



International Trade

INSIGHTS

Overcoming export challenges in the Midlands

Against the backdrop of a significant UK-wide decline in trade since 2019, the Midlands stands out as one of the hardest hit regions in terms of trade. While it is true that most regions have suffered losses in exports attributed to recent crises – the COVID pandemic, the UK's EU exit, global recession, supply chain bottlenecks, high energy prices and inflation, as well as the Russian invasion of Ukraine – not all regions have been affected equally.

The recent report *Midlands International Trade: State and Challenges* from the Centre for Business Prosperity at Aston University, co-funded by Midlands Engine and Aston University, sets out the realities faced by the region based on detailed statistics and analysis of the Midlands' international trade performance during the period Q3 2019 to Q2 2022.

Here, we summarise the findings of the report and the implications for our region's recovery and growth.

In 2019, the Midlands' exported goods were worth **£56bn** - as much as **16%** of all goods

exports in the UK. In 2020, the Midlands' **goods export value dropped by more than 10% to £45.6bn** - a decline that was five times that of the UK average of around 2%.

Midlands' exports in services were also severely disrupted by the pandemic - declining in export value by nearly a quarter. **The Midlands was the worst hit region in the UK.**

Over a longer timeframe including the latest available figures (for Q3 2019 to Q2 2022), the Midlands recorded the largest fall in overall exports value for any UK region – **a decline of 13% compared to the UK average of 1.9%.**



The impact of the recent economic shocks has also been intensified in the Midlands by a slower and weaker recovery. Between 2021 and 2022, the gap between the rate of recovery in the Midlands and the UK average meant that the Midlands' share of UK exports reduced by around two percentage points during this period.

Key factors disrupting exports across the whole UK

- A prolonged period of **Brexit uncertainty**
- The **COVID-19 pandemic** and effects of associated lockdowns, social distancing and **supply chain disruptions**
- The **UK's EU Exit** and trade barriers and frictions associated with the new EU-UK Trade and Cooperation Agreement (TCA)
- **Reduced demand** for products and services
- **Higher costs** of production and hiring due to higher energy prices, the **cost-of-living crisis** and high inflation

Exploring what is working for successful Midlands exporters

Through a detailed exploration of the processes impacting the Midlands region, the report builds a profile of exporting from the region (within the timeframe analysed) revealing overall trends and the driving forces behind them.

- Midlands exports rely relatively equally on EU and non-EU markets.
- Since 2020, the Midlands' export reduction has been steeper in non-EU markets than in EU markets.
- The East and West Midlands have had varied rates of recovery, with the East Midlands showing signs of bouncing back in 2022, whereas the West Midlands' recovery has been weaker.
- Recent data reveals that levels of exporting to non-EU markets are in decline for the Midlands as a whole, but in particular in the West Midlands - which is in stark contrast to the overall UK landscape of recovery.
- Machinery and transport remain the largest sector for exports in the Midlands (over 60% of the region's exports), but the export decline and poor recovery in this sector – particularly in the West Midlands – is having a detrimental impact on the region as a whole.
- The Midlands' manufacturing specialism means increasing transportation costs and disruption at borders are more pronounced risks here (and in the North) than in other regions.
- Birmingham, the main hub in the region for services exports, has shown resilience outside of the EU markets, while Nottingham, South Nottinghamshire and Walsall achieved export growth during the pandemic period.

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Exploring what is working for successful Midlands exporters

In response to the range of issues it flags up, the report proposes actions to revive and develop exporting in the Midlands.

These can be summarised as follows:

1. Develop Midlands export markets and trading relationships by raising the profile of regional firm strengths and emerging clusters with regards to growth markets; developing international trade links including via trade missions; and by seeking to influence UK trade policy in line with Midlands export strengths and key markets, including EU markets.
2. Support Midlands exporters, and firms that have recently ceased exporting, to develop, strengthen and, where relevant, restart their export strategies in regard to new and existing markets - developing their resilience to mitigate trade challenges, including those arising from the UK's EU exit.
3. Encourage and support more Midlands firms – particularly SMEs – to export including by supporting them to explore their potential in overseas markets, to develop an export strategy, and to develop overseas marketing capability and client relationships e.g. via participation in trade shows and visits.
4. Train, educate and inspire Midlands entrepreneurs and business leaders in regard to exports.
5. Provide greater certainty and consistency in export support for firms in the Midlands – that recognises and responds to the different experiences of export amongst firms of different types and sectors in a timely manner as to increase their confidence and ongoing commitment to export and to enable them to prepare for and take advantage of opportunities as they arise.
6. Pursue a regional industrial strategy that develops the region's and regional firms' strengths and competitiveness with regards to new and emerging global markets – recognising the close correlation between firm productivity and exports, including sustained exporting.

INSIGHTS





OBSERVATORY

Raising broader questions

The research carried out by Aston University's Centre for Business Prosperity brings into sharp focus the unprecedented challenges that Midlands firms have experienced over the last few years, and the disproportional impact they have had on the region's trade performance and slow recovery.

Many of the points highlighted in the report are likely to spark wider discussions and to feed into the development of policies aimed at finding a more prosperous way forward for the region.

Furthermore, the report raises questions requiring further research- including:

- What policies and measures might be helpful to bring firms back to exporting?
- Is the significant amount of reduced UK export varieties due to exited exporters and/ or streamlined export varieties by firms?
- What is the nature and causes of the decline in overseas market performance of

key regional industries including advanced manufacturing and engineering (particularly machinery and transport equipment)?

- Where are the future growth opportunities for the region likely to come from?

"It's clear that there is no one single issue that's causing trade challenges in the Midlands, and it follows therefore that there is no one single solution. Neither is the exporting journey a linear one, whether that's for large companies or SMEs. So supporting businesses of all sizes, wherever they are in terms of export growth, will help them predict and adapt to changing conditions. If we can bolster confidence across the board, over time that becomes the bedrock of a more stable recovery."

Prof. Delma Dwight, Director, Midlands Engine Observatory

Figure 4: Exports in goods by SITC sections, the Midlands in the UK, 2020 Q2-2022 Q2, £million



Source: The ONS Regional Trade Statistics in goods, all values are in million pounds. The data is available up to Q2 2022 at the time of writing.