Small business, big world

Ways to boost UK small business exports

Richard Hyde

SMF Social Market Foundation

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FOREWORD

It is with great enthusiasm that we present the inaugural policy paper from the E-Commerce Trade Commission, an initiative established by the Chartered Institute of Export & International Trade in June 2023. The E-Commerce Trade Commission was convened following findings from a compelling report by the Social Market Foundation (*Just a click away*) commissioned by Amazon and supported by the Chartered Institute of Export & International Trade. The report identified 70,000 small businesses with potential to sell online cross-border, worth £9.3bn GVA to the UK economy. The Commission was created with a singular focus in mind: to encourage and support small businesses to trade online cross-border. This report marks a pivotal moment in our two-year journey, outlining key recommendations for bolstering e-commerce exporting opportunities within three key focus areas: Artificial Intelligence and Emerging Technologies, Female Founders and Emerging Markets.

E-commerce exporting opens doors for businesses of all sizes, but is a particular lifeline for small businesses. This is crucial in a wider context where only around 10% of UK SMEs are currently exporting. Small businesses often face disproportionate challenges, including navigating regulatory environments, dealing with logistical complexities, and overcoming financial barriers. This makes reports such as this, highlighting opportunities in e-commerce exporting, all the more imperative. All the evidence shows that businesses which trade internationally are more resilient, more innovative, more sustainable, employ more people and are more profitable. We believe that international trade should be seen as an automatic part of doing business and only by supporting small businesses to engage will we see long-term economic growth.

The report's recommendations are not just theoretical; they are pragmatic solutions designed to unlock the potential of small businesses. Key among these is the integration of artificial intelligence and emerging technologies to streamline operations and, crucially, speed up processes for busy small business owners. Additionally, the report emphasizes the importance of gender equality empowerment, recognizing that inclusive policies can drive greater economic participation and innovation. The focus on emerging markets further highlights the vast opportunities that lie in exploring a rich variety of trading partners, offering new avenues for growth and diversification.

In urging the government to adopt these recommendations, we call for their integration in the forthcoming Industrial Strategy and aligned Trade Strategy. It is crucial that e-commerce exporting policies are interwoven into broader economic framework policies, ensuring a cohesive and supportive environment for SMEs. Balancing regulatory advocacy with practical business support has been key to our efforts as a Commission. One of our most support-focused recommendations is the establishment of a central hub of e-commerce exporting resources for small businesses, which would complement existing Department for Business and Trade initiatives and provide an easy 'one-stop-shop' access point.

We invite policymakers, industry stakeholders, and the broader community, to engage with these proposals and work together with us to build a more inclusive and prosperous e-commerce trade ecosystem for small businesses to meaningfully engage with.

Marco Forgione

Director General, Chartered Institute of Export & International Trade

ABOUT THE AUTHOR

Richard Hyde

Richard joined the SMF in August 2019 as a Senior Researcher. Before joining, he was a Senior Policy Advisor at FSB (Federation of Small Businesses) with responsibility for a diverse range of small business policy issues, including the small business regulatory environment, data and cyber security and crime and civil justice. Prior to FSB, Richard was a Policy Officer at the Law Society of England and Wales. He has also held policy and research roles at Which? and the Small Business Research Centre (SBRC) at Kingston University.

Richard holds an LLM in Law from the University of London and an MA in Global Political Economy from the University of Hull.

ABOUT THIS REPORT

This report utilises a number of evidence sources:

- A survey of 525 e-commerce exporting and "considerer" SMEs selling goods.[i] [ii]
- The deliberations of an expert roundtable, examining the obstacles to the utilisation of trade tech by SMEs.
- Two findings from two focus groups of exporting and "considerer" SMEs. One was with female business owners that were already exporting or seriously considering starting to export. The other was with SMEs who were already exporting to emerging markets or that were seriously considering doing so. [iii]
- The expert views of the members of the E-Commerce Trade Commission.
- The conclusions of three expert working groups convened by the E-Commerce Trade Commission. One focused upon AI and the potential role of other new technology in facilitating exports, another looked at the issues around emerging markets as destinations for more UK goods exports, and the third examined the challenges facing female-led businesses that exported or were considering doing so.

[i] "Considerer" SMEs, for the purposes of the survey we conducted, were defined as smaller businesses that were contemplating starting to export within two years of the time the survey was undertaken.

[ii] See more details on the survey sample in Annex 2.

[iii] See more details on the focus group attendees in Annex 3.

EXECUTIVE SUMMARY

The context for this report

The potential contribution of more SMEs exporting to growth

The new government has put increasing growth at the heart of their agenda. Small and medium-sized enterprises (SMEs), which account for 99% of the UK's businesses, and half of private sector output, could and should play a vital role in improving the country's growth rate. One way that small firms grow is through exporting. Consequently, more SMEs exporting or existing ones exporting more can make a considerable contribution to that goal of higher economic growth that the new government is aiming to achieve. For instance, we demonstrated in our 2022 report *Just a Click Away* that increasing the number of SMEs which export goods by 70,000, could add £9.3 billion a year to national income and create 152,000 new jobs.

Room for SME exporting improvement

Such an increase would necessitate growing the proportion of UK SMEs which export to around 10% of the total population, up from 9%. Evidence from other comparable countries shows that this is possible. In Canada for example, 12.1% of Canadian SMEs are estimated to export. This figure was up from 10.4% in 2011.

However, the UK's recent record on SME exporting is not encouraging. Whilst official data on this issue is somewhat poor, the best evidence indicates that the proportion of the total value of UK goods exports, accounted for by SMEs, has been falling. It was estimated to be 40% in 2010 and had reduced to around 30% by 2020.

The establishment of the E-Commerce Trade Commission

In our *Just a Click Away* paper, we highlighted the value of online channels, both for smaller firms seeking to expand their presence in overseas markets and those looking to initiate exporting. Therefore, a central recommendation of that report was the establishment of an industry-led E-Commerce Trade Commission (the Commission) to examine what might be done to boost the number of goods-exporting SMEs by 70,000, particularly through online channels. To that end, the Commission was established in 2023 by the Chartered Institute of Export and International Trade. It was formed with the support of several industry players and business representative bodies. In addition, the Department for Business and Trade (DBT) sits on the Commission, in order to aid a smooth flow of feedback and ideas, directly to policymakers. More specifically, the Commission's remit is to:

- Identify the ongoing obstacles holding back "considerer" SMEs from becoming e-commerce exporters, and in-turn, how these might be overcome.
- Highlight the problems inhibiting expansion (e.g. into new markets) by existing e-commerce exporting SMEs and identify ways in which these hindrances might be ameliorated.

The ultimate ambition of the Commission is, by delivering on its remit, contributing to help the UK to achieve a sustained 70,000 uplift in the number of goods-selling SMEs which export, and consequently add £9.3 billion to the UK's annual economic output.

The aims of this report

This is the first of two reports. Both draw upon the deliberations of the E-Commerce Trade Commission and a number of expert working groups that were set up under its auspices, as well as evidence collected by the Commission directly from SMEs through a series of regional events and additional original SMF research. More specifically, this first report explores three facets of the trade landscape which are of growing importance, and which present significant opportunities for more of the UK's smaller goods-selling firms to get into exporting, or for existing goods-exporting businesses to boost their overall export performance, e.g. expand into new countries. They are:

- The role of trade tech in supporting goods-exporting by SMEs and specifically, the prospects for it to help "considerer" firms to internationalise.
- The potential for emerging markets to be a significant source of new customers for both existing SME goods exporters and SME "considerers".
- The scope for more female-led goods-selling businesses to become exporters.

The research

This report utilises a number of evidence sources:

- A survey of over 500 goods-selling e-commerce exporting and "considerer" SMEs.
- An expert roundtable which explored the export opportunities afforded by trade tech and the challenges to trade tech uptake amongst SMEs.
- Two focus groups of exporting and "considerer" SMEs. One with female SME owners and the other with SMEs that already exported, or were interested in exporting, to emerging markets.
- Three expert working groups convened by the E-Commerce Trade Commission. One looked at the potential of AI and other new technologies to positively influence SME exporting; the second investigated the challenges associated with emerging markets, and the third examined the difficulties which female-led businesses face, with a focus on specific barriers to internationalisation.

SMEs experience significant barriers to exporting

External barriers and internal constraints limit SME exporting

To achieve the ambition of 70,000 more SMEs successfully selling overseas primarily through e-commerce, policymakers need to take steps which could lessen the internal constraints that hold back SMEs and reduce the external obstacles to internationalisation, which smaller businesses face. The external barriers to export success, include factors associated with the export process like customs bureaucracy and the cost and reliability of logistics services. Moreover, there are initial costs to starting the internationalisation process, as well as recurring costs which persist, if a firm continues to export.

In addition, SMEs suffer from internal constraints linked to the leadership and other capacities and capabilities of individual businesses. More specifically, they include elements such as finance, the orientation of a firm's leaders and the skills of a firm's workforce. As with external costs, even in instances where constraints are not prohibitive or are eased and a firm starts to export or expand its exporting, they do not disappear. They continue and have to be continually managed. These internal features, in particular, have a direct bearing on key business characteristics, such as the size and productivity of an enterprise. In-turn, as the existing research evidence shows, these kinds of characteristics are closely linked to the likelihood of a business being a successful exporter.

The implications for policymakers

The connection between the general competitiveness of an SME and its propensity to export successfully, indicates a synergy which policymakers should reflect in how they write policy towards supporting SME exporting. In considering how government could help to ameliorate the confluence of internal and external constraints which are a considerable drag on the ability of UK SMEs to internationalise and expand into additional overseas markets. The evidence indicates that having a primary focus on ensuring SMEs with potential are as productive as possible and have in place the capabilities for expansion, could be the most effective approach to export support.

The opportunities for making SME exporting easier through trade tech

The term *trade tech* covers a wide range of technologies, from e-commerce platforms and digital payments systems, which are in widespread use already, up to and including the application of Artificial Intelligence (AI) to support exporting and importing. By making it easier and cheaper to sell overseas, trade tech has the potential to help "considerer" SMEs overcome some of the various impediments to initiating exporting and allow already exporting SMEs to expand their operations.

There is already considerable use of some types of trade tech among exporters

Our survey of SMEs found that nine-in-ten goods-exporting SMEs were using at least one type of trade tech. The most widely utilised, were digital payment systems (49%) and e-commerce platforms (43%). Just over a third of respondent SMEs reported use of data analytics (34%), while just over a quarter, used cloud computing (27%) and document digitisation (26%).

Trade tech helps firms with their exporting in a number of ways. For example, our polling showed that 64% of SMEs using e-commerce platforms reported that such technologies enabled them to more easily access customers in overseas markets, while 54% of those utilising digital documentation for exporting purposes reported that doing so, helped to save time and reduce costs.

Both existing SME exporters and "considerers" see a good deal of potential in trade tech for boosting exporting

Our research also found that a large proportion of both exporting and "considerer" SMEs anticipated that trade tech is likely to prove positive for exporting in the future. The most optimistic responses from both existing exporters and "considerers", were for the more established types of trade tech, e.g. digital payments and e-commerce platforms to have an impact. For instance:

- Around half (49%) of existing exporters said that they expected digital payments to make a "significant positive difference" to exporting over the next five years
- A similar proportion (50%) of "considerers" said that they expected these technologies to have a positive influence on their ultimate decision, over whether to start to export in the next two years.

Barriers to the adoption and intensification of the use of trade tech

Despite the potential benefits deriving from the greater adoption and intensified use of trade tech for exporting, there are a range of constraints on SMEs and external barriers which hold SMEs back. When we asked SMEs what these were, the most frequently provided answer, by both existing exporters (31%) and "considerers" (35%), was the cost of investing in such technology.

The other prominent challenges to trade tech deployment fell into the external obstacle category. For example, they included the adoption of complementary technologies by other private entities in the export value chain (e.g. digital marketplaces, logistics providers) and government bodies relevant to the export process (e.g. customs agencies). In other words, the external technological context is a key determinant of whether SMEs adopt a particular technology or not. Regulation and tax issues (i.e. the wider business environment) were also amongst the top five cited problems impeding trade tech adoption and intensification of use.

The implications for policymakers

Our figures on the current use of trade tech by exporting SMEs reflect the existing wider evidence that trade tech can be very helpful in reducing some of the challenges holding back SME exporting. Further, the expectations of SME owners and managers about how helpful trade tech is likely to be for exporting indicates a good deal of interest in taking it up or intensifying existing use, whether for export expansion by existing exporting firms or to help "considerers" begin the internationalisation process. However, our research also identified factors which stand in the way of SMEs maximising their adoption and use of trade tech. These are challenges which policymakers can help to alleviate, in order to boost the contribution of SMEs to export growth.

The potential of emerging markets as a source of future export growth for SMEs

Emerging markets are often highlighted as providing a host of new opportunities for SMEs seeking export expansion. The evidence presented in this report confirms that the scale of the opportunity offered by emerging markets is considerable. For example, data shows that between 2000-2020, developing countries have been growing at around three percentage points more per year on average, than developed countries. Imports into low and middle-income countries have grown similarly substantially. Therefore, there is significant potential for emerging markets to be the source of many new customers for UK goods-selling SMEs, which in-turn, can help exporting SMEs make a notable contribution to generating a higher economic growth rate.

The attractions of emerging markets for SME exporters and "considerers"

Our SME survey probed into the motivations behind why developing economies are attractive options for exporting, amongst both existing exporting SMEs and "considerers". It found that:

- For those firms already exporting to emerging markets, existing demand for the kind of products they sell (33%) and the presence of trade agreements (27%) were key reasons why emerging markets have been, and continue to be attractive.
- For emerging market "considerers" which are already exporting to developed economies, interest in such places was driven by the prospect of untapped customers for the kinds of products they sell (25%) and evidence of existing demand for the products they offer, which they believe they can win a share of (25%).
- Amongst the "considerers" who we found were thinking about developing countries as potential export destinations, the two most frequently cited attractions were the possibilities of untapped demand in those economies for their goods (28%) and logistical costs (28%).

The barriers to accessing emerging markets are even higher than the obstacles to exporting to developed economies

Despite the opportunities offered by low and middle-income countries as sources of customers for goods exports from the UK, the external barriers to accessing these markets are even higher than for those for entering advanced industrialised economies. For instance, the average aggregate ad valorum tax equivalent to the cost of trade between sellers in a developed economy and customers in a developing country, is around 240%.

The Emerging Markets Working Group, operating under the auspices of the Commission, highlighted a variety of specific obstacles to exporting to emerging markets in general, alongside describing in some detail, specific challenges for SMEs selling into the large emerging markets of China, India and South Africa. These barriers include external obstacles such as customs, demand conditions, regulatory complexity and risks associated with the transportation of products to customers in emerging markets, as well as payment reliability and the existence and strength of relationships with in-country partners. Factors internal to SMEs were also noted as being important. Resource constraints, for example, are a widely recognised limitation on the ability of SMEs to succeed at exporting, and such challenges are magnified by the greater difficulties of trading with developing countries.

Mitigating the additional barriers associated with emerging markets

Our research revealed some of the strategies which SMEs exporting to low and middle-income countries have adopted, in order to obviate some of the high barriers to selling into such markets. In our focus group with both "considerer" SMEs and firms already exporting to emerging markets, participants described how, for example, they utilised cross-border networks to build relationships with partners and agents in target countries, which, in-turn, helped them to navigate many of the extra challenges of exporting to that country. We also found trade tech was playing a central role for some SMEs. For example, focus group participants widely reported that they used e-commerce platforms to build cross-border connections with in-country representatives, which then helped them access customers in developing economies.

Implications for policymakers

The scale of the opportunity associated with emerging markets for SMEs will be in large part, determined by how much the challenges facing SMEs, such as the cost of exporting to developing economies, can be alleviated. There is a clear role for policy to help ease the trade environment with low and middle-income countries, alongside the pursuit of broader efforts to encourage the use of trade tech and boost general SME competitiveness. However, much of what could be done would require the UK to work in partnership with other countries in order to achieve these goals.

There is considerable scope for expanding the number of female-led exporting firms

Data reported in this paper suggests that in 2020, 7% of female-owned SMEs in the UK exported. This figure was in notable contrast to Canada, where just over 10% of female-owned smaller firms exported. This gap indicates that there is the potential for increasing the proportion of UK female-owned SMEs, which export.

The challenges facing female entrepreneurs help shape the characteristics of female-led firms

The 2019 Rose review argued that many standard SME challenges are more common amongst female-led firms and can be more intensive. Many of Rose's findings were reflected in our SME survey, which found that 86% of female business leaders in e-commerce SMEs experienced at least one "additional challenge" which impacted their business activities. More specifically, nearly four in ten (39%) female senior decision-makers in SMEs reported that fear of failure and struggling to balance family obligations had affected their ability to succeed in business. The third most frequently reported "additional challenge", was access to finance (34%).

These additional challenges help to influence the differences in the typical characteristics between many female-led businesses and their male equivalents. One of those, highlighted by Rose, is that the former tend to have a lower turnover and therefore are on average, smaller. This has implications for the propensity for exporting; as was noted above, SMEs with a higher turnover rate are more likely to export successfully. Lower turnover SMEs, for example, cannot absorb the initial and recurring costs that exporting involves, as easily. One analysis we quote in the report concluded:

> *"…it is not being a woman per se that impacts export decisions, but the…characteristics of firms managed or owned by women that bear a disadvantage for exporting…".*

Trade tech could enable more female-led enterprises to start exporting

The additional challenges which many female business leaders experience, exacerbate the already substantial external barriers that hinder many SME exporters and deter “considerers”. These generic obstacles were prominent in the discussion amongst the female business owners in our focus group. The key external hindrances raised by those who took part in the discussion included customs, taxes, logistics and so on. In this context, the possible role of trade tech in mitigating some of the disadvantages which female-led businesses face could be considerable. Indeed, in our focus group, e-commerce platforms emerged as a very important route to market for female-led SMEs, which in-turn, provided more evidence for the potentially positive role that the adoption or more intensive use of trade tech might have in facilitating more female-owned businesses into exporting and help to achieve the 70,000 new exporting SMEs ambition.

Implications for policymakers

The position in which the typical female-owned business tends to find itself implies that there is a role for policy to help to lessen the salience of some of the “additional challenges” that our survey was able to highlight. By taking steps to deal with issues such as a fear of failure and a concomitant lack of confidence, policymakers could help to encourage more female-owned SMEs to internationalise. The Commission’s Gender and Exporting Working Group identified that many countries such as Canada, Sweden and Rwanda, implement a range of targeted measures to foster more female entrepreneurs. Further, in-part, working with private sector partners, Canada has developed an extensive set of support mechanisms to help encourage exporting by female-led SMEs.

Another inference that can be drawn from the evidence on female-led enterprises, is that effort to improve the productivity of SMEs and boost their capacities for firm growth, is likely to have disproportionately positive impacts on the female-led proportion of the UK’s SME community.

RECOMMENDATIONS

Merging industrial and trade strategy to create an improved export support offer for SMEs

Recommendation One: The government should integrate the planned industrial strategy, with the similarly expected trade strategy, into a single effort, to reflect the complementarities between general business competitiveness and exporting success. The single integrated strategy should contain:

- A particular focus on SME e-commerce as the best channel for expanding exports by small firms and which, therefore, offers the most opportunity for SMEs to contribute to new export-led growth.
- Proposals to merge business and export support offerings, in order to create a coherent landscape delivering a seamless offer that facilitates businesses from the start-up phase through the early stages of internationalisation to ongoing overseas expansion.
- The intention to establish a new Cabinet-level "industrial and trade policy group" containing the key senior ministers, to oversee the implementation of the integrated strategy.

In order to bring about the kind of increase in SME exporting that the E-Commerce Trade Commission wants to see achieved, the single business and export support framework should include a number of components, which will help UK SMEs seize the opportunities afforded by trade tech, emerging markets and the latent potential for more female-led SMEs to begin exporting. These recommendations are set out below.

Recommendation Two: The numerous sources of official guidance available to SMEs about exporting (e.g. that produced by DBT and HMRC) should be brought together, alongside consolidated access to the high-quality sources of advice and support that are available from the private and third sectors, into a single hub.

Increasing take-up and the intensification of the use of trade tech by SMEs

Recommendation Three: The government should encourage the adoption and intensification of the use of trade tech by SME "considerers" and exporters by boosting the amount of digital advice made available through DBT export support services and introducing grant funding for investment in trade tech for up to 70,000 "considerers".

Making access to emerging markets easier for SMEs

Recommendation Four: The integrated industrial and trade strategy should include plans to further develop and embed the use of technology across those parts of the trade process where it has influence. To develop further and embed more deeply the use of trade tech amongst SMEs that export or have export potential, the government should:

- Ensure that, as it pursues the digitisation of trade documentation and the digitalisation of the wider trade process, including setting up the promised Single Trade Window (STW), it integrates small business education about these changes (especially the STW) along with access to advice for SMEs, into their rollout.
- Aim to help developing countries digitalise their trade processes, including adopting STW schemes through promoting an international benchmarking exercise by the WTO, to incentivise progress and develop best implementation practice standards.

Recommendation Five: The integrated industrial and trade strategy should include a plan for seizing the opportunities presented by the growth in emerging markets. More specifically, that plan should include:

- A pledge to work with industry to identify a number of "high e-commerce potential" developing economies that would be subject to targeted and intensive efforts (e.g. additional trade delegations) to help more UK SMEs penetrate these markets.
- A proposal to work with industry to develop a specific promotion campaign aimed at encouraging SMEs to consider exporting to the "high priority" countries, especially through e-commerce channels.
- A plan to pursue bespoke agreements with "high e-commerce potential" countries to make e-commerce easier by reducing some of the key "at" and "behind" the border costs of trading in goods with them.

Encouraging more female-led goods-selling SMEs to export

Recommendation Six: The proposed integrated industrial and trade strategy should aim to increase the number of UK female-owned goods-selling SMEs which export. Specifically, to help achieve the ambition, the strategy should:

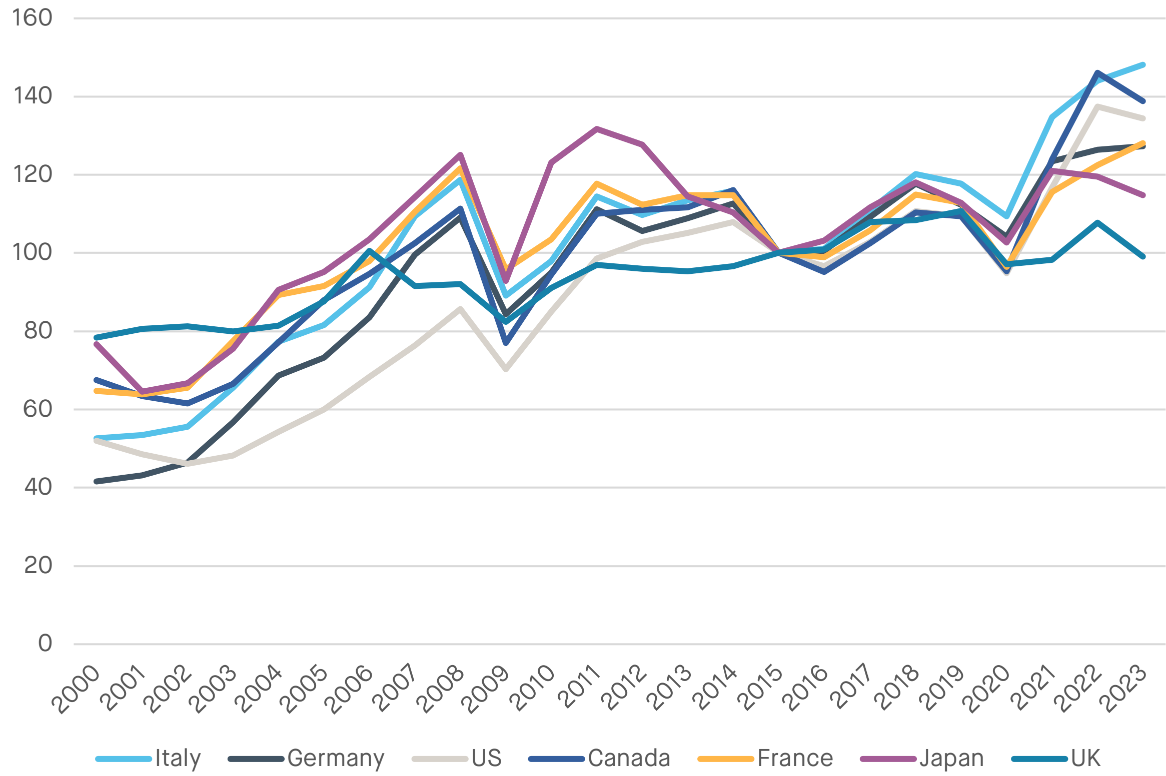
- Set a target of helping 35,000 additional female-led goods-selling businesses to export by 2030, i.e. half of the 70,000 the E-Commerce Trade Commission is aiming to help encourage to start exporting.
- Lay down an agenda for DBT's Export Champions and Export Advisors to target more female-led SMEs for encouragement and support.
- Outline a plan to work with business groups and firms in order to develop a national mentoring scheme for female entrepreneurs.

CHAPTER ONE – INTRODUCTION

The UK's goods exporting performance has been comparatively lacklustre over a prolonged period

The comparative evidence suggests that the UK has been outperformed by a number of other countries in the growth of its goods exports for some considerable time. For example, across the period 2000 to 2023, UK goods exports grew by 21 percentage points, whilst overall international goods exporting, more than doubled over the same period.

Figure 1: Percentage growth in goods exports across selected countries including the UK, 2000 – 2023



Source: WTO

Amongst the G7 countries specifically, the UK's six partners have experienced greater export growth (see Figure 1). For instance, excluding the UK, the lowest goods export growth between 2000 and 2023 was experienced by Japan (38 percentage points) and the greatest, by Italy (96 percentage points).

The SME contribution to UK exporting

A declining SME contribution to goods exports

SMEs account for 99% of the UK's business population and around half of private sector output.[1] Despite their importance to the UK economy as a whole, the available evidence suggests that the percentage of the total value of UK goods exports accounted for by SMEs fell between 2010 and 2020. Over the decade, the House of

Lords has noted that the value of UK goods exports accounted for by SMEs fell from 40% of the total to 30%.[2] However, it should be noted that the data on the SME contribution to the UK's exports is limited, inconsistent and, as the House of Lords noted, involves "guesstimates".[3]

The proportion of UK SMEs that export lags behind the "frontier" countries

The limited official evidence further indicates that, in aggregate, a lower proportion of the UK SME population exports, compared to comparable economies such as Canada.[iv] The most detailed attempt to identify the proportion of UK SMEs which engage in exports, found that 9% do so.[4] While Canadian official statistics suggested that, in 2020, 12.1% of Canadian SMEs were involved in exporting, this was up from 10.4% in 2011 – a growth of 1.7 percentage points.[5]

Boosting the proportion of UK SMEs that export goods

> *"Those firms that manage to export are more productive at the outset but become even more productive thanks to their ability to export…"*
>
> **WTO. (2015). Aid for Trade at a Glance 2015: Reducing Trade Costs for Inclusive, Sustainable Growth**

Increased exports are linked to higher growth

The new government has made boosting the UK's growth rate, one of their key missions.[6] The significance of SMEs to the broader economy suggests that they could make a sizeable contribution to the effort to boost growth. One way small firms grow is through exporting. Therefore, more SMEs internationalising or existing exporting SMEs selling more overseas is likely to lead to larger numbers of faster-growing businesses and in-turn an expanding economy. Certainly, evidence indicates that exporting can be a factor that helps to accelerate economic growth, through mechanisms like the impact on businesses.[7] For instance, in our previous report *Just a Click Away*, the SMF showed that boosting the number of e-commerce goods-exporting SMEs by 70,000 could deliver a £9.3 billion a year boost to the UK's national income and create 152,000 additional jobs.[8]

Growing the number of SMEs in the UK which export goods by 70,000, would see the proportion of smaller firms in the UK that export increase to around 10% of the total number. Indeed, the experiences of other countries such as Canada (noted above), show that increasing the number of SMEs exporting goods by 70,000, should be achievable. Further, empirical work has highlighted the link between Canadian

[iv] Canada was selected in this instance as a comparator because of the similarities between it and the UK. No comparison is perfect; however, the UK and Canada are both Anglosphere countries and therefore speak the same language and have similar political, legal and commercial cultures, which acts (to a degree) as a natural control for these factors as possible influences on trade patterns. Further, both countries are geographically close to a large overseas market, have similar GDP-per-capita (Canada: $55,818 and the UK: $54,126 in 2023, on a Purchasing Power Parity basis, constant 2021 international $) and are similarly "open" to trade – exports accounted for 33.8% of Canadian GDP in 2022, and 33.4% of UK GDP. Sources: 'Exports of Goods and Services (% GDP) - Canada, United Kingdom' (World Bank, n.d.), https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=CA-GB. And 'GDP per Capita, PPP (Constant International $) - Canada, United Kingdom' (World Bank Group, n.d.), https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD?locations=CA-GB.

exports and economic growth.[9] If the UK were to fully match Canada's 1.7 percentage point increase in SMEs exporting over the next decade, this would see an additional 25,000 SMEs selling overseas i.e. delivering an overall boost of 95,000.

"Trade Tech refers to the set of technologies…that enable global trade to become more efficient, inclusive and sustainable…and serves the following functions:

- *It helps smooth trade facilitation…*
- *It creates new trade opportunities…*
- *It contributes to efficiency gains that could result in…the inclusion of small businesses…*
- *It fosters transparent and trustworthy cross-border logistics…*
- *It strengthens supply chain security…*
- *It provides resilience to supply chain[s]…".*

WTO and WEF (2022). The promise of Trade tech: policy approaches to harness trade digitalisation

An E-Commerce Trade Commission to investigate how to ameliorate the barriers to SME goods exporting

Our previous report, *Just a Click Away*, identified a range of constraints on goods-selling SMEs and obstacles to e-commerce exporting that, if tackled, could enable the UK to achieve the aspiration of an extra 70,000 goods-exporting SMEs by 2030. Many of the same barriers, which we also observed in our report, frequently limit the scope for existing goods-exporting SMEs to grow their overseas sales, especially in new markets.

To help tackle these problems, SMF recommended the establishment of an industry-led commission (The E-Commerce Trade Commission – the Commission) to investigate what might be done to ameliorate them. The Commission was subsequently established by the Chartered Institute of Export and International Trade in mid-2023. Its formal overall aim is to encourage and support businesses to trade and in particular, export online. To achieve this aim, it specifically looks to:

> *"…address existing trade barriers….Simplify pathways to trade…[and]…Incentivise small businesses… to participate in international e-commerce".*

Two reports to highlight the work of the Commission

This report is the first of two, which will bring together the outputs of The Commission alongside additional original research. More specifically:

- **Paper one** is themed around three key factors which will affect the future of goods exporting, perhaps most prominently through opening up opportunities for both non-exporting firms to initiate selling into overseas economies and existing exporting firms to expand their penetration of export markets.
- **Paper two** is due in mid-2025 at the end of the Commission's life. It will consolidate all of the work of the Commission, including the accumulated evidence gathered from a series of Commission-convened regional evidence sessions with businesses, the findings from a number of sectoral focus groups and two expert working groups on financial services and trade and supply-chain resilience.

Outline of this report

The three factors that could be expected to play a significant role in influencing the future success of UK SME goods exporting, and which are examined in this paper, are:

- The emergence and adoption of trade tech as a set of tools for making exporting easier for SMEs.[10]
- The growth in the importance of emerging markets as sources of export demand.[v]
- The potential for more female-led businesses to become exporting firms and, in-turn, drivers of export growth.

The opportunities for new or presently exporting enterprises offered by these more specifically, have the potential to help the UK achieve its ambition of an additional 70,000 goods-exporting SMEs. Yet, there are challenges to fully realising these possibilities, which will be explored in this paper, alongside ideas for how to seize the latent opportunities they offer.

The structure of this report

- **Chapter Two** explores the broad set of internal constraints and external barriers to exporting that SMEs face and touches upon the importance of the characteristics of businesses for determining their propensity to export and consequently how government policy towards exporting might better reflect the synergies between general SME competitiveness and internationalisation.
- **Chapter Three** brings together findings from the Commission's AI and New Technology Working Group, as well as small business survey findings and the conclusions of an expert roundtable to look into the possible role which trade tech could have in making exporting easier for SMEs.
- **Chapter Four** shows how emerging markets offer considerable export opportunities for SMEs and, using data collected from the Commission's Emerging Markets Working Group and polling results, it looks at what barriers currently hold back SMEs from seizing the opportunities provided by developing economies as destinations for more UK exports.
- **Chapter Five** investigates the potential for more female-led businesses to begin exporting and contribute to achieving the 70,000 new exporting SMEs ambition. It draws on evidence from the Commission's Gender and Exporting Working Group, a focus group with female-led SMEs and SME survey results.

[v] Emerging markets are often described as low and middle income economies, or developing countries or developing economies. These terms are used interchangeably in this report.

CHAPTER TWO – THE EXTERNAL BARRIERS AND INTERNAL CONSTRAINTS HOLDING BACK SME EXPORTING

The total cost of international trade is high but falling

The cost of trade is determined by a multiplicity of factors

WTO data suggests that, on average, global trade costs are around three and half times higher than the cost of trading domestically.[11] However, there is considerable variation in the non-tariff costs associated with trading goods, depending on elements such as sector, the nature of the product, geography and government policy, amongst others.

For the individual SME, these external costs of trading are divided into upfront costs and recurring costs.[12] The former are the initial costs associated with starting the internationalisation process e.g. those expenditures required to identify appropriate overseas markets and implement the steps required for international market entry. The recurring costs are the ongoing burdens associated with continuing to sell into overseas markets after the early investments. Albeit, over time, the recurring costs become more manageable and often fall if there is a degree of subsequent firm growth.

The overall trend in trade costs has been downwards

There has been an overall downward trend in trade costs over the post-war period.[13] One analysis suggests that reductions in the cost of trade may account for around a third of the growth in post-war trade.[14] The fall in such costs has been the result of a multiplicity of elements, including falling transportation costs, reductions in tariffs, efforts to ease other "at the border frictions" (which has been given impetus by measures such as the WTO's Trade Facilitation Agreement), as well as the spread of information and communication technologies which have boosted interconnectivity and information flows and reduced geographical barriers. The most recent estimate from the WTO indicated that between 2000 and 2018, there was a further 15% decline in the overall cost of trade across the globe.

External trade costs are only one aspect of the constraints on SME exporting success

"Barriers to exporting can be either internal or external...Internal barriers can be informational...functional...[or]...operational... External barriers can be categorised as procedural...governmental...task-related...and environmental" ...".

Gerschewski, S, et al. (2020). Ready to export? The role of export readiness for superior export performance of small and medium-sized enterprises

SMEs recognise there are key external obstacles and internal constraints on their ability to initiate or expand their exporting

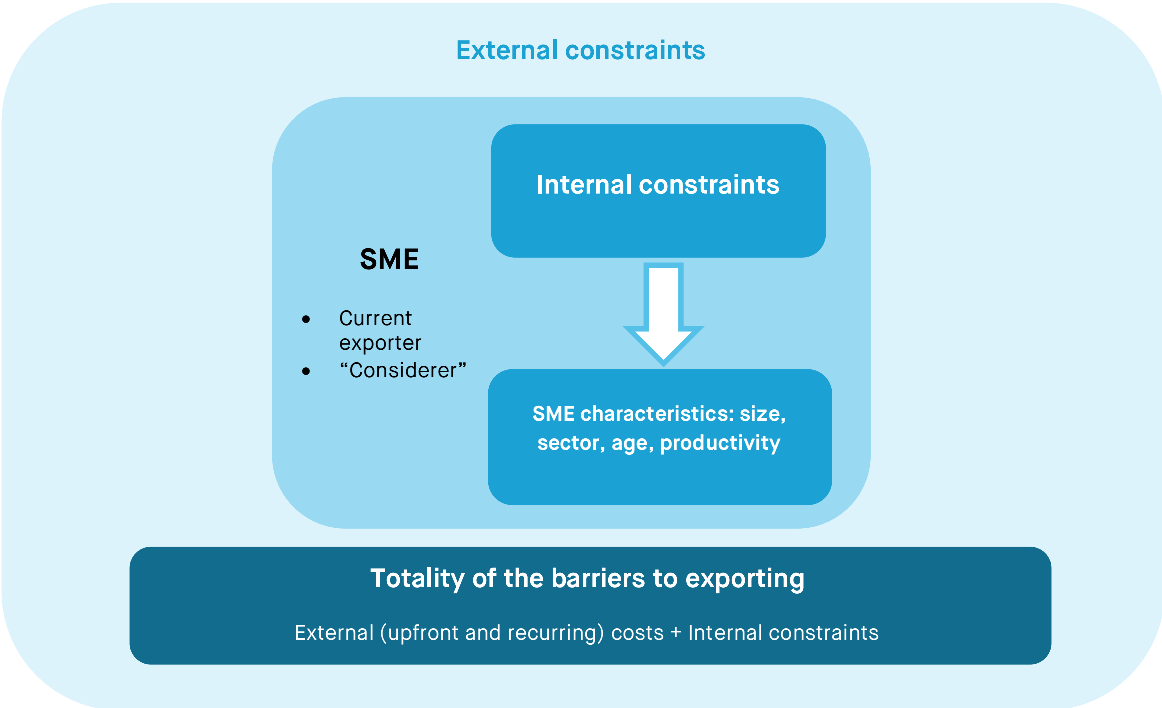
Many external obstacles to SME exporting are captured in the WTO's cost of trade estimates. However, not all of them are. For example, perhaps the most important external challenge is the demand-side conditions in a destination market or potential destination market (see

Diagram 1) and these are not reflected in WTO evaluations.[15 vi]

In addition, there are also internal constraints on SMEs, which are frequently excluded from analyses of trade barriers. As Diagram 1 illustrates, factors internal to a business are key determinants of an individual firm's characteristics. In-turn, these characteristics (e.g. size and productivity levels) are closely linked to the likelihood of and success in, exporting. And, not dissimilarly to external costs, even in instances where constraints are not prohibitive or are eased and a firm starts to export or expand their exporting, they do not disappear. They continue and have to be continually managed.

To better understand the SME perspective on which factors make it difficult for them to initiate exporting, or expand their existing export activity, we surveyed goods-selling small firms using e-commerce channels to access markets, about what the top three challenges to exporting were (Figures 2 and 3).

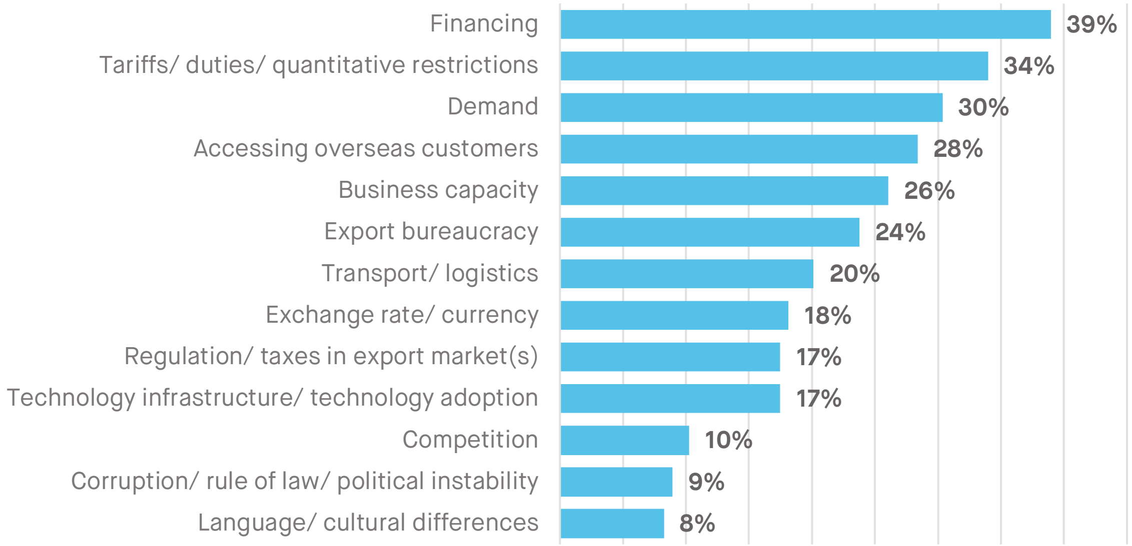
Diagram 1: The components of the totality of the barriers to SME exporting



Source: *Gerschewski, S,. Rose, E L and Scott-Kennel,J. (2020),* WTO *(2015) and SMF analysis*

[vi] One estimate suggests that income growth, which feeds through into demand, could account for as much as two-thirds of the trade growth between the 1950s and 1980s. Source: Scott L Baier and Jeffrey H Bergstrand, 'The Growth of World Trade: Tariffs, Transport Costs, and Income Similarity', *Journal of International Economics* 53, no. 1 (2001), https://www.sciencedirect.com/science/article/abs/pii/S002219960000060X.

Figure 2: The barriers to exporting facing existing SME goods exporters

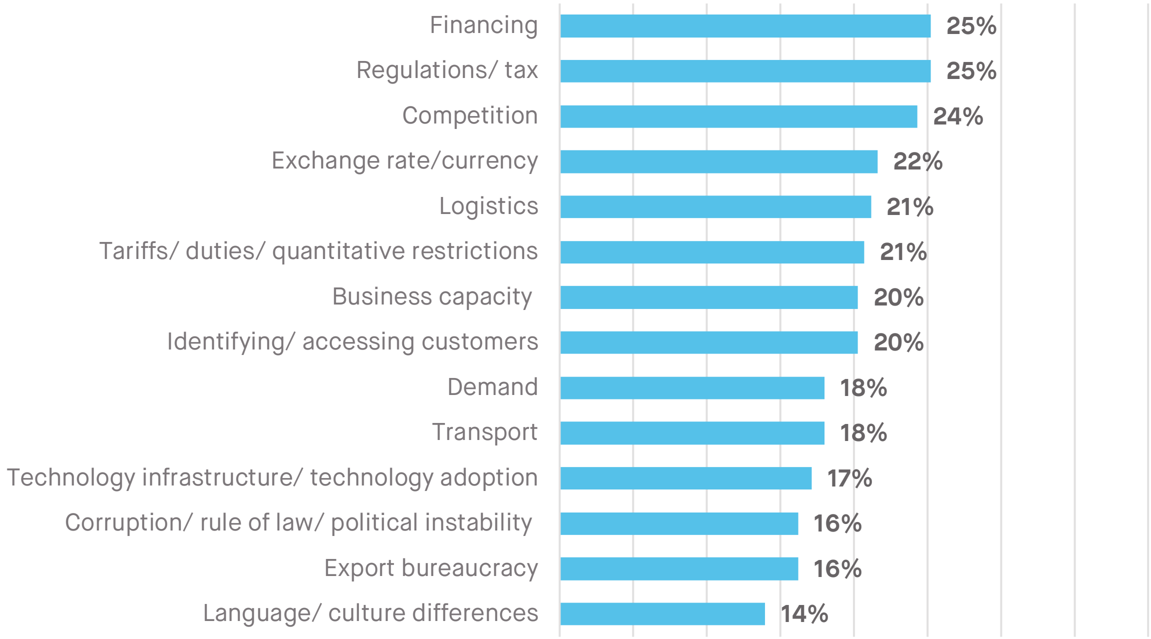


Source: Focal Data SME survey

Figure 2 shows that the most frequently reported internal constraints on already exporting SMEs, were financial resources (39%) and business capacity (26%). The top four most common answers to external barriers were tariffs, duties and quantitative restrictions (34%), overseas demand (30%) and the ability to access consumers (28%).

Amongst "considerer" SME survey participants, the two barriers to starting to export that were most often cited by respondents, were financial resources (25%) and regulation and tax issues in the potential destination economy or economies (25%). These were closely followed by competition in the target market (24%), currency issues (21%) and logistics (21%).

Figure 3: The barriers to initiating exporting facing “considerer” SMEs



Source: Focal Data SME survey

> *“SMEs are less able than large firms to face the costs of engaging in international trade due to their limited resources and management capacities…While complying with diverse standards, technical regulations, and conformity assessment procedures is costly for larger firms, it is potentially prohibitive for SMEs since many of the costs to engaging in international markets are fixed, and often sunk, regardless of a firm’s size or revenue”.*
>
> **OECD. (2017). Enhancing the contributions of SMEs in a global and digitalised economy**

Our polling revealed some notable similarities and differences between the five most frequently reported difficulties facing exporting and “considerer” SMEs. For example, amongst both types of SME respondents, the most prevalent answer was the problem of sufficient financial resources. We know that the availability of financial resources is linked to firm size and that, in-turn, the size of a business is an important correlate of exporting success.[vii][16] [17] The centrality of size and other factors such as revenues and productivity linked to the propensity to export, have been consistently observed across different countries.[18] [viii]

Further, the persistence of these elements in the list of characteristics associated with successfully exporting firms, help to explain why, despite the long-term overall decline in external trade costs, larger firms continue to dominate overseas selling.[19] A

vii The availability of financial resources is linked to a business’s size. Source: Marc J Melitz, ‘The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity’, *Econometrica* 71, no. 6 (2003), https://scholar.harvard.edu/sites/scholar.harvard.edu/files/melitz/files/aggprod_ecma.pdf.

viii That being said, it should be noted that there are some SMEs that fall outside the general pattern of larger SMEs being more productive and therefore more likely to export successfully. One version of this phenomenon has been described as the “paradox of unproductive exporters”. Source: Kevin Jiang and Julia Sekkel, ‘Characteristics of SME Exporters in Canada’ (Office of the Chief Economist, 2024), https://www.international.gc.ca/trade-commerce/assets/pdfs/economist-economiste/analysis-analyse/sme-exporters-pme-en.pdf.

position that has, in recent years, been additionally reinforced in the UK, as the share of the value of UK goods exports accounted for by SMEs, has declined.

The implications for policymakers

In the context of the ambition to increase the number of goods-exporting SMEs by 70,000 by 2030, there are two strategic implications for policymakers stemming from the observations in this chapter.

Export support policy should aim to tackle both external obstacles and the internal constraints on SMEs

Traditionally, SME export support policies have been focused upon:[20]

- Helping SMEs understand and evaluate the risks and opportunities of entering overseas markets.
- Generating interest in, and commitment to, exporting by SMEs.
- Acting as an external resource which SMEs can draw upon to help them develop exporting knowledge and experience.

These remain essential functions of an effective export support system. However, as we have seen, export success is ultimately closely linked to the key characteristics of a business. These are reflective of a business's general competitiveness, which is closely associated with, indeed emergent from, a range of leadership features and other internal capability and capacity factors. Therefore, before many smaller enterprises consider exporting, whether they are start-ups or more mature enterprises, business owners should reflect on the fact that there are a phalanx of more fundamental facets that most successful exporting SMEs tend to have in place to some degree or other and that these provide a solid foundation from which to pursue customers in overseas markets.

Box 1: The importance of "export readiness" to SMEs considering internationalisation

In broad terms, there are two categories of firms which become exporters. The first are "born global" and the second are those enterprises which internationalise more gradually, accumulating experience and committing greater resources over time.[21] Those in the latter category tend to be either passive or variously proactive exporters – and many firms oscillate between these approaches.

Overall, across both the broad categories of export businesses, the most successful ones tend to have many of the fundamentals of commercial success in place and therefore the capacity and capabilities for competitiveness and therefore firm growth.[22]

There will inevitably be some variation in what these key elements are, dependent on factors such as sector and whether, for instance, a firm is "born global" or initially more localised in its focus. Nevertheless, there are sufficient commonalities to be able to say that they will include:

- Good quality leadership and management with the right orientation, ambitions and commitment, and behaviours that subsequently reflect these, e.g. through the development of appropriate strategies and resource allocation decisions.
- Sufficient internal capabilities and capacity for growth and therefore the ability to manage the risks, deal with the complexities and absorb the costs of the exporting process over time, if not immediately. These capabilities and capacities include workforce size and skills, effective business planning processes, access to sufficient financial resources (whether internal or external), competitive productivity levels and positive expectations about future revenues and profitability.[23] [24]

One conclusion that presents itself from the points outlined above is that an export support policy which aims to increase the number of SMEs that are exporting e.g. by 70,000, would be missing a significant opportunity to make a substantial positive impact if it only focussed upon the traditional elements of an export support policy such as those listed earlier. A more holistic approach, which worked at a more basic level to influence the key characteristics of UK businesses most relevant to exporting success would, in-turn, lead to a larger "pool" of SMEs capable of exporting. Many more export-capable SMEs would likely result in greater numbers of SMEs ultimately becoming exporters.

Recommendation One: The government should integrate the planned industrial strategy, with the similarly expected trade strategy, into a single effort, to reflect the complementarities between general business competitiveness and exporting success

The single integrated strategy should contain:

- A particular focus on SME e-commerce as the best channel for expanding exports by small firms and which, therefore, offers the most opportunity for SMEs to contribute to new export-led growth.
- Proposals to merge business and export support offerings, in order to create a coherent landscape delivering a seamless offer that facilitates businesses from the start-up phase through the early stages of internationalisation to ongoing overseas expansion.
- The intention to establish a new Cabinet-level "industrial and trade policy group" containing the key senior ministers, to oversee the implementation of the integrated strategy.

The connection between SME characteristics such as size and productivity on the one hand and exporting success on the other implies that more general efforts which help SMEs grow can ultimately facilitate more SMEs initiating exporting or entering into additional overseas markets. Consequently, policymakers should look to exploit this synergy in the design of policy.

Therefore, business support initiatives such as "Help to Grow" and those run by Growth Hubs should be brought together with existing export support programmes under a single operation.[25] [26] [27] Within this new structure, some of the current business support measures should be expanded to encompass SME exporting. For example, the "Start-Up Loan Scheme" could be expanded so that it can be applied for by firms already operating but planning on entering export markets for the first time. This would help many of those "considerer" SMEs that are constrained by factors such as internal resourcing issues (see Figure 3) to pursue their exporting ambitions.

Long-term commitment to putting in place the new integrated approach will be needed. To that end, the Secretary of State for Business and Trade should lead a cabinet-level "Industry and Trade Policy Group", which should oversee the strategy's implementation and evaluate the performance of the new system against ambitious benchmarks, i.e. helping an additional 70,000 goods-selling SMEs to start (and sustain) exporting, by 2030.

Recommendation Two: The numerous sources of official guidance available to SMEs about exporting (e.g. that produced by DBT and HMRC) should be brought together, alongside consolidated access to the high-quality sources of advice and support that are available from the private and third sectors, into a single hu

As part of any shift towards a more rationalised landscape for official business support (see Recommendation One), access to all official guidance available to SMEs about exporting should be combined into a single portal alongside signposting to the best advice available from private and third sector organisations. This will help reduce the search costs for SMEs when they are looking for information and possible sources of advice about exporting. Such a move would also make it easier for others to direct SMEs towards appropriate guidance and support.

The hub would need to be developed with input from the business community to ensure it delivers its information in ways that would work best for SMEs. Partnering with business would also be important to ensure its existence is publicised across as much of the SME community as possible. Finally, to ensure that the best private and third sector sources of information and advice are the ones that the hub signposts to, a system of due diligence and quality evaluation should be put in place, so that SME users of the hub can have a degree of confidence in what they are being signposted to.

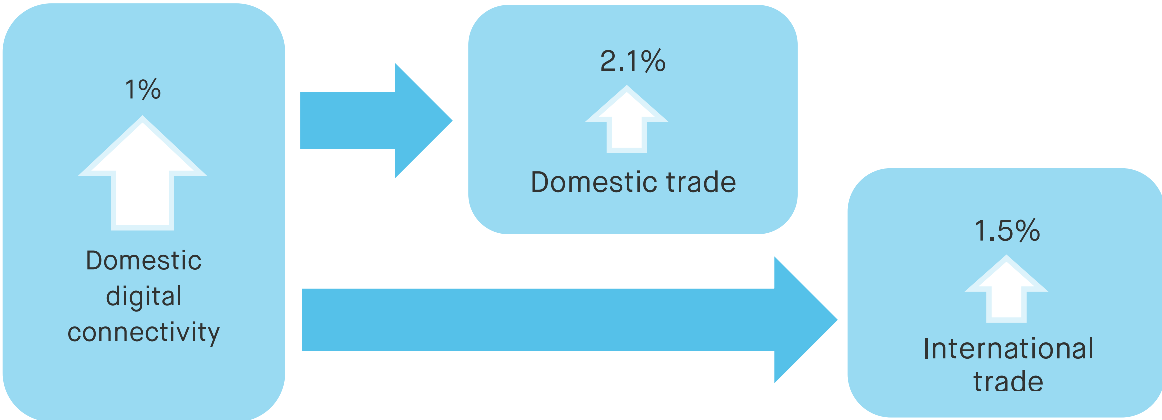
CHAPTER THREE – MAKING UK SME EXPORTING EASIER THROUGH TRADE TECH

Information and communication technologies reduce the cost of trade and consequently boost trade levels

Estimates of the size of the link between digital take-up and trade growth

Research suggests that there is a clear link between the adoption of digital networked technologies and growth in trade (Diagram 2).[28] Consequently, most observers expect trade tech (which predominantly involves further developments in the use of information and communication technologies) to continue to deliver similar gains.[29]

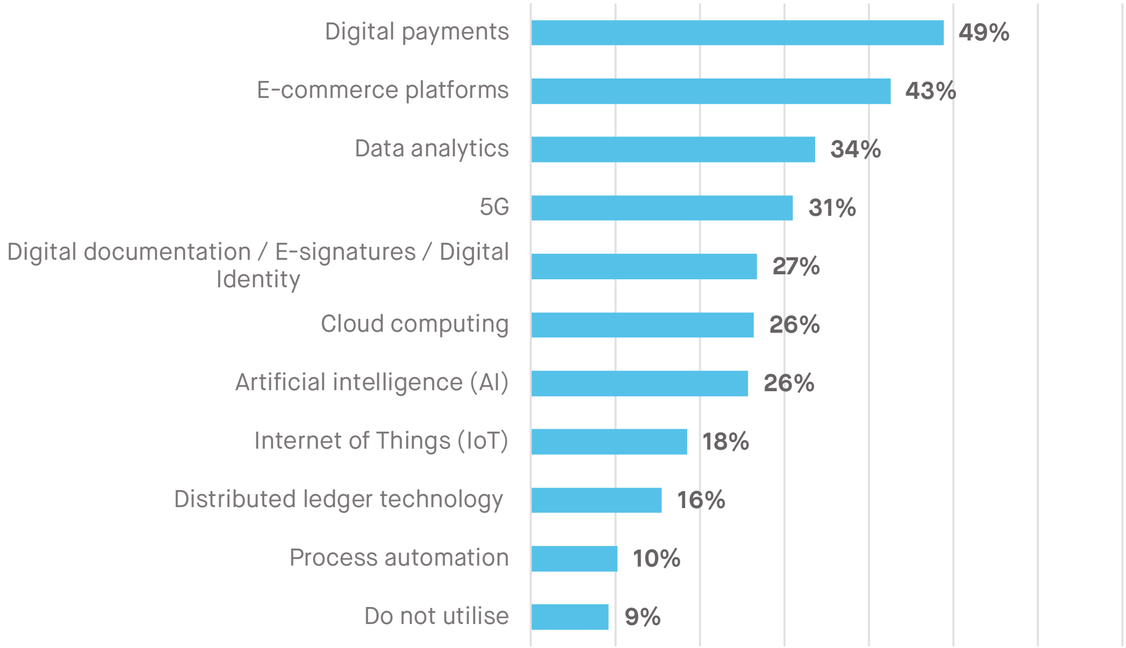
Diagram 2: The approximate increase in trade resulting from a 1% improvement in domestic digital connectivity



Source: López González, Sorescu and Kaynak (2023) cited in OECD (2023)

The most common forms of trade tech are those connected to the emergence and growth of e-commerce. These include digital payment systems and online marketplaces. This picture is reflected in the results of our survey of SMEs, where these two technologies were the most frequently cited as the types of trade tech being used for exporting purposes (Figure 4).

Figure 4: Trade tech adoption by goods-exporting SMEs for exporting purposes



Source: Focal Data SME survey

However, our results also show that significant minorities of SME goods exporters have adopted other forms of new technology to help them succeed in overseas markets. For example, more than a third (34%) deploy data analytics for such a purpose.[30]

The benefits that trade tech is already generating for exporting SMEs

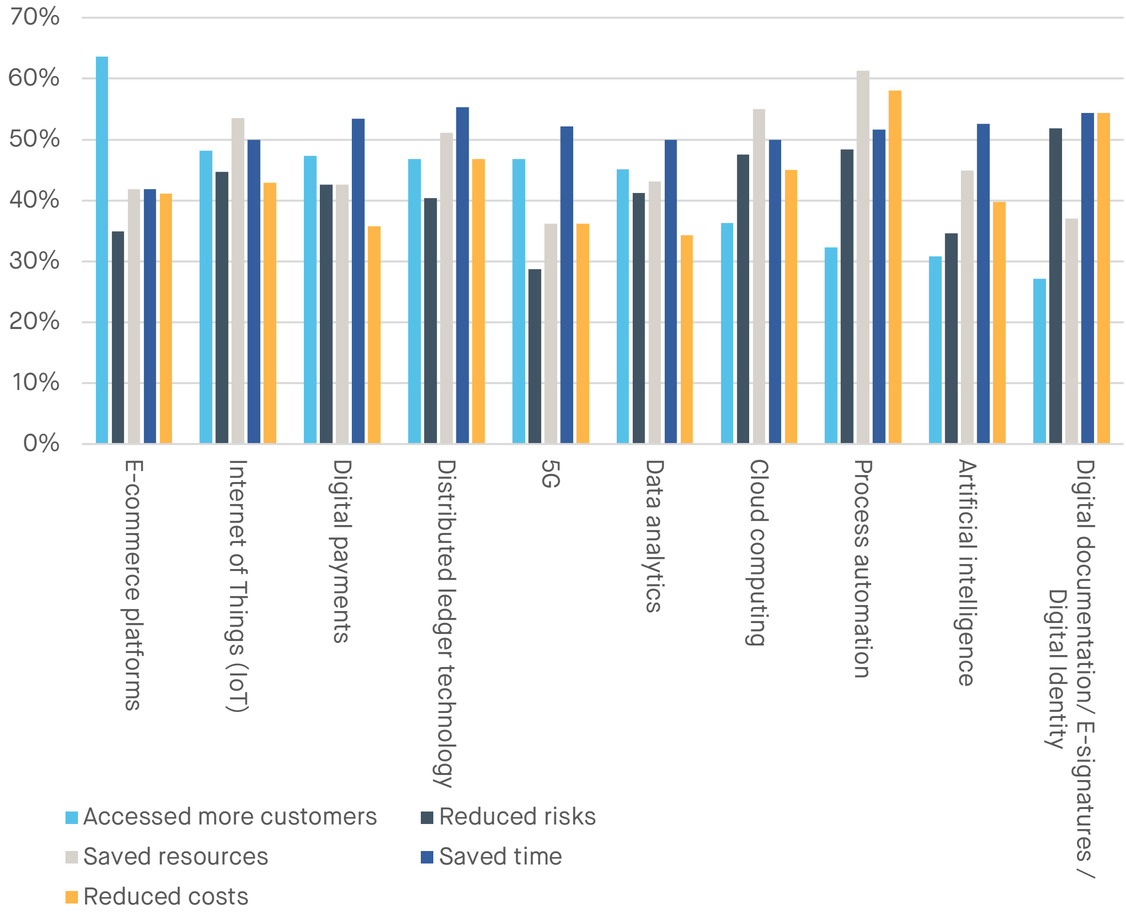
Amongst other benefits, trade tech is helping SMEs to access new customers

The results of our SME survey show that many of those who have already adopted trade tech, find that it is delivering a number of export-related benefits (see Figure 5).

"Digital technologies allow SMEs to improve market intelligence, reach scale without mass and access global markets and knowledge networks at relatively low cost...[they additionally]...provide new opportunities for SMEs to enhance their competitiveness in local and global markets, through product or service innovation and improved production processes. It also facilitates the emergence of "lean start-ups" that leverage the internet to lower fixed costs...Furthermore, Big Data and data analytics provide a wide range of opportunities for SMEs, enabling a better understanding of the processes within the firm, the needs of their clients and partners, and the overall business environment...".

OECD. (2017). Enhancing the contributions of SMEs in a global and digitalised economy

Figure 5: The benefits of the adoption of trade tech for exporting reported by SMEs



Source: Focal Data SME survey

Focusing specifically on the two most widely adopted types of trade tech, we found that nearly two-thirds (64%) of exporting SMEs utilising an e-commerce platform for exporting, for example, reported that doing so had helped them access more customers in overseas markets. Over half (53%) of those SMEs which utilised digital payments for exporting, said that using such tools had saved the time for the business.

"Paperless trade facilitation could create $267 billion of additional exports [across the G7]…but digitalising the trade ecosystem could create as much as $6 trillion in extra exports by 2026…".

UK-ICC (2021). G7 – Creating a modern digital trade ecosystem: Cutting the cost of and complexity of trade

Overall, our polling suggests that trade tech has a clear role to play in reducing external barriers to trade. One effect of this is reducing the "time to trade". Analysis has found that in general, where this increases by 10%, this causes a fall in bilateral trade volumes of between 5% and 8%, implying that reductions in the "time to trade" of a similar scale could deliver positive gains of a similar magnitude.[31] Our research evidence also indicates that it can help deliver operational efficiencies within businesses which, in-turn, make the external barriers to exporting easier to bear. In line with the observations that more productive businesses are more likely to export successfully, this latter kind of boost, which trade tech can help bring about is, in some ways, just as important as its impact on the cost of activities directly associated with the trade process.

Box 2: The growth in e-commerce as an example of how trade tech can positively impact SME exporting

Global business-to-consumer (B2C) e-commerce was estimated to be worth $5.7 trillion in 2023.[32] The OECD has highlighted that growth in the adoption of e-commerce has delivered a number of trade benefits, especially to SMEs:[33]

> *"Digital transformation has led to unprecedented reductions in the costs of engaging in international trade, changing how and what we trade…[Specifically] digitalisation has changed the scope and speed of the activities undertaken by firms; allowing production activities to move faster and with greater ease; providing new ecosystems for exchange; and helping firms, especially micro, small and medium-sized enterprises (MSMEs), to better connect with each other and with consumers across the globe".*

The costs which have been reduced, include a host of transaction costs associated with trading, such as search and information costs, bargaining costs and policing and enforcement costs. The consequence has been greater efficiency in the matching of supply and demand.[34]

Digital marketplaces have played a particularly important role in facilitating the growth of e-commerce and continue to do so, with many innovating to help expand access to customers and reduce the size of the barriers to exporting for SMEs, by providing for:

- Flexibility for SMEs to customise and brand their virtual space on a platform enabling them to act as a bespoke "shop front".
- Access to customer analytics and enabling services such as translation.
- Opportunities for SMEs to warehouse products and purchase logistics services through platforms, with the aim of speeding up the product distribution process.
- User review functions and a range of e-payment methods that can help boost trust and reduce fraud risks for both sellers and consumers.

The cumulative international effect over the three decades since e-commerce began to scale, has been to lessen the relative export advantages which larger firms had in the pre-e-commerce age. The result has been a substantial increase in the volume of cross-border transactions and to boost in the proportion of SMEs across the world involved in trade.[35]

E-commerce is going through a new phase in its development, as increasing amounts are now taking place through social media. This trend was observed by one of the contributors to our expert roundtable on trade tech, who noted that:

> *"There is a big upswing in sales from social media...and SMEs need to be aware of that. This is an important source of future revenue...e-commerce is increasingly about a social media presence, where people can buy direct from the apps that they're spending a lot of their free time on".*
>
> One analysis suggested that in 2023, "social commerce" accounted for 18.5% of global e-commerce in 2023, up from 5.5% in 2018.[36] Forecasts have projected that it could reach as much as 21.7% by 2028.[37]

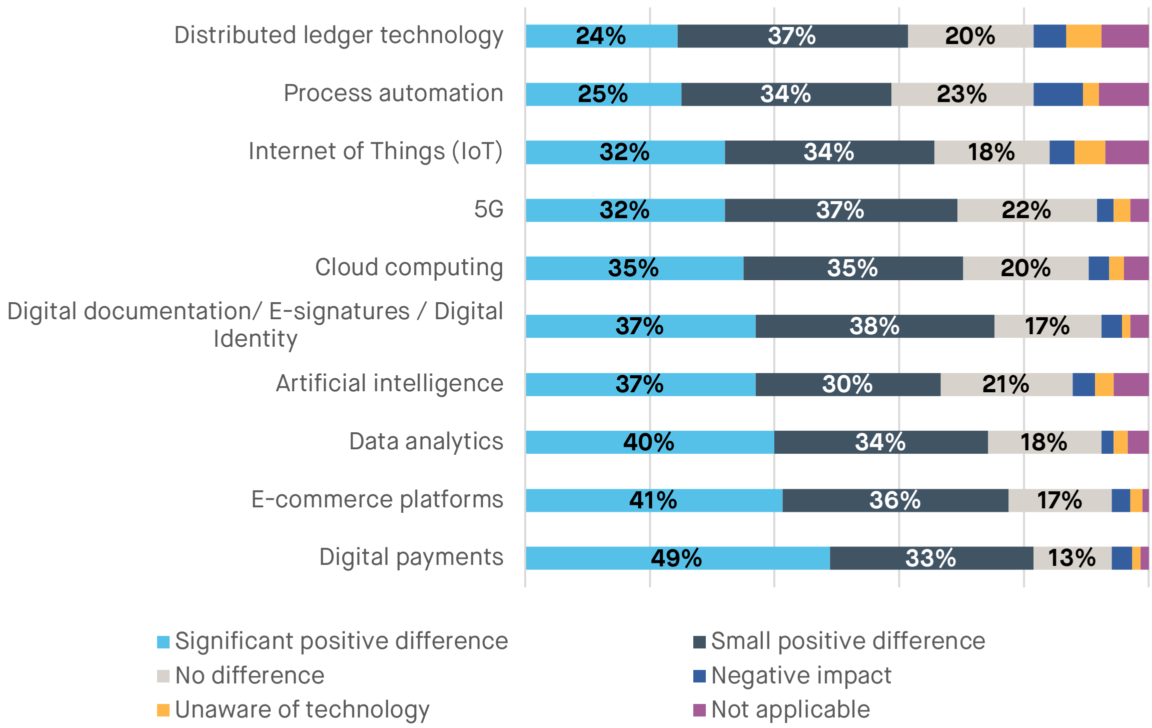
Sources: OECD (2023) and SMF trade tech expert roundtable.

> *"Digitalisation will reduce bureaucracy by:*
>
> - *Reducing time spent on cross-border trade by around 81% across the G7...*
> - *Cutting the number of days associated with border compliance from an average of 25 days to less than one...*
> - *Reducing average compliance times from 2.3 days to less than half a day".*
>
> **UK-ICC (2021). G7 – Creating a modern digital trade ecosystem: Cutting the cost of and complexity of trade**

Optimism about the difference trade tech can make to exporting in the future

Not only is trade tech making a difference to large numbers of currently exporting SMEs, but many such SMEs also expect future benefits to accrue from further uptake and intensification of the use of trade tech.

Figure 6: Extent to which goods-exporting SMEs believe trade tech will make a difference to exporting over the next 5 years



Source: Focal Data SME survey

Across every category of trade tech, a majority of exporting SMEs were optimistic that its adoption or intensification of use will make at least a degree of positive difference to exporting over the next five years. This indicates considerable potential appetite for greater use of trade tech of all kinds by exporting SMEs, if the conditions are right (see Table 1).

Notably, the technologies which attracted the most optimism, i.e. the ones most often reported as likely to make a significant positive impact, were digital payments (49%), e-commerce platforms (41%) and data analytics (40%) i.e. those already the most widely used. This suggests that the mainstream expectation amongst SMEs is that it is through the intensification of the use of current trade tech and iterations in the capabilities of these existing types of technologies, that the biggest benefits to trade are most likely to accrue in the coming half-decade.

Box 3: AI and future developments in what e-commerce platforms can offer SMEs

E-commerce platforms have delivered considerable efficiency gains from the better matching of supply and demand across borders that they facilitate.[38] However, the effective application of AI by such marketplaces is seen by many as having the potential to generate further efficiencies and grow the volume of e-commerce and the value generated by it further.[39]

More specifically, it has been argued that integrating AI tools into platforms, which sellers and customers utilising those platforms are then able to access, could bring about a number of benefits for SMEs. For example, AI is expected to improve the search functions of e-commerce platforms which would help to bring producers and consumers together more easily by matching preferences to appropriate products. Platforms already enable sellers to see data about their customers but technology offers up the possibility of this kind of tool going further still by becoming even more sophisticated and able to play a more direct role in helping SMEs in the development and execution of their selling strategies to a much greater extent than is already the case.[40]

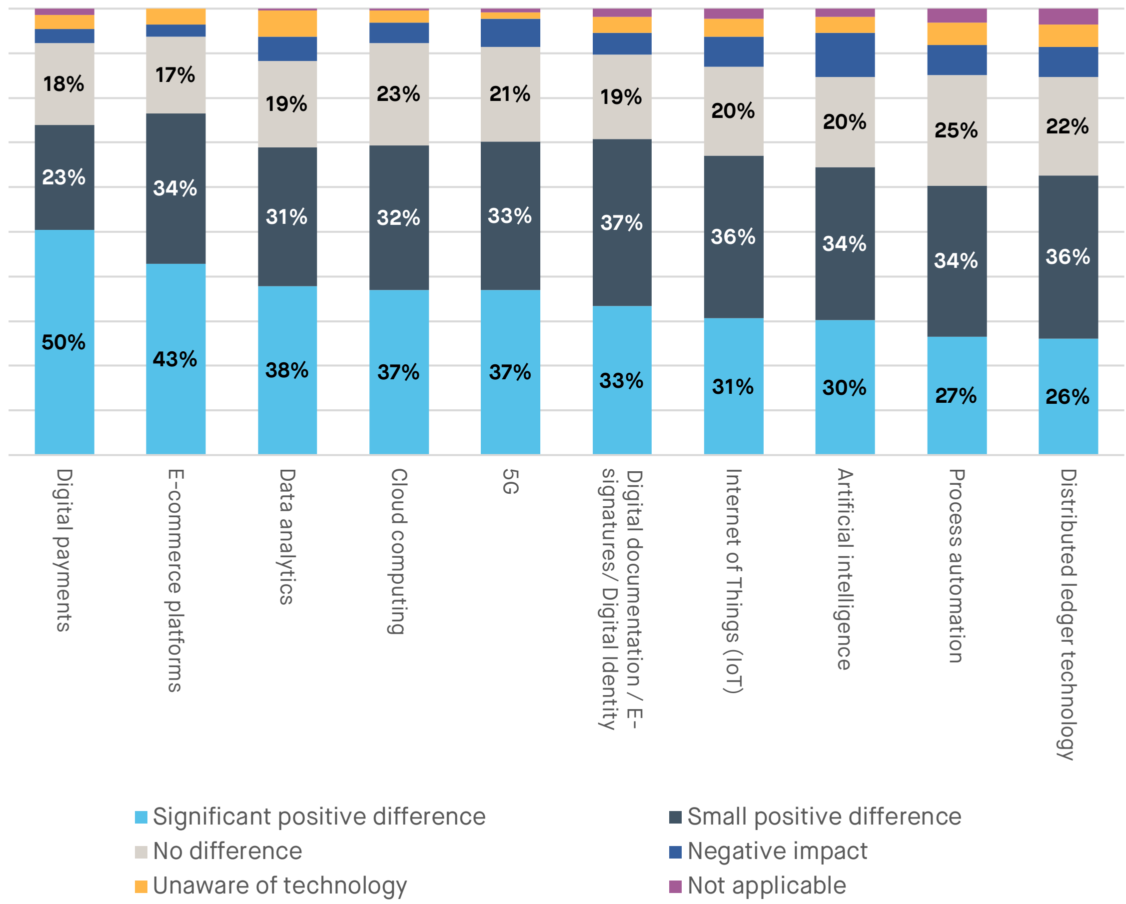
Further, some have suggested that AI will enable platforms to provide sellers with an “AI assistant” to help them navigate the platform experience more easily and seize the opportunities provided by a digital marketplace, e.g. deal with problems that arise, automate functions such as writing product descriptions.[41] In time, it has also been suggested that AI embedded in platforms will be able to support SMEs in more complex functions such as complying with tax and other bureaucratic obligations associated with exporting.[42]

The potential for trade tech to encourage "considerer" SMEs to initiate exporting

Trade tech can have a positive impact on many of the external and internal constraints holding "considerer" SMEs back

The benefits which trade tech brings to SMEs already exporting (Figure 6) are also available to those "considerers". The scale of the potential is reflected in what many "considerer" SMEs that participated in our survey reported. As Figure 7 highlights, large proportions of respondents expressed an expectation that trade tech is likely to make a positive difference to whether they decide to start exporting in the next two years.[ix]

Figure 7: Extent to which "considerer" SMEs believe trade tech could make a difference to their decision to start to export in the next two years



Source: Focal Data SME survey

The levels of positivity amongst "considerers" implies that, under the right conditions, there is significant scope for trade tech to help convert more "considerers" into exporters. As a result, there are strong grounds for policymakers to believe that trade tech can play a growing role in helping to achieve the additional

[ix] For a more detailed explication of some of the ways that trade tech is expected to develop in order to deliver more of the kinds of gains highlighted in Figure 5, please see the summary of many of the key points from our expert roundtable on trade tech in Annex 3.

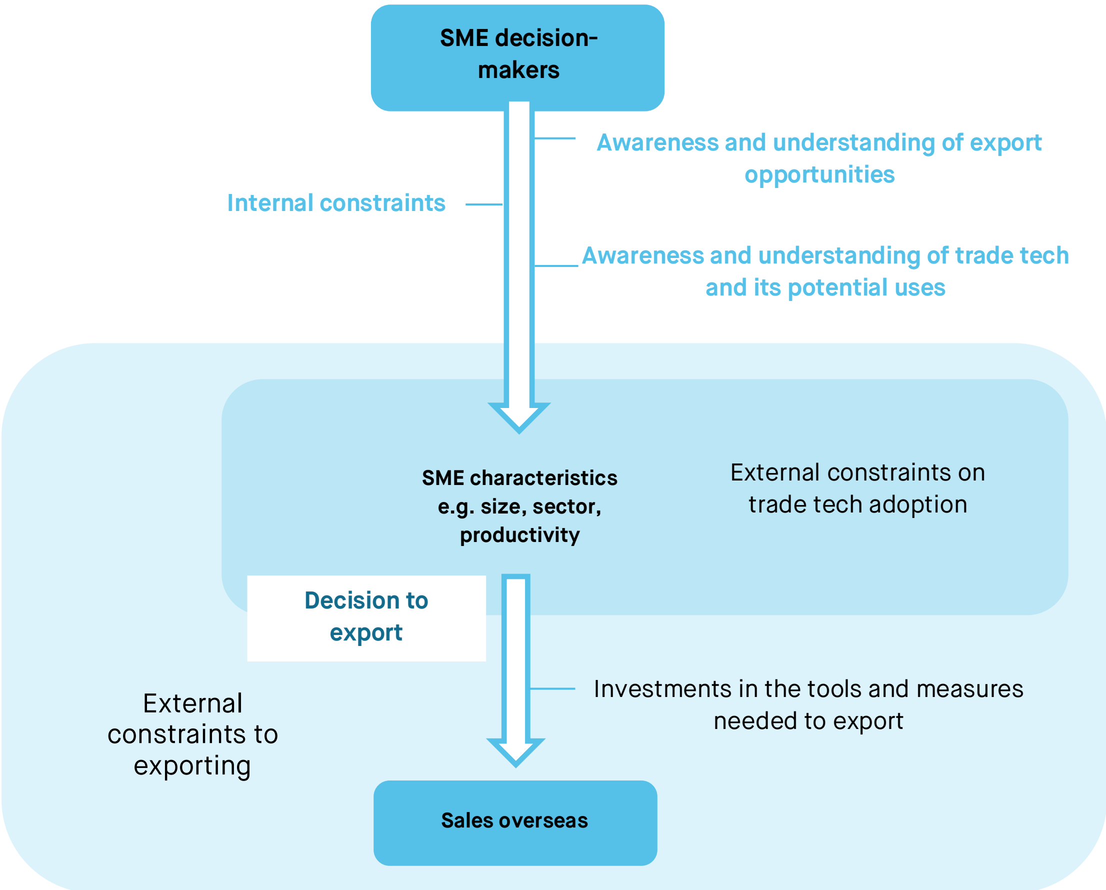
70,000 goods-exporter SMEs by 2030, the ambition of the E-Commerce Trade Commission.

There are a range of barriers to trade tech adoption by SMEs

The adoption of trade tech is only one among a number of factors that will influence exporting

The adoption or intensification of the use of trade tech is only one among many elements that influence the decision by an SME to export and the subsequent exporting process. Diagram 3 illustrates where the specific barriers that inhibit trade tech adoption fit into the wider picture of influences that shape the decision to export.

Diagram 3: The key factors influencing the SME "export journey"



Sources: E-Commerce Trade Commission's AI and New Technology Working Group; Nemkova, E., Souchon, A.L. and Hughes, P. (2012); Bryan A. Lukas, B A., Whitwell, G J and Hill, P. (2007) and SMF analysis

The barriers to trade tech adoption identified by SMEs

Technology diffusion amongst SMEs has been a longstanding problem. [43] [44] The adoption of trade tech by SMEs, therefore, is one more aspect of this broader ongoing challenge facing SMEs and the economy. However, it is worth noting that, in some instances, where a technology (e.g. digital payments for domestic e-commerce) is already in use by a firm, the obstacles to intensifying their use of it (e.g. to take payments from abroad) should be lower than those instances where a new type of technology needs to be adopted.

When we asked SMEs about the barriers to potential trade tech adoption and intensification of use, the most frequently provided responses were external challenges.[x] This was true for both existing exporting SMEs and "considerers". However, notably, the cost of the technology came up top. This mirrors the internal constraint of financial resources, which was the most frequently raised barrier to export expansion and starting to export by both current goods-exporting SMEs and "considerers" (Figures 2 and 3).

Table 1: Most frequently cited barriers to trade tech adoption and intensification of use by SME exporters and "considerers"

	SME exporters		"Considerer" SMEs	
1	Cost of technology investment	31%	Cost of technology investment	35%
2	Technology adoption by suppliers/ intermediaries	31%	Technology adoption by suppliers/ intermediaries	32%
3	Regulation/ taxes in the UK	27%	Regulation/ taxes in export market(s)	30%
4	Technology adoption by relevant government agencies -	26%	Technology adoption by relevant government agencies	28%
5	Insufficient understanding of trade tech Technology adoption by customers in destination market(s) Regulation/ tax in export market(s)	23% 23% 23%	Insufficient understanding of trade tech	23%

Source: Focal Data SME survey

Our survey revealed that a widely perceived barrier to both exporting SMEs and "considerers", is the prevailing technological conditions in the wider export or potential export chain in the case of "considerers".[xi] For example, a clear factor in the calculus of an SME owner-manager, when considering whether or not to risk adopting or intensifying their use of a particular type of trade tech, is whether it will

[x] The full set of results can be seen in Annex 5.

[xi] The importance of the technological context is widely identified in the existing literature as a key determinant of technology adoption by SMEs. Our findings suggest that this wider observation is relevant to the specific case of trade tech for many SMEs. Sources: Tran Hung Nguyen, Xuan Cu Le, and Thi Hai Ly Vu, 'An Extended Technology-Organization-Environment (TOE) Framework for Online Retailing Utilization in Digital Transformation: Empirical Evidence from Vietnam', *Journal of Open Innovation: Technology, Market, and Complexity* 8, no. 4 (n.d.), https://www.sciencedirect.com/science/article/pii/S2199853123000860. and Hermant Patel and Regina Connolly, 'Factors Influencing Technology Adoption: A Review', in *Information Management in the Networked Economy: Issues & Solutions* (8th International Business Information Management Conference, Dublin, Ireland, 2007), https://www.researchgate.net/publication/273140050_Factors_Influencing_Technology_Adoption_A_Review.

be interoperable with the technologies operated by the organisations which they are going to rely upon to get their product to market. This applies whether the organisations are private sector entities (e.g. digital marketplaces or logistics firms) or government bodies (such as a customs agency).

As Table 1 shows, regulation was a commonly raised barrier to the take-up and use of trade tech by existing exporters and "considerers". The regulatory challenges associated with trade tech adoption and intensification of use were also noted by the Commission's AI and New Technology Working Group. Data rules in particular were raised by the working group as perhaps the most salient, as much trade tech – and AI in particular – relies upon access to data to deliver its benefits.[45] [xii] The centrality of data to facilitating e-commerce and the optimal use of other digital tools that support cross-border trading, has seen it become a prominent focus of more and more trade negotiations and agreements around the world, whether bilateral, plurilateral or multilateral.[46] Indeed, specific digital agreements separate to broader and more all-encompassing preferential trade agreements, which deal narrowly with "digital issues" such as data flows, are becoming more common (see Box 4). Indeed, the UK, along with other states, has been at the forefront of this trend.

"According to…experts, five building blocks…play a critical role in supporting …wide-scale adoption of TradeTech:

- *Global data transmission and liability frameworks*
- *Global legal recognition of electronic transactions and documents*
- *Global digital identity of persons and objects*
- *Global interoperability of data models for trade documents and platforms*
- *Global trade rules access and computational law…"*

WTO and WEF (2022). The promise of Trade tech: policy approaches to harness trade digitalisation

The recent WTO announcement of the final agreement of the Joint Initiative on Electronic Commerce (E-Commerce) is further evidence of this focus on regulatory issues pertinent to trade. For instance, the WTO Joint Initiative on Electronic Commerce (E-Commerce) looks to ensure countries have data rules that are supportive of the general expansion of the use of digital technologies for cross-border trade and therefore, that the hurdles to the spread of tools that rely upon the cross-border flow of data for their efficacy, as some trade tech does, are minimised.[47] [48]

As Table 1 highlights, just under a quarter of SMEs raised understanding the potential benefits that trade tech may be able to offer as a key obstacle. Experts at the trade tech roundtable also pointed out how important it was that SME leaders and managers recognised the potential benefits to their exporting ambitions of trade tech, if it was to be adopted, used and its potential benefits maximised:

> *"Many businesses think…'I'm not a tech company, I don't really understand all of these processes', they just care that trade facilitation has become easier…so the perception issue is really important, the technology needs to*

[xii] Others that have been raised include intellectual property laws and the distinctions between services and goods as they become more and more integrated. Source: Pascal Krummenacher, 'International Trade and Artificial Intelligence: Is Trade Policy Ready for Chat GPT?', *International Institute for Sustainable Development* (blog), 14 April 2023.

be seen as relevant for businesses…and not necessarily about adopting technological processes, but that this is helpful for trade facilitation".

This point was echoed in the conclusions of the Commission's AI and New Technology Working Group, which observed that a lot of businesses do not understand trade tech in general and AI in particular; that this inhibits the rollout and effective use of trade tech.

Box 4: Creating an international environment conducive to the spread and use of trade tech

Bilateral and plurilateral trade agreements have provided platforms for governments to try and embed policy frameworks that will facilitate the spread and use of trade tech and in-turn boost the volume and value of trade between those signatory states. For example, as the WTO has noted:[49]

> *"Since 2010, regional trade agreements (RTAs) have increasingly integrated e-commerce and digital trade provisions".*

Prominent examples of comprehensive trade agreements which have deliberately focused on encouraging e-commerce, include the United States–Mexico–Canada Agreement (USMCA).[50] Also becoming more common are more narrowly focused digital-only trade arrangements. Recent "frontier" examples of these include the Singapore–Australia Digital Economy Agreement; the Digital Economy Partnership Agreement between Chile, New Zealand and Singapore and the UK–Singapore Digital Economy Agreement.[51] [52]

The newly agreed WTO Joint Initiative on Electronic Commerce (E-Commerce) will provide a basic international framework for government policy towards cross-border e-commerce. It contains commitments across a range of domains aimed at facilitating greater levels of e-commerce trade.[53] Key areas covered in the initiative include e-contracts, e-authentication and e-payments, paperless trading, customs duties, consumer protection, internet access and personal data protection, amongst others.[54]

Ensuring that SMEs can take advantage of the opportunities offered by trade tech

Boosting the uptake and intensifying the use of trade tech by SMEs

Our evidence paints a positive picture of the role which trade tech plays for many currently exporting SMEs, and shows that there is widespread optimism about its potential for delivering more export benefits in the future and that it could have some influence on encouraging "considerer" SMEs to begin exporting. The potential £9.4 billion gains in output from 70,000 more SME exporters implies a place for policy to help ensure that this can be achieved. Indeed, DBT recognises that policy can make a difference and is active in this space. For example, the Digital Exporting Programme supplies a range of support for technology adoption, including the provision of expert advice, guidance on how to maximise the opportunities of online marketplaces, facilitating access to services which can help firms export, the provision of webinars, networking and "meet-the-buyer" events, attendance at e-commerce conventions and participation in trade missions.[55] Therefore, to deliver on the ambitions of a significant uplift in the number of successfully exporting goods-selling SMEs, specific enhancements to the current policy approach which reflect the scale of the aims and could help tackle some of the most salient barriers to trade tech adoption or intensification of use by SMEs, are needed.

Recommendation Three: The government should encourage the adoption and intensification of the use of trade tech by SME "considerers" and exporters through boosting the amount of digital advice made available through DBT export support services and introducing grant funding for investment in trade tech for up to 70,000 "considerers"

SMEs need every opportunity to learn about and understand the potential export-related benefits which could accrue to individual exporting or "considerer" firms, from the adoption of trade tech. They also need to be in a position to be able to adopt or intensify their use of trade tech. There could be an expanded role for DBT to help deliver on such outcomes.

Currently, DBT's export support offer includes a cadre of digital advisors that complement the work of its International Trade Advisors (ITA) network.[56]However, this digital advice capacity is limited and overstretched. Nevertheless, the focus on an intensive offer is the right one because the evidence on business support shows that it tends to be more effective for SMEs.[57] Research on models of advice delivery show that virtual methods can prove fruitful, especially when coupled with the development of a network of mutually engaged and supportive users.[58] Therefore, if trade tech is to play a prominent role in increasing the number of goods-exporting SMEs by 70,000 the current digital support offer needs to be bolstered. This should be achieved by recruiting more digital specialists. More specifically, the ambition should be to match each DBT ITA with a digital expert by 2028.[xiii]

[xiii] The Department for International Trade's Annual Report 2022-23 indicates that there are 332 ITAs and client management specialists working for DBT. One report said that the yearly cost of approximately 230 ITAs is somewhere in the region of £18 million a year. Assuming that DBT's Digital Advisors (DA) are on a similar salary to ITAs, matching the number of DAs to ITAs would likely bring the total joint cost up to £36 million per year (exc. client management specialists). Sources: dit-annual-report-and-accounts-2022-to-2023-accessible.pdf (publishing.service.gov.uk); UK gov to bring 200+ trade advisers in-house, costing £18m per year (tradefinanceglobal.com); Made in the UK, Sold to the World (web version) - GOV.UK (www.gov.uk); export-client-quality-survey-2022-to-2023.pdf (publishing.service.gov.uk) and SMF calculations.

As Table 1 showed, cost (and its corollary sufficient financing) is a key obstacle to adopting trade tech for many SMEs. The smallest firms in particular often fail to invest in technology because they do not have enough reserves and frequently face cashflow constraints. Therefore, as SMF proposed in our report Just a Click Away, in principle, a grant is likely to prove useful as a mechanism for stimulating specific investments in trade tech amongst the smallest "considerer" businesses. Consequently, the government should introduce a "start to export" grant scheme for up to 70,000 SMEs not currently exporting in order to help ease some of the often prohibitive upfront costs associated with internationalisation.

It can be difficult to generate interest in grants amongst the audiences they are targeted at. This is particularly the case when the latter are smaller enterprises. However, the Scottish government's recent experience with their DigitalBoost Fund programme suggests that this is not an inevitable problem.[59] Consequently lessons should be learnt from this. One should be to make the grant a matched funding programme.[xiv] Further, to help reach the key audience, it should be promoted in partnership with business groups and the major e-commerce platforms. In addition, as such organisations are often closer to individual businesses than government departments and agencies, digital marketplaces could be given a central role in administering the programme to ensure it is delivered quickly and to those firms where it is likely to have the biggest impact.

[xiv] The Scottish government's *DigitalBoost Fund* may offer a model as to how to design a grant funding scheme that attracts considerable take up. It utilised matched funding for amounts invested by SMEs of between £2,500 and £20,000 in digital technology. Providing up to 70,000 "considerer" SMEs with £10,000 of matched grant funding would cost somewhere in the region of £700 million. A small amount compared to the potential £9.3 billion return that it could help accrue. Source: Growing our digital economy - gov.scot (www.gov.scot); Department for International Trade (2023). Annual Accounts 2022-23 and SMF calculations.

Recommendation Four: The integrated industrial and trade strategy should include plans to further develop and embed the use of technology across those parts of the trade process where it has influence

To develop further and embed more deeply the use of trade tech amongst SMEs that export or have export potential, the government should:

- Ensure that, as it pursues the digitisation of trade documentation and the digitalisation of the wider trade process, including setting up the promised Single Trade Window (STW), it integrates small business education about these changes (especially the STW) along with access to advice for SMEs, into their rollout.
- Aim to help developing countries digitalise their trade processes, including adopting STW schemes through promoting an international benchmarking exercise by the WTO, to incentivise progress and develop best implementation practice standards.

Table 1 showed that the adoption of technology by organisations which help to make up the wider trade environment (e.g. government agencies such as the customs body and intermediary entities in the export process like logistics firms and e-commerce platforms) has an influence on whether SMEs are likely to adopt or intensify their use of trade tech. Therefore, to encourage SMEs to do so, the government should play its part in maximising the deployment of technology across those elements of the export process where it has the ability to do so. Passing the UK Electronic Trade Documents Act 2023 is an important step forward but there is further to go to fully digitalise the trade process. Key to the latter will be instigating an STW system for the UK.[60] [61] [62] [63] However, the benefits of the STW for example cannot be reaped by SMEs unless smaller firms can utilise it effectively. This will require SMEs being:

- Made aware of its introduction.
- Provided with easy-to-understand guidance about it how to use it and maximise the advantages it offers.
- Offered access to additional intensive support to help minimise the risk of mistakes and troubleshoot problems that arise when using it.[64]

Consequently, as the UK's STW system is rolled out, it needs to be accompanied by both an awareness raising campaign and the types of "wrap around" support described above.

However, the UK can only do so much on its own to bring about the digitalisation of the trade process. The largest reductions in trade costs from digitisation and digitalisation will come if all countries move, at least broadly, in lockstep. The implementation of the WTO's Trade Facilitation Agreement by signatory countries will help to nudge governments forward in this area.[xv] The more recent Joint Initiative on Electronic Commerce (E-Commerce) will also have a role to play. However, momentum can easily be lost as events distract and other priorities arise for governments. Further, many countries lack adequate state capacity and the capabilities to implement STW systems for example. This is especially the case amongst low and middle-income countries where reductions in trade costs are most needed if UK SMEs are to export more to such markets (see Table 4). Therefore, to guard against any loss of momentum and to help less developed countries plan and implement such measures, the UK should push for an official WTO international benchmarking exercise to be conducted.[65] [66] Out of the exercise should come formal best practice standards and implementation templates to help countries learn from others who are at the “frontier”.[67]

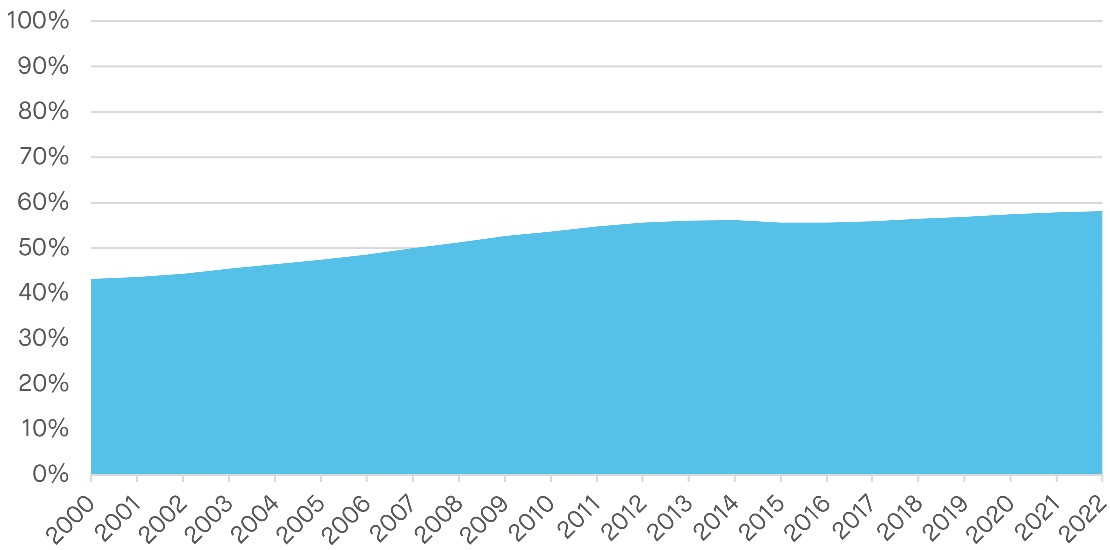
[xv] One analysis suggested that the potential trade cost reduction from full implementation of the provisions of the WTO’s Trade Facilitation Agreement by all signatories, could be significant. For low income countries it was estimated that full implementation could cut costs by around 16.5%, amongst middle income countries it was predicted costs could fall by 16% and it was for OECD countries the fall could be in the region of 11.8%. Source: Organisation for Economic Cooperation and Development, ‘Implementation of the WTO Trade Facilitation Agreement: The Potential Impact on Trade Costs’ (Trade and Agriculture Directorate, Organisation for Economic Cooperation and Development, 2015).

CHAPTER FOUR – EMERGING MARKETS AS SOURCES OF FUTURE EXPORT GROWTH FOR UK SMES

Emerging markets will be the source of much of the future growth of the international economy

Emerging markets are becoming the main source of global economic growth and are going to remain so for decades to come (Figure 8).[68] [69] The growing prominence of developing economies is reflected in the growth of consumption in low and middle-income countries. For instance, it has been estimated to be increasing at between 6% and 10% per year, in contrast to less than 1% in developed economies.[70]

Figure 8: Proportion of world GDP accounted for by developing countries (constant $, PPP) 2000 - 2022



Source: IMF

With their increasing demand for imported products (Table 2) there is considerable potential for UK goods-selling SMEs to win customers in these economies, whether they are current exporters that want to expand their exporting activities or "considerers" looking to internationalise.

Table 2: Average growth rate and increase in the demand for imported goods in developed and developing economies, 2000 - 2022

	Developed economies	Developing economies	Difference
Annual average growth rate	1.8%	5.2%	3.4%
Annual average growth in imports	3.9%	6.8%	2.9%

Source: IMF

The attractions of emerging markets for exporters and "considerers"

Reasons why currently exporting SMEs target emerging markets

SMEs themselves place "demand conditions" as preeminent amongst the reasons they already do or would look to sell into developing countries (Table 3). [xvi]

Table 3: Most frequently cited reasons for the attractiveness of emerging markets[xvii]

	Exporters currently exporting to emerging markets		Exporters considering expanding into emerging markets		Considerers looking to initiate exporting to emerging markets	
1	Demand	33%	Untapped customers	25%	Untapped customers	28%
2	Trade agreement(s)	27%	Demand	25%	Logistics	28%
3	Untapped customers	22%	Technology adoption	22%	Competition	26%
4	Technology infrastructure	22%	Technology infrastructure	19%	Demand	26%
5	Logistics	22%	Tax/ regulation in the destination market	19%	Trade agreement(s)	26%

Source: Focal Data SME survey

The prominence of "demand conditions" amongst our survey respondents reflected what we heard in the focus group we convened, with SMEs that are already exporting to emerging markets or considering doing so in the near future. For example, some focus group participants described how their interest in low and middle-income economies was directly driven by their growth relative to that of higher income countries:

> *"I've found a general drop off from some of the overseas sides of things…and that's the reason why I looked into new markets and thought, okay…how can I still be in a room, still be in a conversation…and get products on the ground in those locations that may well be fruitful…".*

For a "considerer" in the same focus group, the prospect of new customers beyond their domestic base was the key motivation for looking at emerging markets:

[xvi] "Demand conditions" reflects both the existing demand for a product type that a business could look to grab a share of in an emerging market, and the prospect of latent demand for their product or products in a developing economy that could be unleashed if it was made available.

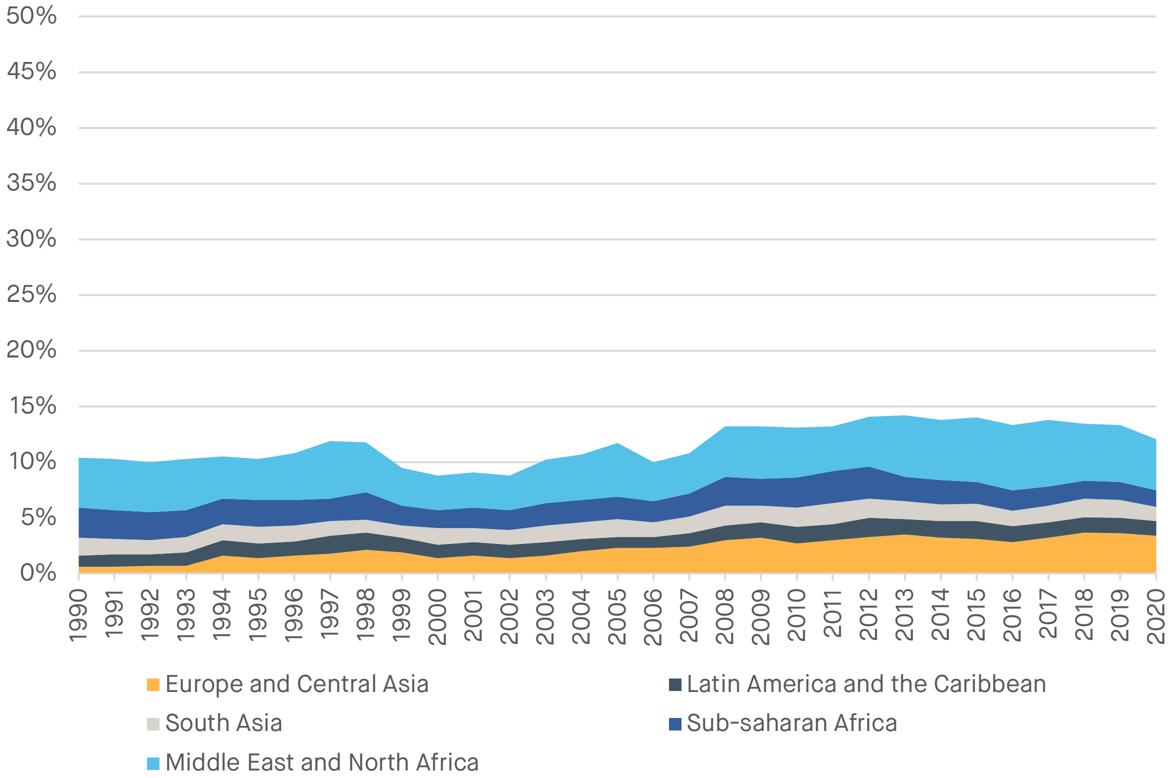
[xvii] The full set of responses can be found in Annex 5.

"…it would help the business to grow…the more we sell, the more our turnover is. So that's the principal, keeping the brand going, getting the brand more well known".

The UK is not taking full advantage of the potential of emerging markets

Despite the potential for goods export growth offered by the increasing levels of consumer demand in low and middle-income countries, the UK's export diversification into such markets has been slow. For instance, over the period 1990 to 2020, World Bank data indicates that, overall, it rose by just under two percentage points.[xviii]

Figure 9: Share of total value of UK goods exports to low and middle-income countries in a variety of the regions of the world, 1990 - 2020



Source: World Bank

The latest data from DBT on the destinations of UK exports reinforces this picture of UK firms not yet fully seizing the opportunities presented by developing countries. It shows for example, that China and India are the only two emerging markets in the UKs top 20 export destinations.[71]

[xviii] It was estimated in one study that a standard deviation increase in trade partner diversification is associated with a 1 to 1.5 percentage point increase in the annual national income growth rate. Source: Ali Sina Onder and Yilmazkuday, 'Trade Partner Diversification and Growth: How Trade Links Matter', Working Paper, 2016, https://digitalcommons.fiu.edu/cgi/viewcontent.cgi?article=1113&context=economics_wps.

The barriers to entering emerging markets are high

The cost of exporting to emerging markets is greater than for developed economies

A key reason why UK SMEs have not yet maximised the opportunities offered by emerging markets is that the costs associated with exporting to such countries are considerably higher than for high income economies (see Table 4).

Table 4: Average combined manufacturing and agriculture ad valorum equivalent non-tariff trade costs for developing economies, 2018

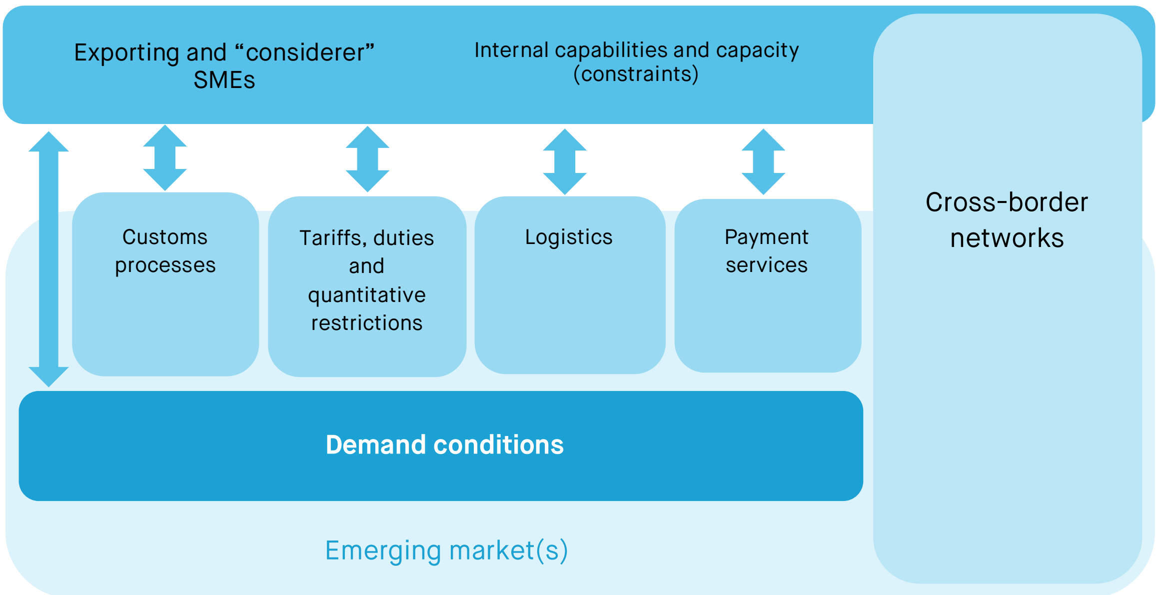
Type of economy	Ad valorum equivalent tax
High-income trade with upper middle income	202%
High-income trade with lower middle income	234&
High-income trade with low income	283%
Average for all developed economy - emerging economy trade	240%

Source: Arvis, J-F et al (2013) and SMF calculations

The most prominent barriers to exporting into emerging markets

The nature of the barriers which hinder exporting to emerging markets were explored by the Emerging Markets Working Group (EMWG), which was set up under the auspices of the E-Commerce Trade Commission. Its analysis identified seven categories of obstacles which are likely to be particularly significant for SMEs looking to export into developing economies (Diagram 4).

Diagram 4: Categories of barriers to successful SME exporting into emerging markets



Source: E-Commerce Trade Commission's Emerging Markets Working Group

Variation in the nature of the external barriers across emerging markets

The EMWG observed that the exact nature and magnitude of the barriers will vary depending on the individual emerging market.[xix] [xx] This was echoed in our emerging markets focus group where one existing exporter noted that, to succeed in a particular market, an exporter has to accept each country on its own terms, have a flexible strategy and adapt to the rules of the economy that is being targeted:

> *"I ship to low and middle income countries, but...a lot of people, they don't want somebody to ship from here to there, they want a distributor in their city or country...so that's what I've come up against in some places...".*

Breaking into emerging markets

Efforts which reduced some of the particularly high costs associated with exporting to emerging markets (Table 4) will help more UK SMEs enter these export markets, with one study suggesting that every 1% reduction in trade costs can boost export diversification by 0.3%.

SMEs often utilise innovative strategies in order to penetrate developing countries

Policy can help to create a lower friction trade environment but SMEs also have to purposefully seize the market entry opportunities offered up by low and middle income countries. Our research showed that one way in which SMEs win sales in emerging markets, is through a strategy of developing cross-border relationships with in-country agents and partners. For example, a number of participants in the emerging markets focus group described how important cross-border networks were to successful entry into developing economies, despite being e-commerce firms:[xxi]

> *"I've got quite good networks on the ground…and my approach to do more exporting is to try working with local businesses to actually form a relationship so that I can provide wholesale, which therefore means that it might help to reduce the barriers to entry to people...in Brazil or Jamaica...that might like my products".*

[xix] Analysis has suggested that the total cost of trade to emerging markets can vary from the equivalent of a 30% ad valorum tax to 600%, as a result of variables such as geography, the quality of a country's institutions, the product types, etc. Source: Salamat Ali and Chris Milner, 'Trade Costs and the Composition of Developing Countries' Exports', Research Paper, Research Paper Series, 2015, https://www.nottingham.ac.uk/gep/documents/papers/2015/2015-13.pdf.

[xx] For a more detailed account of the kinds of specific barriers that, in three of the most important emerging markets, act as obstacles to UK SMEs exporting to them, see Tables 6, 7 and 8 in Annex 6.

[xxi] The importance of networks is reflected in the findings of the utility of diasporas for international trade, as had been identified in research into diasporas in Canada and the propensity of immigrant-led businesses to export. Source: Nancy Blanchet, 'Immigrant-Led SME Exporters in Canada' (Office of the Chief Economist, Government of Canada, 2021), https://www.international.gc.ca/trade-commerce/inclusive_trade-commerce_inclusif/sme-exporter-pme-exportatrice.aspx?lang=eng.

Developing such networks comes with costs, but they are frequently lower than those associated with alternative options.[xxii] Another participant related their experience of the advantages of using an in-country partner:

> *"I go through an intermediary, onshore…because I want to understand how it works. And I would want some reassurance to know, I'm not going to lose my money".*

Trade tech can help facilitate exporting to emerging economies

One way in which trade tech can help catalyse exporting to developing countries is through creating opportunities for UK SMEs to make the cross-border connections with agents and partners in target countries. This useful function was noted by several attendees of the emerging markets focus group, who had themselves used trade tech to do this.

Another way trade tech can support SME trade with emerging markets is through its role in reducing some of the "at the border" costs, which are comparatively high compared to those of developed economies. In its simplest form this could involve the digitisation of the export paperwork. A study of the likely impacts on the costs of intra-Asia trade from document digitisation alone suggested that it could cut the "time to export" by 24% and the direct costs of exporting by 17%.[72]

Over time, as more of the trade process becomes digitalised, more developing economies are likely to introduce STW systems.[73] Indeed, one analysis noted that some developing states such as Columbia, Indonesia and Vietnam had already made considerable investments in STW systems.[74]

Boosting UK SME exports to developing economies will require action across multiple fronts

The difficulties of exporting to emerging markets makes the influence of the key enterprise characteristics that are linked to export success (e.g. size and productivity, etc), even more salient. In-turn, this implies that it is particularly important to ensure that smaller firms considering entering emerging markets have the internal capacity and capabilities, to manage the greater challenges associated with exporting to such economies.

The significant external barriers which make exporting to low and middle-income countries particularly costly suggests that there is a significant role for trade tech to help SMEs ameliorate these high trade costs. Similarly important are bilateral, plurilateral and multilateral efforts to reduce the costs of trade between developed and developing countries. Instances where trade tech adoption and intensification of use come together with bilateral, plurilateral and multilateral measures to facilitate

[xxii] Such contacts not only provide important intelligence about a local market but can help ensure businesses are able to target the most appropriate market segments, that any translation that is needed is suitably tailored to local cultural mores, that regulations and taxes are complied with and any problems with delivery or payment can be dealt with locally by someone who can navigate the commercial environment in the destination market effectively.

trade, could deliver a considerable easing of the trade environment for SMEs with developing economies.

Increasing exports to emerging markets will also require more SMEs to be aware of and understand the new customer opportunities that they present and then be willing to take the risks and manage the costs associated with export to such countries. Given the possibilities for export growth (see Figure 8 and Table 2) developing countries should be a more prominent consideration early on in the SME "export journey" illustrated in Diagram 3. However, there is little data on the scale of the potential pool of SMEs that could be in a position to initiate exporting to developing economies in the near future, whether currently exporting firms (to high-income countries) or not. Therefore, ensuring the "considerer" portion of the UK's SME community and those currently exporting only to advanced economies, are aware of the emerging markets opportunity, is going to have to be a broad effort. Although this could become more targeted by perhaps focusing on a limited number of emerging markets with the highest export growth potential.

Recommendation Five: The integrated industrial and trade strategy should include a plan for seizing the opportunities presented by the growth in emerging markets

More specifically, that plan should include:

- A pledge to work with industry to identify a number of "high e-commerce potential" developing economies that would be subject to targeted and intensive efforts (e.g. additional trade delegations) to help more UK SMEs penetrate these markets.
- A proposal to work with industry to develop a specific promotion campaign aimed at encouraging SMEs to consider exporting to the "high priority" countries, especially through e-commerce channels.
- A plan to pursue bespoke agreements with "high e-commerce potential" countries to make e-commerce easier by reducing some of the key "at" and "behind" the border costs of trading in goods with them.

Building on the prioritisation exercise, the government should co-develop with business a campaign to highlight the potential of these developing economies as sources of customers to the SME community. It should aim to encourage existing exporting SMEs to expand into those emerging markets and "considerers" to start to export to them.

To complement the raising of awareness, the government should focus trade agreement negotiations on the "high e-commerce potential" states. Further, because comprehensive preferential trade agreements may not be realistic in the short-to-medium term with such countries, these negotiations should pursue narrower agreements focused upon tackling some of the main external barriers to e-commerce goods trade. Key elements to target with such measures could include:

- Making cross-border data flows easier.

- Putting in place sizeable *de minimis* exemptions from tax and duty obligations for goods exports.
- Mutually recognising conformity assessment bodies and certifications and ensuring there are risk-based inspection regimes at or behind the border.
- Simplifying rules of origin requirements for goods.
- Recognising digital documentation and agreeing joint plans to work towards digitalising as much of the entire trade process between each signatory country as possible, including supporting the development of STW systems.

The WTO's Technical Barriers to Trade Treaty[75] and Trade Facilitation Agreement[76] provide the foundation upon which such bespoke easements can be pursued. Further, the newly agreed WTO Joint Initiative on Electronic Commerce (E-Commerce) should provide additional impetus for such efforts, as its provisions set out a number of minimum obligations in several of these areas.

CHAPTER FIVE – BOOSTING THE NUMBER OF FEMALE-LED EXPORTING SMES

The UK lags behind other countries in the proportion of female-led SMEs that export

The UK does less well than Canada in the proportion of female-led SMEs that export

Official data suggests that 19% of SMEs are run by women.[77] Of the 5.6 million SMEs operating in the UK, this implies that just over 1 million are female-led firms.[xxiii] Further, estimates indicate that around 7% (approximately 65,000) of female-owned SMEs in the UK already export. By contrast, in Canada for example, in 2020, it was found that just over 10% of female-owned smaller firms exported.[78]

The Canadian experience implies that the UK could boost the number of female-led exporting firms

The Canadian experience shows that in principle, the UK could boost the proportion of female-led firms that export. If the UK were to move closer to Canada's position, it would likely see another 35,000 female-led firms start exporting. This would enable the UK to get halfway towards reaching the E-Commerce Trade Commission's ambition of boosting the number of goods-exporting SMEs by 70,000.

The obstacles to more UK female-led firms from becoming exporters

The main constraints on female-led businesses initiating export, are found in the nature of many female-owned businesses

The research that has been undertaken into female-led SMEs and the challenges to exporting which they face, has identified that the characteristics typically associated with female-led firms are key reasons behind the comparatively low propensity to export. As one study pointed out:[79]

> *"…it is not being a woman per se that impacts export decisions, but the…characteristics of firms managed or owned by women that bear a disadvantage for exporting…[with] Women…over-represented in sectors with lower value-added and less export intensity, and among smaller enterprises".*

This finding chimes with those of the Rose Review into female entrepreneurship in the UK.[80] It made a number of observations about the characteristics of female-led SMEs in the UK such as the tendency for female-owned firms to be found in lower productivity sectors and generate less turnover than those enterprises run by men (see Box 5). Rose's observations about the typical features of female-owned smaller businesses in the UK help explain why female-led SMEs in Britain are less likely to export.

[xxiii] A further 15% are co-owned with men. Source: Prowess Team, 'Latest UK Women in Business Statistics 2023', Prowess: Women in Business, May 2023, https://prowess.org.uk/facts/.

Box 5: The characteristics of female-led SMEs

- Women-run businesses have, on average, lower turnover, with the typical female-owned firm, having around 40% of the turnover rate of male-led businesses.
- Female-led SMEs are five times less likely to scale to £1 million in turnover than their male counterparts. Further, 29% of male entrepreneurs grow their businesses to between £1–50 million turnover, whilst 13% of women running businesses do so.
- Women-owned enterprises are less likely to be found in the highest productivity sectors, such as financial services and manufacturing. In addition, they make up less than a quarter of businesses in the UK's five most productive sectors. Female-owned businesses in those sectors also tend to be smaller than male-led ones.[xxiv]
- Female-led small firms with employees are disproportionately found in sectors where export prevalence tends to be lower, such as education, health, arts and entertainment, personal services (e.g. hairdressing and beauty) and accommodation and food.[81] A similar distribution is found amongst sole trader female businesses, too.[82]
- Female-run businesses are more likely to be part-time operations and to cease trading for personal reasons.[83]
- Longevity is broadly equally distributed amongst male and female-led firms, with around three-quarters (73%) of firms in both categories surviving for longer than 3.5 years.

Sources: Rose, A. (2019); Carter, S., Ram, M., Trehan K and Jones, T. (2013) and Prowess (2023).

The typically smaller female-led enterprises find that the external constraints on exporting are relatively greater than for male-led SMEs

In the focus group which we conducted with female business owners, the challenges associated with firm size were prominent in the discussion. When participants were questioned about the difficulties associated with exporting, one contributor concisely highlighted the downsides that result from being small:

> *"There is just so much paperwork…for a small business, if you get it wrong, it will have cost implications… while larger businesses have more resources that they can commit to figuring things out. Things are just not that easy for us as a micro…".*

[xxiv] 81% of female businesses employ five people or less compared to 73% of businesses owned by men. Source: Alison Rose, 'The Alison Rose Review of Female Entrepreneurship', 2019, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/784324/RoseReview_Digital_FINAL.PDF.

Another noted that being a very small business constrained her and her colleague's ability to devote the time needed to deal with the formalities of the export process while continuing to operate the core business:

> *"It affects everything, because our time is valuable, and it's just us…there are two of us in the business and if we have to spend time researching the taxes and how to export correctly and so on, it takes our time away from making our products, and business development".*

A significant proportion of the external initial and recurring costs associated with exporting are fixed and therefore fall most heavily on the smallest of firms. Therefore, the combination of tending to be smaller, with lower turnover and productivity than male-led firms, and sometimes operating on a part-time basis amongst other characteristics, means that, typically, female-owned businesses are less able to bear the cost and take the risk of internationalisation.

Illustrating this difficult situation was a "considerer" business in the focus group of female-led businesses we convened to help inform this report. The owner-manager summed up her experience of contemplating becoming an exporter and the daunting prospect of tackling the new costs such a development would impose:

> *"I haven't started that process….so this is future thinking for me…I've sent parcels abroad to family members, and just sending anything, you have to fill out the biggest form…and I'm thinking if I export, if I've got to do that every time, it's so labour intensive, it seems ridiculous for small items…".*

One implication of the size challenge is that measures which could ameliorate some of the external burdens associated with exporting could have a disproportionately positive effect on the export propensity of female-led businesses. Conversely, measures which add to the cost and complexity of exporting are likely to make the trade environment harder to navigate and a less attractive prospect for the smallest enterprises which, as we have seen, female-owned enterprises are more likely to be. For example, the €150 customs duty *de minimis* exemption which currently applies to low value imports into the EU, is almost certainly going to be eliminated in the near future.[84] It is probable that this will act as another "at the margin" deterrent to exporting for some smaller enterprises in general and amongst micro-firms in particular.

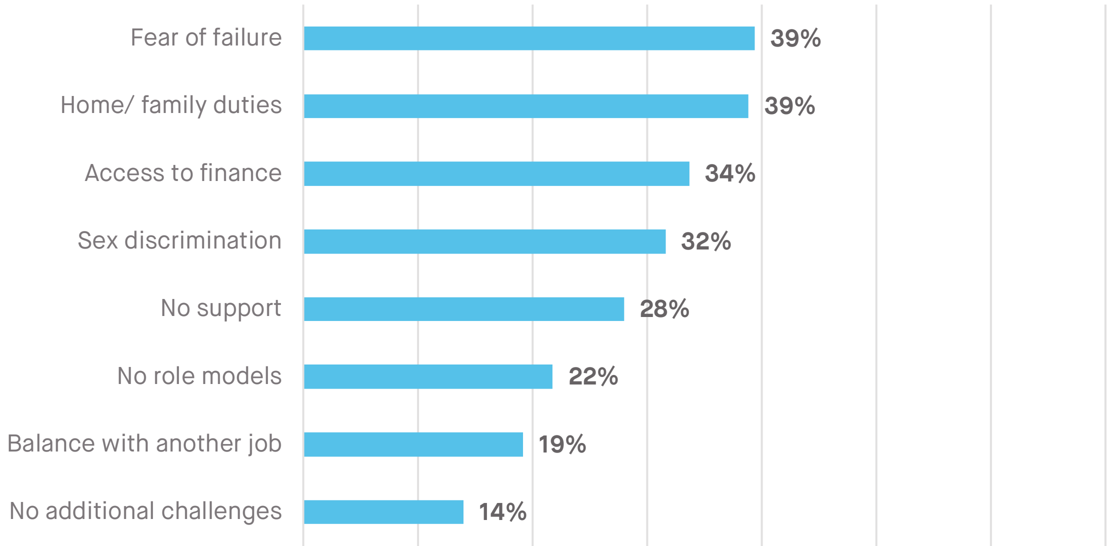
The underlying reasons behind the characteristics of female-owned SMEs

Women entrepreneurs can face additional challenges, which help to determine the characteristics of many female-led firms

There are multiple reasons behind the numerous differences in the typical characteristics of female and male-led SMEs. Whilst all smaller firms face considerable challenges, often of a similar kind, some difficulties tend to be more common amongst female-led enterprises and in-turn impact them more intensively.[85] [86]

The most salient of these challenges are listed in Figure 10. Our survey results show that female business leaders in both currently exporting and "considerer" SMEs reported a fear of failure (39%) and the need to balance commercial activities with family obligations (39%) as the two most frequently experienced additional challenges that impact on their ability to run their business.

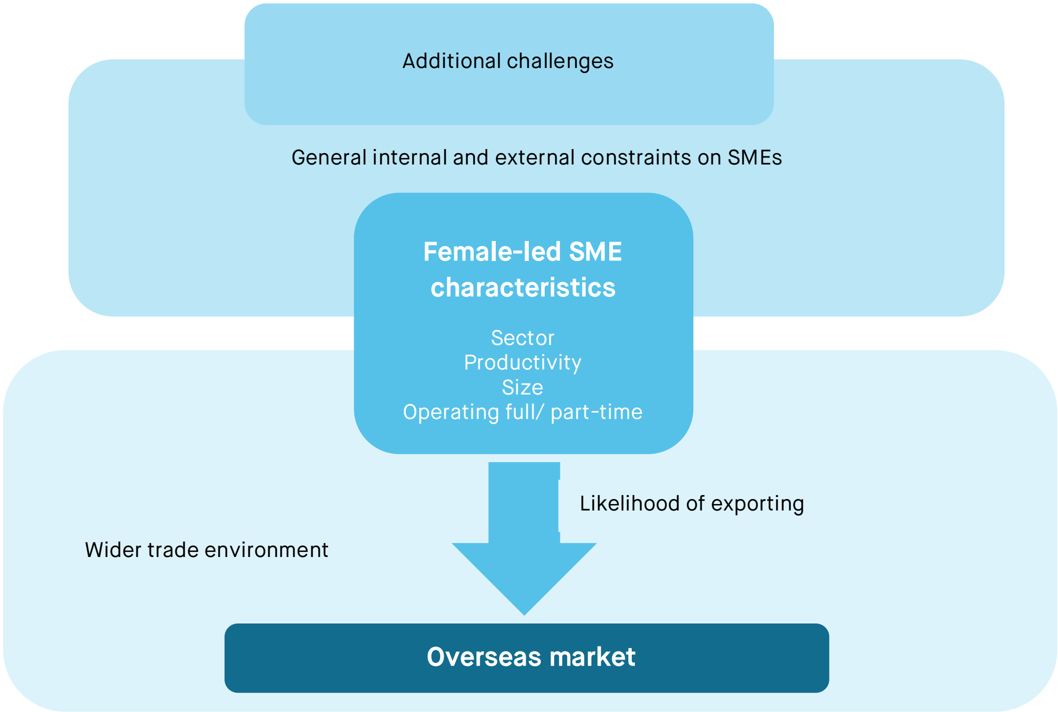
Figure 10: Additional challenges impacting female business leaders in e-commerce SMEs



Source: Focal Data SME survey

The combination of the additional challenges and the more general internal constraints and their subsequent influence on the typical characteristics of female-owned small businesses, alongside the external barriers to exporting faced by UK SMEs, ultimately have considerable influence on the propensity of such firms to internationalise through becoming exporters (Diagram 5).

Diagram 5: The factors holding back UK female-led SMEs from entering into export markets



Sources: Rose Review (2019), Enterprise Research Centre (2014) and E-Commerce Trade Commission's Gender and Exporting Working Group

A role for policy to help increase the proportion of female-owned exporters

The case for targeted interventions

One implication of the accumulated evidence on female-owned businesses is that, in order to increase the proportion which export, some attention will need to be paid to trying to reduce the salience of the additional challenges that play a role in determining those characteristics more common amongst female-led SMEs that limit export potential, e.g. their tendency to be smaller, of lower productivity than their male equivalents and more typically found in sectors with lower export potential. On the basis of the persistence of these factors, and the observation that, comparatively, countries such as Canada show clearly that the proportion of female-led exporting SMEs can be higher, the Commission's Gender and Exporting Working Group argued that there is a case for:

> *"…targeted policy interventions aimed at supporting women in e-commerce".*

Interventions to ameliorate some of the additional challenges facing female-owned businesses

The findings presented in Figure 10 illustrate which and the scale of the specific challenges that policymakers should look to address. The Commission's Gender and Exporting Working Group looked at e-commerce businesses specifically and argued that there are a multiplicity of interventions which could, together, help to make a significant positive difference to the number of female-owned e-commerce SMEs that export. Albeit, the individual impact of a measure may be small, the cumulative effect is likely to be large, especially if interventions are given time, lessons from past experiences and other countries are learnt (where possible) when being developed and schemes are also adjusted in light of implementation experience.

Policymakers could benefit from looking at what actions other countries have taken to try towards trying to ameliorate some of the challenges facing female-owned businesses in general and women-owned exporting firms in particular. More specifically, there could be inspiration in and even detailed lessons to be learnt from, what initiatives other countries have in place to try and ameliorate problems such as the fear of failure amongst a significant minority of female business leaders, the access to finance struggles, the feeling that there is an absence of adequate support and too few role models for female entrepreneurs, amongst the others. Table 5 provides a brief overview, taken from the deliberations of the Gender and Exporting Working Group of what other countries have done to help female entrepreneurship in general in some cases and encourage the internationalisation of female-led SMEs in others.

Table 5: Examples of support for female-led businesses in a selection of countries

Country	Scheme	Additional challenges targeted
Canada	The Canadian government has been operating the Business Women in International Trade Initiative (BWIT) for a number of years.[87] A central aspect of this programme has been leveraging existing female-business networks to reach out to female entrepreneurs about the potential commercial benefits of exporting.[88] Another is the provision of funding for trade missions specifically for female-led SMEs along with facilitating access to sources of export finance more broadly, such as export insurance offered by Export Development Canada.[89] Start-up Canada, in partnership with logistics firm UPS, has been running the Women Exporters Programme, which has involved the delivery of information about the mechanics of exporting through webinars, advice from mentors and advisors and gain access to "in-kind" shipping credits and discounts from the partner organisation.[90]	Confidence, Access to financial support
Sweden	Sweden's "Almi Företagspartner" helps to channel finance towards SMEs, including micro-loans specifically targeted at female entrepreneurs.[91] The micro-loans scheme is aimed at addressing the financial needs of early-stage female-led firms.[92] In addition, Almi offers business development advice alongside its financing activities.[93]	Access to financial support

Rwanda	Rwanda has pursued attitudinal shifts towards entrepreneurship amongst women in the country by promoting business as a desirable and achievable career option.[94] A concerted national campaign and changes in education have helped to shift cultural attitudes.[95]	Confidence
United States	The Small Business Administration's (SBA) Office of Women's Business Ownership operates a network of Women's Business Centers.[96] These deliver free or low-cost mentoring and training to women that want to start-up or grow their business. They also facilitate access to other SBA resources such as loan guarantees as well a finance matching service, as well as help with winning government procurement contracts.[97]	Confidence, Access to financial support

Source: E-Commerce Trade Commission's Gender and Exporting Working Group

Trade tech is an enabler of female-led exporting enterprises

Trade tech can help female-led businesses to negate the size and productivity obstacles to exporting

As highlighted in Chapter Three, trade tech has a potentially significant role to play in easing some of the constraints on SMEs and reducing the external barriers to exporting. Further, the opportunities that trade tech presents to help facilitate exporting by female-led e-commerce SMEs specifically are perhaps greater still. This is because of the way trade tech can ameliorate or compensate for some of the disadvantages of factors such as size, which, as has been highlighted, women-run enterprises are more commonly limited by.

Indeed, the importance of e-commerce platforms specifically as facilitators of exporting by female-led businesses was an observation repeated by both the Commission's Gender and Exporting Working Group and several of the female entrepreneurs in our focus group. For example, the former concluded its deliberations by noting:

> *"...platforms have empowered numerous female entrepreneurs to reach global markets without the need for significant upfront investment...".*

In the female business-owner focus group that we convened, one participant lauded the role which digital marketplaces had played in helping them to export:

> *"It is very easy to list and sell items and then to sell around the world... although its only one item at a time, it's still a very good way, for say, some of these people that haven't actually broken into export markets, to get your products out into the world because anyone can literally look at those products and order them as long as you list it correctly".*

According to another focus group contributor, there were notable advantages in using an e-commerce platform for selling abroad, over operating a company website:

> *"I found the platform to be very good, especially in the initial stages… that's because the platform is obviously a lot bigger than I'd be able to get by myself, starting out".*

The evidence collected by the Commission's Gender and Exporting Working Group and in our focus group on, the importance of e-commerce in general and specific benefits of tools like digital marketplaces, is consistent with that from elsewhere. For example, research into Canadian female-led businesses found that e-commerce was a key factor behind their comparative exporting success.[98] More specifically, analysis showed that, if firms such as female-led businesses engaged in e-commerce, the likelihood that they would internationalise, i.e. begin exporting, increased fourfold.[99]

Reflecting female-led firms in an integrated industrial and trade strategy

A number of the recommendations in earlier chapters such as those around boosting the adoption and the intensification of use of trade tech or extra financial assistance with starting to export are likely to disproportionately positively benefit female-run enterprises because of the particular additional disadvantages many experience on top of the regular constraints and obstacles that SMEs face over exporting.

Nevertheless, In order to ensure that the opportunities for female-led enterprises to contribute to the UK's export efforts are maximised and because of the particular circumstances in which large numbers of female entrepreneurs with the ambition to export find themselves, the case for further female specific actions is a strong one. The evidence on the efficacy that the right kinds of business support measures can have reinforces the justification for measured intervention in this area.[100]

Recommendation Six: The proposed integrated industrial and trade strategy should aim to increase the number of UK female-owned goods-selling SMEs which export

Specifically, to help achieve the ambition, the strategy should:

- Set a target of helping 35,000 additional female-led goods-selling businesses to export by 2030, i.e. half of the 70,000 the E-Commerce Trade Commission is aiming to help encourage to start exporting.
- Lay down an agenda for DBT's Export Champions and Export Advisors to target more female-led SMEs for encouragement and support.
- Outline a plan to work with business groups and firms in order to develop a national mentoring scheme for female entrepreneurs.

An ambitious target for policymakers to strive to hit would help to embed female-led firms as a key focus of DBT's general efforts to boost SME exporting. Further, the Canadian experience indicates that 35,000 – half of the 70,000 uplift that the Commission hopes to see – is an achievable goal over time.

To deliver on the ambition, a concerted effort by DBT's Export Champions and its cadre of regionally based International Trade Advisors (ITA) to encourage and provide advice to female-led SMEs specifically will be required. Further, DBT should look to strengthen partnership working with existing initiatives such as Invest in Women, especially at local and regional levels, as channels for helping to spread awareness of the potential benefits of exporting and the opportunities for support to begin to do so.[101] [102]

The lessons from Canada's comprehensive efforts to encourage female-led businesses and exporting should be heeded by UK policymakers interested in boosting the propensity for female-owned firms to export, as should previous efforts to help female-led SMEs in the UK more broadly.[103] With those lessons in mind, DBT should build into its businesses and export support efforts a strong focus on female-led enterprises. One option is to go as far as replicating the Women Exporters Programme. Certainly, the government should look to boost the availability of mentoring.[104] The latter can be particularly helpful in tackling the fear of failure and the absence of role models, which many women business leaders report as additional barriers for them.[105]

Therefore, a national export mentoring scheme for female-led "considerer" SMEs should be established. Inspired by the Women Exporters Programme, perhaps it could be part-funded by sponsorship from the private sector. To maximise its reach amongst female-led "considerer" firms and ease of access, potential candidates should be able to access this initiative through a range of channels, i.e. not only government but major e-commerce platforms and logistics providers, too. This would necessitate working with industry to develop and deliver it.

ANNEX 1: SURVEY SAMPLE DETAILS

Table 9: Survey respondent demographics

Sample	Demographic variable	Sample details	Proportion of total
All	Size	0-10 employees	23%
		11 - 50 employees	31%
		51- 249 employees	46%
All	Nature of products	Goods only	25%
		Goods and services	75%
All	Customer base	Consumers only	14%
		Mostly consumers	34%
		Equal: consumers and businesses	33%
		Mostly businesses	15%
		Businesses only	4%
All	Decision-maker respondent status	Director	68%
		Non-director senior decision-maker	32%
All	Sex of decision maker respondent	Male	63%
		Female	37%
All	Region	North East England	4%
		North West England	11%
		Midlands	18%
		East of England	7%
		Greater London and South East England	35%
		SW England	6%
		Yorkshire and Humber	8%
		Northern Ireland, Scotland and Wales	9%
All	Utilisation of technology	As much as possible	43%
		Somewhat	38%
		A little	17%
		Not at all	2%
All	Export status	Current exporter	58%
		"Considerer"	42%
Exporters	Proportion of revenue from exports	Less than 25%	20%
		25% - 50%	53%
		51% - 75%	22%
		76% - 100%	4%

ANNEX 2: FOCUS GROUP PARTICIPANT DETAILS

Table 10: participant profiles – female-led SMEs focus group

Type of business	Size	Export status	Routes to market
Music/ records/ recordings production wholesale and retail	Micro	Exporter	E-commerce platforms, website, in-country agent/ distributor
Eyewear production and retail	Micro	"Considerer"	E-commerce platforms, website
Clothing retail	Micro	"Considerer"	E-commerce platforms, website
Health and wellbeing manufacture and retail	Micro	"Considerer"	E-commerce platforms, website
Clothing retail	Micro	Exporter	E-commerce platforms, website
Beauty manufacture, wholesale and retail	Small	Exporter	E-commerce platforms, website, in-country agent/ distributor
Jewellery manufacture and retail	Micro	Exporter	E-commerce platforms, website
Gifts manufacture and retail	Micro	"Considerer"	E-commerce platforms, website

Table 11: focus group profiles – emerging markets focus group

Type of business	Size	Export status	Routes to market
Health and wellbeing retail	Micro	Exporter to emerging markets	E-commerce platforms, website
Gifts manufacture, wholesale and retail	Micro	Exporter to emerging markets	E-commerce platforms, website
Gifts manufacture, wholesale and retail	Small	"Considerer" - emerging markets	E-commerce platforms, website
Music/ recordings retail	Micro	"Considerer" - emerging markets	E-commerce platforms, website
IT development and retail	Micro	Exporter to emerging markets	E-commerce platforms, website, in-country agent/ distributor
Clothing retail	Micro	"Considerer" - emerging markets	E-commerce platforms, website, in-country agent/ distributor
Photography accessories wholesale and retail	Micro	Exporter to emerging markets	E-commerce platforms, website
Health, wellbeing and beauty	Small	"Considerer" - emerging markets	E-commerce platforms, website

ANNEX 3: SPECIFIC IMPROVEMENTS FOR EXPORTERS THAT TRADE TECH COULD HELP BRING ABOUT

The ways in which trade tech might be beneficially applied to SMEs and their exporting activities in the coming years was central to the discussions of both the expert AI and New Technology Working Group operating under the oversight of the Commission and the expert roundtable on trade tech which SMF convened in April 2024.

End-to-end digitalisation of export processes

Joining up exporters, logistics providers and e-commerce platforms

One expert contributor to the roundtable advised that they eventually expected digitalisation to be able to seamlessly link up the export process and therefore increase the overall speed of exporting:[xxv]

> *"It's about trying to come up with some solutions between the logistics companies, small businesses, platforms…but even beyond that, ones for SMEs who can benefit from those improvements".*

AI to automate processes and reduce duplication

Our survey found that 37% of exporting SMEs suggested that AI could make a significant positive difference to exporting over the next five years. This chimed with the views of the experts at our roundtable where the potential of AI was strongly touted. A similar view was also found in the conclusions of the Commission's AI and New Technology Working Group. One of the participants in the latter stated that:

> *"…using generative AI to automate business processes around international commerce is the main opportunity area".*

The potential role for AI to ease border "frictions" in particular, was reiterated by a number of the experts at the roundtable:

> *"We see scope for the use of more AI at borders to take out some of the bureaucracy around border processes. That's an agenda I think we should pursue".*

One analysis highlighted the potential gains which could be enjoyed by SMEs from the automation of border process, which "narrow" AI could deliver. The research suggested that such a change could deliver an increase in the value of SME exports and imports of between 4.5% and 6.5%.[106] At the same time, the WTO has estimated that streamlining trade processes, by reducing duplication and speeding up clearances at the border could, if widely adopted, cut trade costs by 6%.

[xxv] One study found that for each additional day that exporting a product is delayed trade falls by 1%. The converse is therefore also likely to be the case, i.e. reductions in the time to export will increase trade. Source: World Bank Document

Integrating transportation services , tax and customs compliance

The most ambitious description of what trade tech might be able to achieve in the medium to longer-term came from another roundtable table contributor. They described the potential for a “smart system” which deal with a range of the compliance challenges that are costly and time consuming for SME exporters, which are fraught with the potential for error and outright failure and consequently involve considerable legal and financial risks:

> *“Trade tech could make the connections to allow, for example, payments in another currency to be done, dealing with the VAT…[and]… the logistics elements, and therefore ensure that consumers in overseas countries can purchase goods, but not have to deal with any nasty and unexpected charges when the goods arrive”.*

Help for improving export related business operations

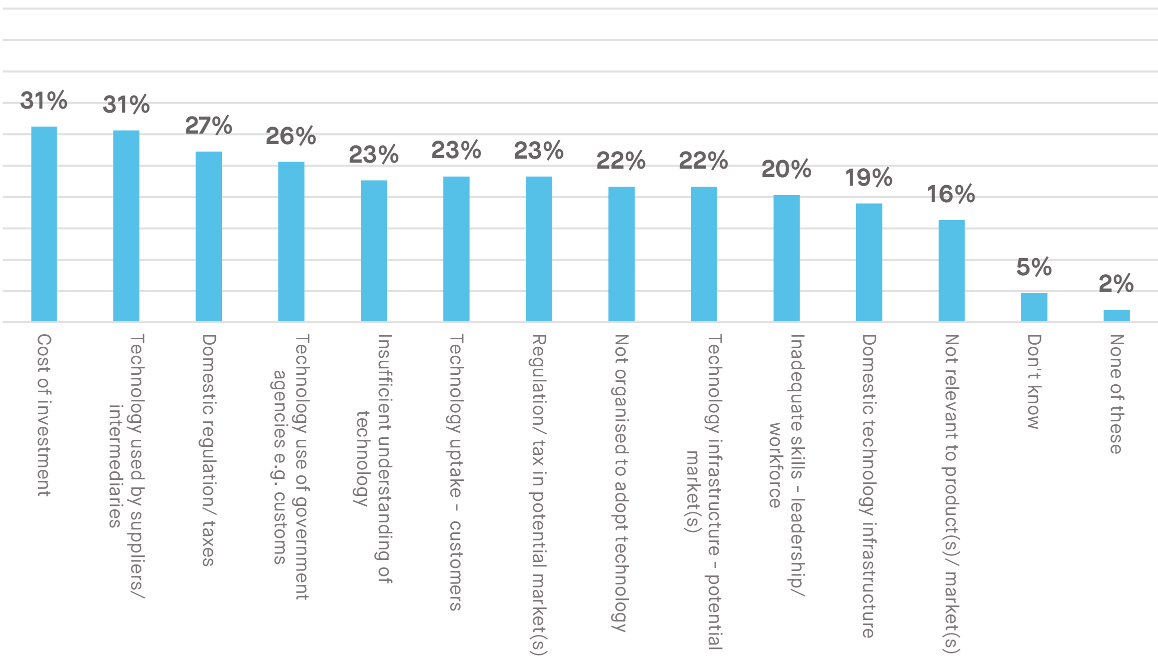
As our SME survey showed, the potential benefits of trade tech are not limited to measures which reduce the external barriers to exporting. Trade tech can also help SMEs to boost their capabilities and improve the quality of their operational activities and therefore, in-turn, ease some of the internal constraints which they experience. This could be expected to have a positive impact on a firm’s capacity to export and consequently their likelihood of doing so successfully. For example:

- Data analytics was selected by 40% of goods-exporting SMEs as a technology likely to make a “significant positive difference” to exporting over the next five years. Greater access by more SMEs to sophisticated systems could put them on a more equal footing with larger businesses and therefore could bring considerable commercial benefits if widely and effectively adopted.[107] Specific gains might include enabling SME managers to make better informed strategic decisions. Not least through helping SMEs to more easily identify patterns in consumer preferences, as well as helping smaller firms to make predictions about future buyer behaviour. Such capabilities could facilitate more personalised marketing, better tailoring of the pricing of products to improve customer reach, higher consumer satisfaction and in-time increased sales and repeat sales.[108]
- AI can help boost access to more overseas markets by virtually eliminating obstacles such as language barriers. One study found that translation services embedded into an e-commerce platform such as eBay increased trade by 17.5%[109] Another estimated that the deployment of AI-driven translation could explain around a third of the variation in exports by manufacturing businesses between different countries.[110]

ANNEX 4: BARRIERS TO TRADE TECH ADOPTION BY SME EXPORTERS AND "CONSIDERERS"

Figure 11 shows what existing exporters find is constraining them, and Figure 12 sets out what "considerers" reported as obstacles to greater trade tech adoption.

Figure 11: Barriers to and constraints on trade tech adoption by exporting SMEs



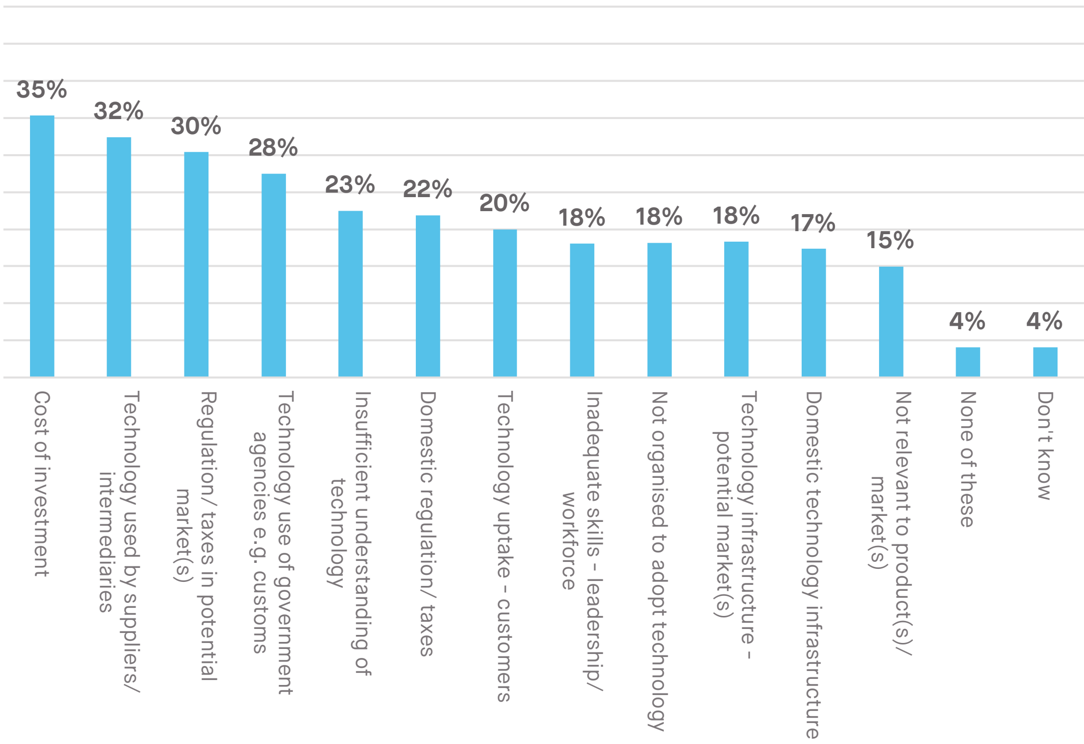
Source: Focal Data SME survey

Amongst exporting SMEs the two most frequently cited barriers were external constraints:

- The costs of the new technology (31%).
- The deployment of technologies by other organisations relevant to the export process (31%), e.g. logistics firms and e-commerce platforms.

Also in the top four most reported obstacles were domestic regulation and taxes (27%) and the use of technologies by government agencies relevant to the export process, such as customs (26%). For example, for a SME to make the resources available to invest in digitising documents and using digital identity programmes, it is important to know these will be legal and therefore accepted by the authorities in the destination country or countries.

Figure 12: Barriers to and constraints on trade tech adoption amongst SME "considerers"



Source: Focal Data SME survey

External constraints also dominated the barriers highlighted by SME "considerers". The most frequently selected obstacles to trade tech which might help to encourage more "considerers" to start to export, closely mirrored those mentioned by existing exporters:

- The cost of investing in trade tech (35%) was the most prevalent answer amongst "considerers" as it was for exporting SMEs.
- The deployment of new technologies by other organisations relevant to the export process (32%).

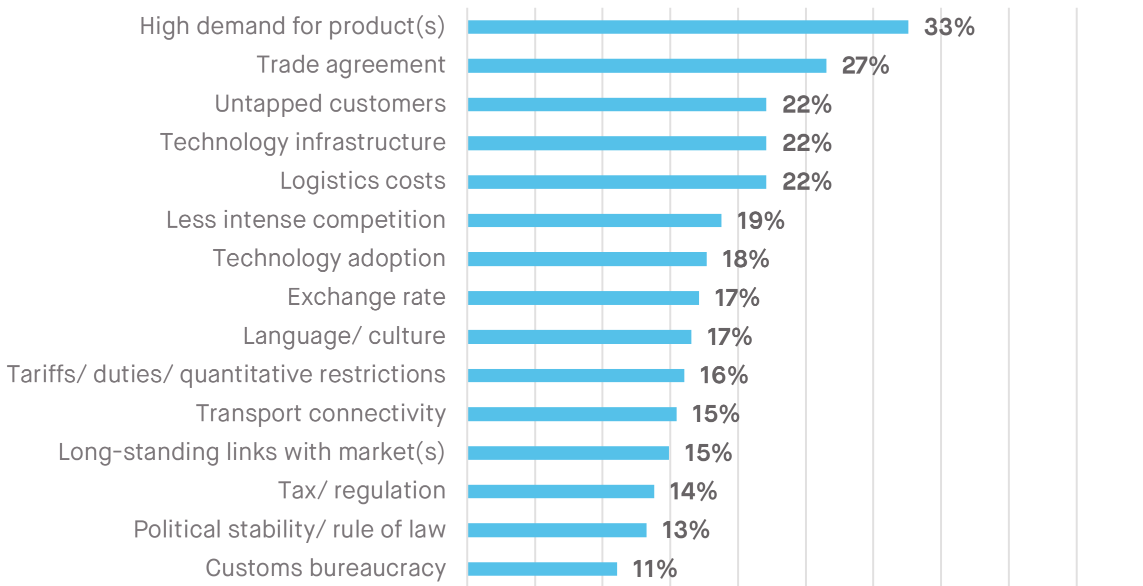
In contrast to exporters, "considerers" reported that the taxes and regulations in destination countries (30%) were more of an obstacle to their adopting trade tech. This was followed by the use of technologies by government agencies relevant to the export process, such as customs agencies (28%).

ANNEX 5: REASONS WHY SMES EXPORT TO OR CONSIDER EXPORTING TO EMERGING MARKETS

Reasons why exporting SMEs sell to emerging markets

Amongst existing exporters which are currently exporting to emerging markets, one of the most frequently cited reasons why, included existing levels of demand for the kinds of products sold by respondents (33%).

Figure 13: Reasons existing SME emerging market exporters consider them attractive export destinations



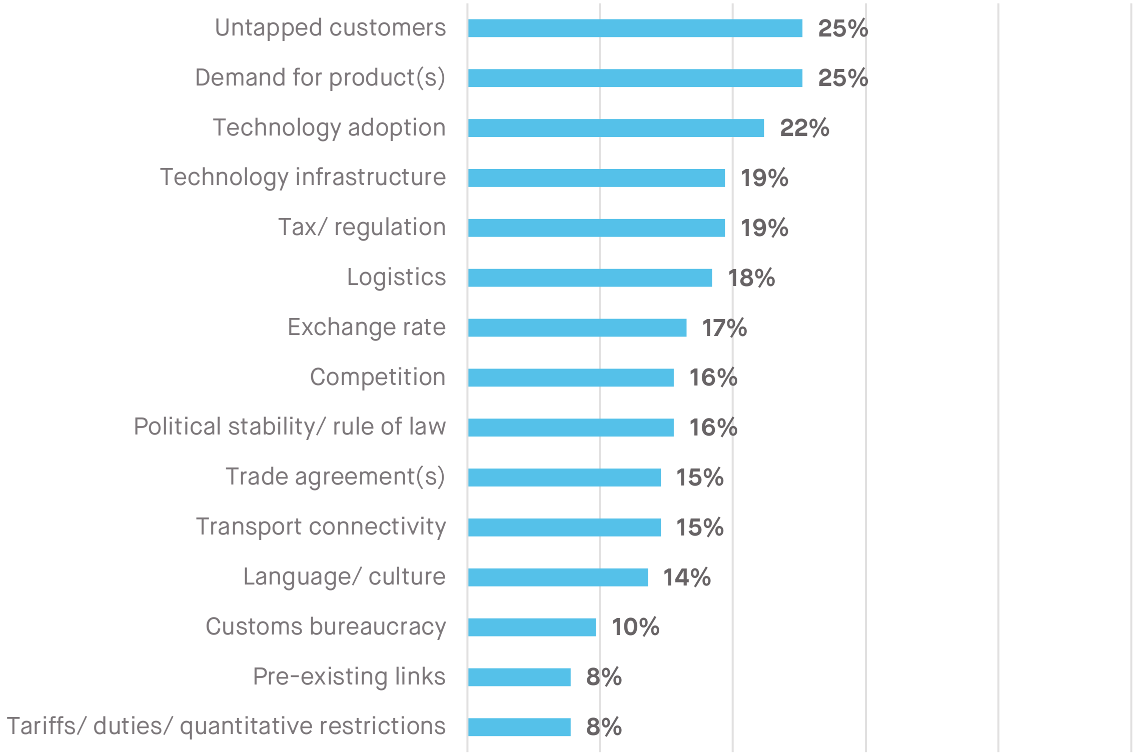
Source: Focal Data SME survey

Amongst currently exporting SMEs that already sell into at least one emerging market, the second most frequently cited reason for exporting there was the existence of a trade arrangement (27%) between the UK and the export destination country. This suggests that for those SMEs that are already experienced in exporting to emerging markets, a sizable minority will utilise the terms of a trade agreement to enter and continue exporting into an emerging market.

Reasons why exporting SMEs considered emerging markets for expansion

Figure 14 sets out the reasons why SMEs which currently export, though have not yet sold into emerging markets, but are considering doing so, contemplated developing countries as potential export destinations for their products.

Figure 14: Reasons existing SME exporters consider emerging markets as attractive export destinations



Source: Focal Data SME survey

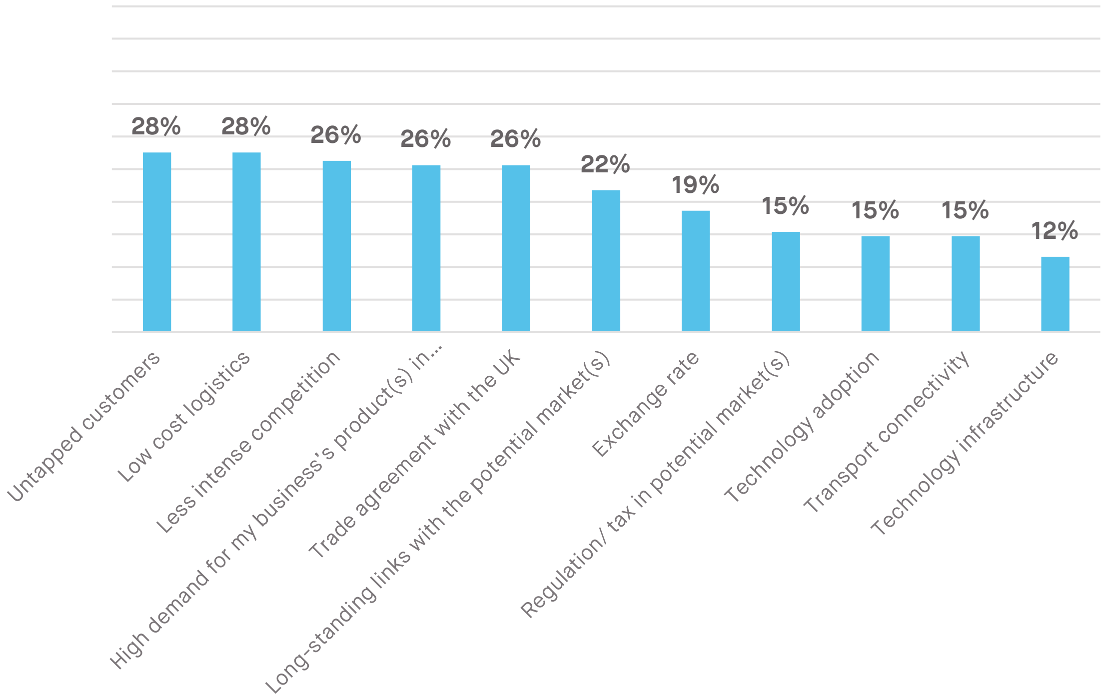
For SMEs already exporting but only considering emerging markets, the two most popular reasons for doing so were:

- Evidence of high demand for the kind of product or products that they sell, for which UK SMEs could compete for a share of (25%).
- Untapped demand, i.e. potential customers not yet being serviced by existing suppliers (25%).

These were closely followed by the adoption of technology by consumers in the relevant emerging market, which makes customers more accessible (22%).

Why currently non-exporting SMEs considered emerging markets as export destinations

Figure 15: Reasons why "considerer" SMEs find emerging markets attractive export destinations



Source: Focal Data SME survey

ANNEX 6: KEY OBSTACLES TO EXPORTING TO MAJOR EMERGING MARKETS

Drawing on the deliberations of the EMWG, Tables 6, 7 and 8 illustrate some of the most prominent challenges to any SME looking to sell into three of the most important emerging markets.

Table 6: Barriers to SMEs exporting goods to China

China	Challenges
Competition	• There is intense competition in China, from both Chinese brands and well-known international brands. Together with the consumer preference for these (see below), it makes market entry challenging for UK SMEs.
Demand	• Chinese consumers predominantly use Chinese e-commerce platforms ,therefore outside firms looking to sell into China would need to use them as selling channels. Chinese consumers tend to eschew the direct use of company websites. Further, they typically prefer m-commerce channels. Therefore, UK SMEs looking to break into the Chinese market would need to take account of these factors. • Chinese consumers tend to buy well-known brand products, which makes it more difficult for B2C SMEs to identify and reach potential demand for their lesser known products.
Language/ culture	• To service the Chinese market, content and customer service available in Chinese language would be essential. This would require SMEs to incur translation costs and perhaps require SMEs to leverage Chinese representatives, agents or staff (if a SME has the latter) with relevant language proficiency. • Chinese cultural nuances and preferences can be very different to those of other markets, therefore, for resource constrained SMEs, it is not necessarily straightforward to utilise routes to market such as Chinese social media (e.g. Weibo, Douyin and RED).
Logistics	• China's size and the wide range of geographical and socio-economic variation can make logistics more complex. • The time and financial cost of organising the storage of products in "bounded warehouse" arrangements, in order to dispatch from within China, can be significant for SMEs. • Shipping to China can be expensive and SMEs would need to find reliable logistics partners, especially as Chinese consumers often have expectations of swift delivery, yet it can take around two weeks for a parcel to reach China from the UK.
Payments	• Most (around eight in ten it was estimated by the EMWG) Chinese consumers prefer digital wallets such as Allpay and WeChat Pay as ways of paying for products online. UK SMEs looking to sell into China would, therefore, need to adapt to the regulatory and technological challenge of integrating these kinds of payment methods into their customer offer.
Regulation	• China has a unique internet architecture, with strict rules over access and usage, which include the "Great Firewall of China". Consequently,

	the ability to reach Chinese customers through the internet is more limited than it is in other countries.

Source: E-Commerce Trade Commission's Emerging Markets Working

Group **Table 7: Barriers to SMEs exporting goods to India**

India	Challenges
Demand	• UK SME exporters will be largely unknown to Indian consumers, therefore, firms would need to invest in building up their brand and the awareness of it, which requires upfront investment by resource limited SMEs.
Language/ culture	• India has more than thirty states and union territories, with substantial cultural, religious and linguistic differences. This makes the marketing of products potentially challenging for SME exporters from other countries.
Logistics	• The need to supply goods through consignment stocks makes for high initial costs of sending products to India. There are also questions over the reliability of delivery services and theft risks.
Payments	• The predominant form of paying for e-commerce purchases in India is cash-on-delivery. It accounts for 70% of payments in e-commerce transactions according to the EMWG. This increases the non-payment risk for SME sellers significantly. • Where e-payments are utilised, these are often through localised systems such as the Unified Payments Interface. If UK SMEs want to enter the Indian market, they would have to adapt their offer to meet Indian consumer payment preferences and therefore invest in making the requisite technological and regulatory adaptions.
Regulation	• India has extensive regulatory requirements as the EMWG noted. For example. beauty and wellness products need to be registered with the Drugs Standards Control Organization, with electronic goods needing to be registered with the Bureau of Indian Standards, raising the costs of getting many products onto the Indian market. Such hurdles would inevitably have implications for resource constrained SMEs. • The EMWG pointed out that Indian commercial laws do not allow international firms to open accounts with e-commerce platforms unless they have an Indian subsidiary. A UK SME, therefore, would need to build connections with and rely upon, in-country partners to access the Indian market.
Tariffs, duties and quantitative restrictions	• Indian tariffs and duties on key consumer products are high (e.g. 20% on clothing according to the EMWG) and complex. This often makes the price of imports, e.g. from UK SMEs, uncompetitive in the Indian market, compared to both domestic and well-known international brands, which are manufactured in India.

Source: E-Commerce Trade Commission's Emerging Markets Working Group

Table 8: Examples of the barriers to UK SMEs exporting goods to South Africa

South Africa	Challenges
Demand	• According to the EMWG, 11% of South Africans buy online and consequently, South Africa remains primarily a "bricks and mortar" country. Further, high rates of illiteracy amongst the population inhibit online-based demand, especially for products from overseas. • There are not, as yet, high levels of trust in e-commerce in South Africa. For example, the EMWG pointed out that, across the period 2020 to 2023, the Consumer Goods and Services Ombudsman saw rapid increases in complaints about scams and failures to adhere to consumer protection rules, by sellers. • South African consumers have a preference for South African businesses over sellers from overseas, which makes it harder for UK SME exporters to enter into South African consumer sectors.
Logistics	• The South African Post Office "owns" the "last mile" of delivery and has seen cuts in staff and infrastructure which has led to increasing unreliability in its deliveries. • Poor port infrastructure in South Africa has resulted in delays in the offloading of cargo from ships, which, in-turn, impacts the speed at which products imported into South Africa e.g. from UK SME exporters, can be delivered to consumers.
Payments	• The EMWG observed that South Africa has an underdeveloped financial system. Consequently, the payment landscape is not as advanced as it is in other countries, which limits the payment service options open to potential UK SME exporters.
Tariffs, duties and quantitative restrictions	• There are a complex range of tariffs levied by the South African government on imports, which can make imported products, such as those from UK SMEs, less price competitive.
Tax	• Foreign merchants selling into South Africa (over a *de minimis*) are supposed to register to pay VAT in South Africa. However, it was suggested by the EMWG that the process of registering for a South African VAT number can be lengthy, often taking up to six months.

Source: E-Commerce Trade Commission's Emerging Markets Working Group

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