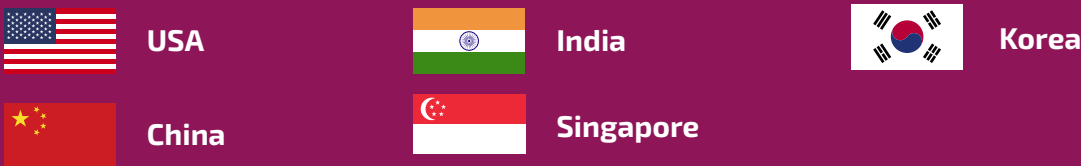
We have focused on a small number of countries, in order to drive material action.



Prime markets



Opportunity markets



Exporting insight from engagement with North East businesses



Exporting insight from engagement with North East businesses

In order to understand the factors that influence the success of businesses in their export journey, 162 businesses informed the development of this report by responding to our export survey and taking part in focused discussions. The survey explored obstacles, critical success factors, support and some recurring themes were clear.

Obstacles to export

Customs duties and tariffs were identified most commonly by respondents as obstacles to further exporting. The combination of the region's strong EU export profile and the post EU exit context are likely to have influenced this. This is consistent with direct feedback from businesses and the requests for help received by government and industry associations, in particular from SMEs.

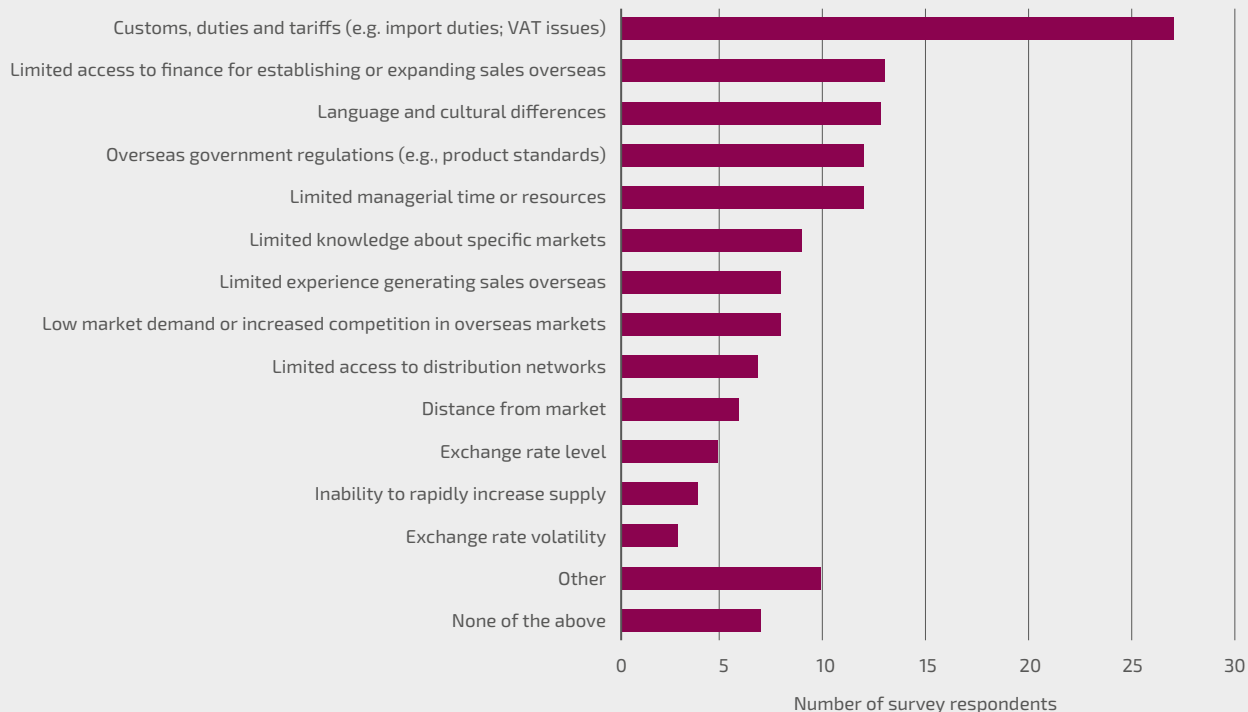
Access to finance for overseas expansion was highlighted as the second most frequent obstacle to exporting. Businesses appreciated and could often attract limited financial support for overseas travel and market research at the beginning of their export journey, but funding during the scaleup phase was more challenging to obtain. In some cases, funding was easier to secure overseas than in UK. Within the UK, businesses had difficulty attracting City of London investors to invest in North East companies.

Language and cultural differences were rated equally as an obstacle and discussions confirmed the importance of local, often native, representation through agents, representatives, partners or overseas employees as critical to overcome these challenges.

Overseas regulation and product standards were also frequently identified obstacles, as were limited managerial time.

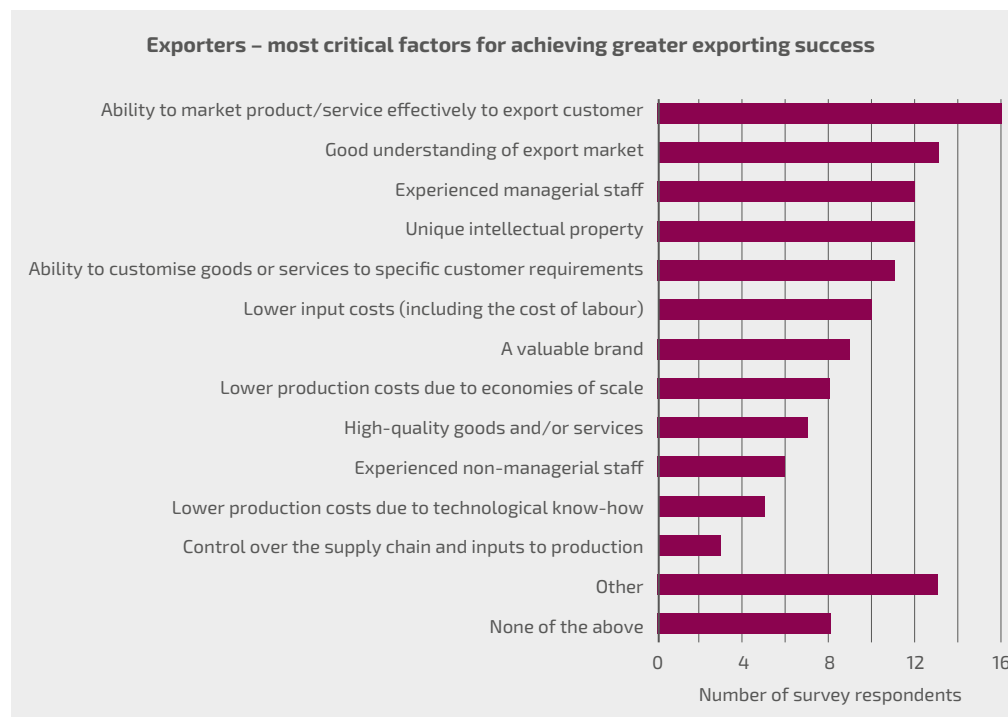
Unfortunately, the quality and quantity of responses received from non-exporters was insufficient from which to draw meaningful conclusions, but the exporters who responded gave some useful insights. As a result, further, more targeted research is required in this area.

Exporters – major obstacles to further export expansion



Critical factors in export success

Identification of the factors that businesses view as critical to their export success is important and becomes more valuable if we can share that best practice, both within and across sectors.



North East exporters responded most commonly that marketing and market understanding are the two of the most critical success factors. In one-to-one engagements, businesses referenced the Department for International Trade's service provision in this area as valuable and effective. The acceleration of digital transformation has meant that whilst overseas visits have almost disappeared in the past 12 months, the adoption of virtual trade fairs, events and online prospecting has increased significantly, with many North East businesses able to win new business with new overseas clients, often in shorter sales cycles, during the pandemic.

Managerial staff with exporting experience and unique intellectual property were also highlighted as critical success factors.

Export support and enablers

Understanding the type of support required by exporters is key to ensuring appropriate support provision. The export survey has provided some insights, but further targeted research would be beneficial.

38% of exporters responding to the survey stated that they had received no support. Those that did, received it mostly from business organisations (e.g. professional services) or the Department of International Trade. A general observation from stakeholder discussions was that the support that exists is not always well known or easily accessible to businesses.



Funding support was the most common elements of assistance requirements identified by North East exporters.

Regulatory/contractual information support was highlighted by many North East businesses, which again is perhaps influenced by the post EU exit timing.

Trade fairs, market research and customer connection requests also feature highly, suggesting that the overseas market research and marketing activities are both critical success factors and areas where further support will help exporters.

Export culture



Export culture

Understanding the culture of a country in which a business sells its product or service is important. This is also true of the business and its attitude to exporting and international markets.

International culture

The willingness to talk to, engage with, and to travel to foreign countries is inherent in multi-national companies and many UK businesses, but is also missing in many. In some family owned, domestic focussed businesses, this can be a generational issue. The region (and nation) must ensure that EU exit is perceived as an opportunity for outbound trade as opposed to becoming more inward focussed.

Innovation culture

Encouraging innovation in new products, services, and business processes is key to the differentiation required to underpin successful exporting. The most innovative companies have a culture where they learn from failure – something that exporting businesses should encourage as part of their learning experience.

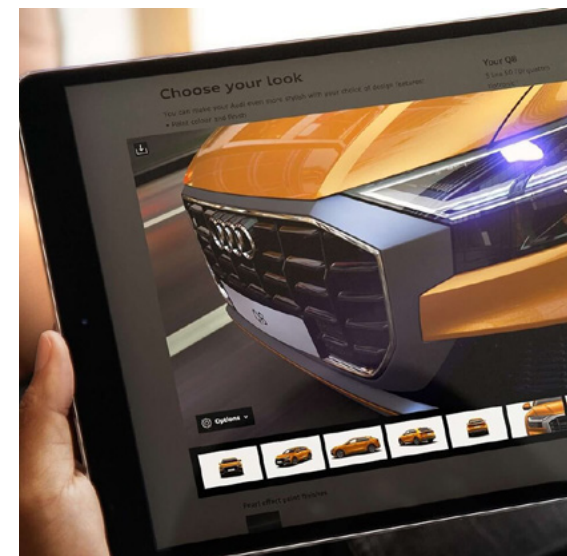
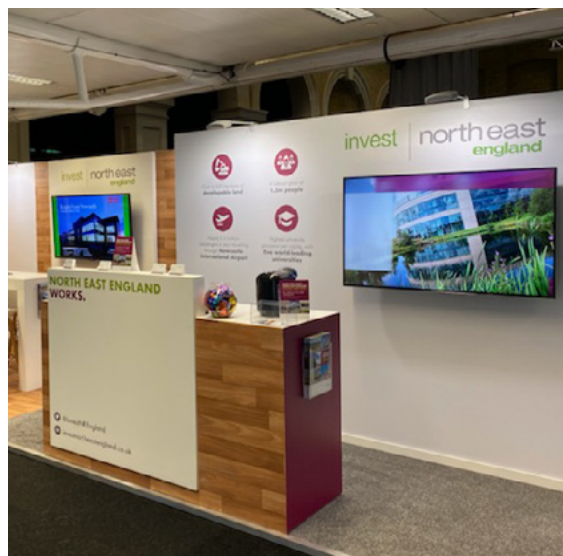
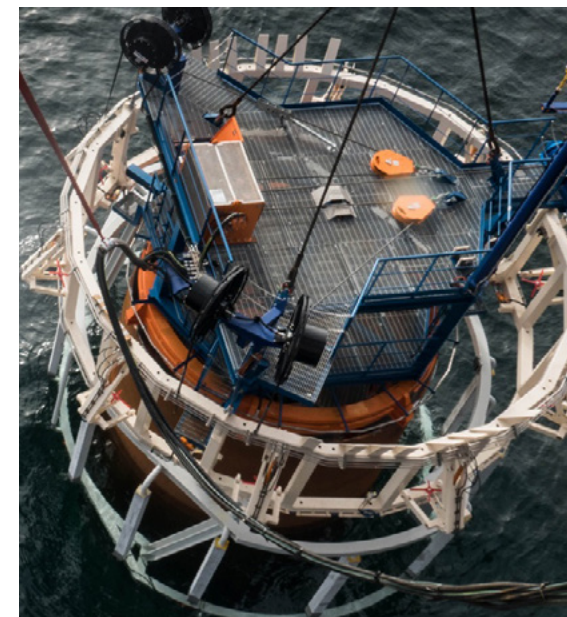
Risk culture

Overall, exporting is riskier than domestic business, with extended supply chains, increased political and regulatory risk, and currencies. Exporting businesses need to recognise the need to manage these risks through processes and the use of bought in services. A culture of risk assessment and management is required to consistently deliver the rewards of exporting.

Equally, investors in North East businesses with plans to increase their exports need to consider risk and reward. The ability of North East exporters to raise finance in (sometimes short-term) UK capital markets is often key to achieving their export objectives, so businesses need to be able to confidently pitch their business ambition whilst reassuring investors of their ability to manage risks.

Self-promotion culture

We typically talk about North East exporting in a traditional, straight-talking way, which whilst consistent and easy to understand but when we talked to businesses it was felt that there is considerable opportunity to promote the region and its businesses more loudly and proactively.



Strategic priorities



North East exports – strategic priorities

This export report recommends five strategic priorities for the North East LEP area:

1

Sector thinking

Increase the depth of understanding of our target market sectors by fully developing the North East export propositions for those sectors, namely advanced manufacturing; offshore energy and subsea; healthcare and pharmaceuticals; digital and knowledge intensive services.

2

Business level thinking

Monitor progress and target exporter development at a business level – brings challenges to secure access to the necessary data, which must be overcome.

3

Market opportunity

Work with business organisations to articulate and share aligned views of market opportunity for target sectors based on industry standard forecasts, in addition to export history.

4

Support ecosystem

Ensure the existing exporting support available is both joined-up and accessible. Identify and close support gaps.

5

Communication

Proactively promote the North East's exporting offer to current and potential export target markets and to investors.

Strategic enablers



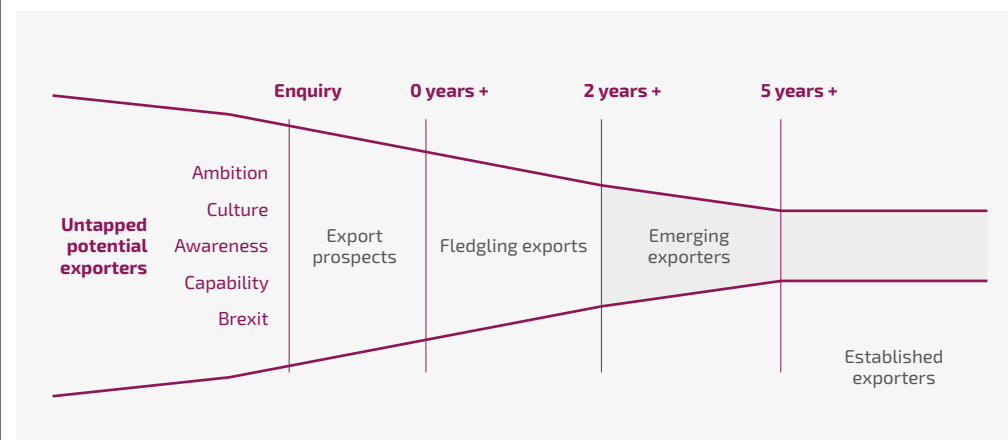
Strategic enablers

The table below links the strategic priorities to a number of strategic enablers, the action of which are the recommendations of this report.

Strategic priorities two, three and four must be addressed in a sector-specific manner, whilst the strategic enablers for communication can be multi-sector.

Strategic priorities		Strategic enablers
Sector specific	Business level monitoring and action	Target exporter development at business level
		Business level data analysis (controlled)
		Meaningful sector export pipelines
	Market opportunity	DIT targeting of potential exporters
		Common use of industry sector forecasts
		Focussed sector connections to DIT and HMTC overseas posts
		Relationship map and plan Top 10 markets
		Influence (and react to) free trade agreements
	Support ecosystem	Joined up and accessible
		Sector export pathways — facilitated development
Multi-sector	Communication	Led by sector
		Role of Export Champions and Service Providers
		To potential exporters — pipeline; case studies
		To potential customers
	Promoting collaboration	To potential investors
		To employees of the future
		Harness post-COVID-19 crisis-led collaboration
		Important role of sector associations / clusters
		Connect business to non-business stakeholders

Business level thinking – applying the export pipeline concept



Sector and business level thinking

The first step to managing and influencing a population of exporters is to access business level data for controlled analysis – and justification.

In order to take advantage of recent enhancements to publicly available trade data, the Department for International Trade and the North East England Chamber of Commerce have produced an analysis of uktradeinfo.com data, enabling a review of frequency and persistency of business' goods export shipments. It should be noted that exporter value and destination data is not available.



With appropriate business level data, meaningful sector exporter pipelines can be developed, identifying numbers of businesses within sectors, their position in the pipeline, and their size used to describe turnover. Comparing snapshots of these pipelines over time will enable rates of progress to be monitored.

Equally importantly are the use of these datasets to enable the Department for International Trade to identify North East exporters they don't have a relationship with in order to offer and deliver support.

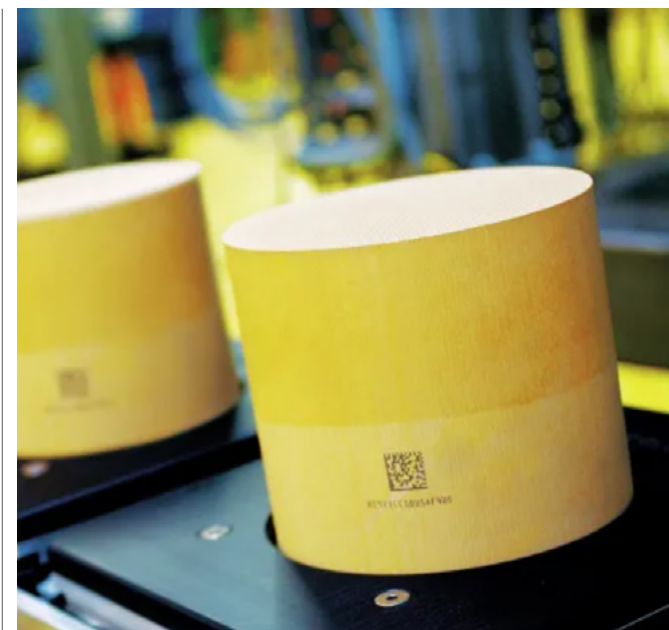
Create and share aligned views of market opportunities

Each target sector needs to agree common views of market opportunity based on industry standard (or best available) forecasts, in addition to export history. These common views can then inform further action and provide platform for sharing.

Sector propositions then need to be shared with relevant DIT overseas posts and Her Majesty's Trade Commissioners' staff and followed up accordingly.

Relationships with our target countries need to be assessed and managed in a structured way. Actions should include:

- Map existing place-based relationships, e.g. civic relationships, trade missions, twinning, research partnerships, academic links.
- Develop place relationship plans for Top 10 markets (potentially also at sub-market level) to manage the relationships with key places.
- Consider how best to influence and react to future overseas trade deals, including how to leverage the new major Department for International Trade site in Darlington as it emerges.



Define and share sector support ecosystem

A consistent theme from stakeholder engagement is the potential benefit of linkages between supporting organisations and the way in which both public and private sector organisations present and simplify their export offer.

The Innovation Pathway model is used by Academic Health Science Network for the North East and North Cumbria to link support for launching innovations into the NHS.

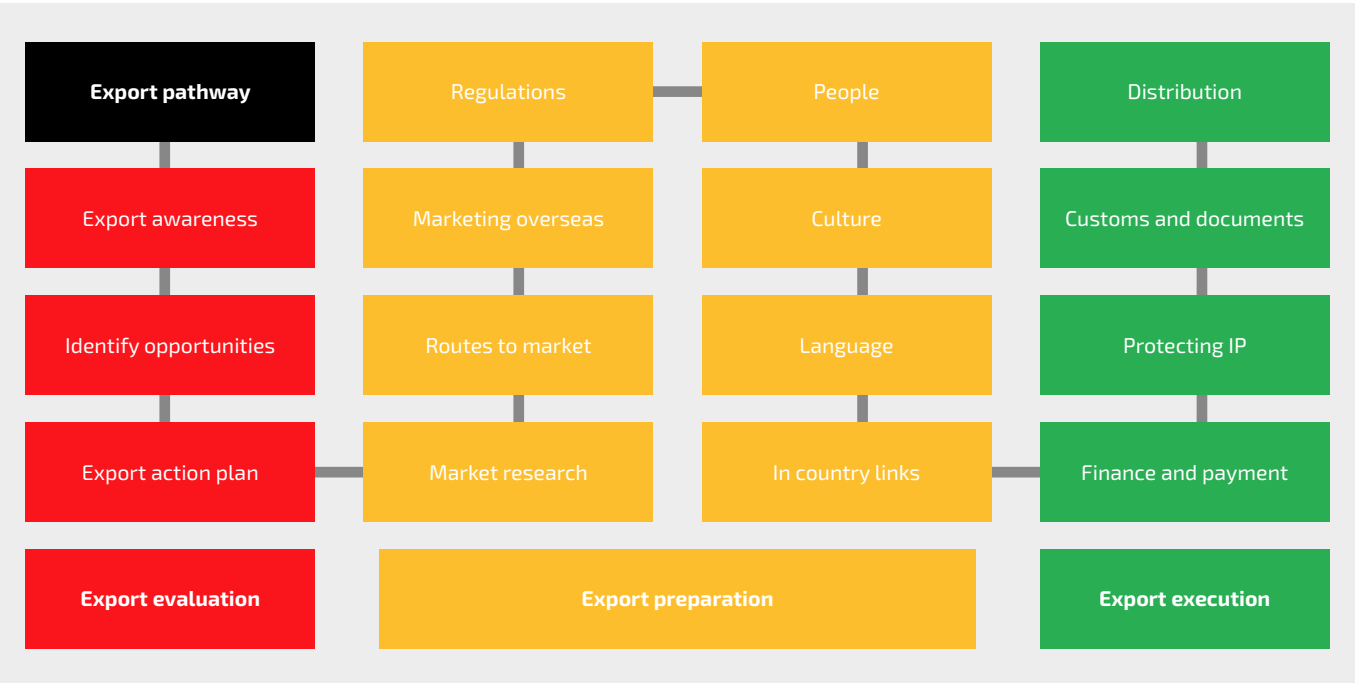


The diagram below shows how this concept could be adapted to show the export journey and help signpost the support available to exporters and promote collaboration between stakeholders, with three separate phases shown in red, amber and green. To be meaningful at a sector level, export pathways would include publicly funded and privately funded support options.

Facilitated development of these export pathways is recommended. Implementation could potentially be led by sector trade groups or cluster organisations, facilitated by the North East Growth Hub and supported by key stakeholders, including sector specialists from DIT, Export

Champions, industry associations, innovation and education providers and professional services. Target outcomes are to join up existing support structures and make them more visible and accessible to businesses.

The role of the Northern Powerhouse export champions, from within and outside the North East LEP area, should also be considered. Some discussions with this group indicate they have formed an effective network amongst themselves, and with DIT, but greater benefit is possible from their increased involvement in relevant sector focused work and/or mentoring selected businesses.



Communication

Raising the profile of the North East export capability is a key requirement, with a number of important target audiences.

To potential exporters

Use of case studies to promote intra and inter sector learning are key, deployed via social media and presented in webinars, sector trade group forums etc. using export champions where appropriate.

Raising awareness of general export opportunities is also important, such as DIT's radio advertising campaign.

To potential overseas customers

To mitigate the adverse perception of EU exit on European customers, consideration is required at a national level about how to deliver the message the UK is still open for business with EU countries.

Positioning the North East in a UK context and an international context remains a challenge to be addressed by the North East LEP area. Being more vocal about the region's strengths is critical and should consider the way in which other UK regions promote themselves. Within that context, exploring potential synergies with events such as the Great North Run to bolster the global perception and reputation of the North East should be explored.

As the Northern Powerhouse export strategy develops, understanding what the Northern Powerhouse export brand will stand for is key to ensure alignment of messaging.

To potential investors

Following feedback from North East businesses about challenges in securing funding, particularly during the 'scale-up' phase, there is a need to communicate with the investment community; both inward investors and investors within the area – particularly from Private Equity or Venture Capitalists.

To potential employees

Attracting and developing talent to work in successful North East businesses will be aided by positive communications regarding the region's strengths.

Connectivity and collaboration

The important role of industry sector associations and clusters as key stakeholders to foster export opportunities in key target sectors.

There is also significant potential to harness new COVID-19 crisis-led collaborative platforms (which have emerged since April 2020 within and across North East sectors), pivoting their forward focus and energy onto proactive collaboration, which could include the exporting agenda.

In particular, connecting business to non-business stakeholders, with both sets of stakeholders investing more time to ask for help or promote their local capabilities.



What's next

Next steps

At a strategic level, the report:

- Provides the evidence base and proposals for the ongoing improvement of the business support and trade and export services in the North East. It provides the framework for ongoing monitoring of evidence and targeting of information to promote forward focus and strategic direction.
- Contributes evidence and proposals for the development of the Northern Powerhouse Trade and Export strategy. It is one of 11 reports produced at a LEP area scale across the North of England and sits alongside a number of industry focused reports. It is expected that this work will be completed at a Northern Powerhouse level by early summer, providing a shared framework for growth in northern exports.
- Contributes evidence and proposals to inform the development of a new UK trade and export strategy. It identifies the framework of services and activities which the region would recommend are facilitated through this new strategy. The timeline and framework for this remains unclear although the budget published in March identified that this would be published within the following 12 months.

A second phase of work following the development of this strategy has been agreed, which includes:

- Extending the evidence base for target sectors' opportunity markets and their supply chains
- Developing sector-specific export sales plans by market
- Using appropriate data to create and analyse export pipeline models
- Establishment of an export pathway model to enable the development of future services
- Promotion of strengthened trade-focused networking
- Strengthening linkages between the internationally-focused activities in the region including trade, investment, research and innovation, education, tourism and connectivity, linked to a range of economic and policy drivers.

This work will be developed as further strategic processes are taken forward enabling alignment with national and Northern Powerhouse-level export strategy development.

This report was developed by the North East Local Enterprise Partnership under the guidance of a Strategic Advisory Group.

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Would you like more information?

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