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Analysis of economic links between the West Midlands and emerging economies

Version 1.0
September 2010

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1 Key findings

This report has drawn upon all available data and research that WMRO is aware of to help build a more in-depth understanding of international trade in the West Midlands. There are some important trends emerging from the analyses which are detailed below. However, as this report has outlined throughout, there are limitations that are placed upon elements of the analysis due to the scope and availability of certain data.

1.1 International trade in services

Trade in services has become an important part of international trade. There is recognition that a better understanding of these transactions would be useful. However, the lack of reliable data at a national and regional level makes it a challenging task.

Table 2 showed the distribution of trade by service in the UK. The two product groups shown to dominate trade were transportation and travel (34 percent collectively) and financial services (23 percent). These are groups that are driven nationally by the presence of infrastructure and human capital assets that are particularly focussed in London and the South East. The calculation of regional figures of international trade in services suggests that large organisations influence heavily the regional breakdown by allocating exports to the region with the greatest headquarters presence, London.

The West Midlands needs to focus its attention and resources on understanding the trade in services where it has more opportunity to compete, such as the other business services category (representing one fifth of the international trade in services - Figure 6).

1.2 Routes to international markets

The evidence suggests that entering international markets tends to be driven mainly by serendipity. Helping fostering situations or a climate whereby businesses have an increased exposure to such opportunities could be therefore crucial. These connections don't have to be in a different country or market; it might be just as beneficial to help introduce exporting businesses in the region to each other.

In addition, evidence suggests exporters are reliant on one mode of exporting - selling. Given there are a number of firms that are currently exporting and have the mindset to do so, exposing them to new routes and methods may be a good way of increasing export volumes. The region could benefit if these businesses share their experience about their routes to market (selling, overseas site or contractual agreements) or even explore the option to use a different route as part of a group of small exporters.

1.3 Diversification of products and markets

The research presented in Section 4.3 suggests that the current impression of other regions being more successful in diversifying their export trade is not strictly true.

During the last decade the export product base in the five regions analysed has not changed significantly. Exports are defined by the industrial base of a region and thus Yorkshire and the Humber showed the most balanced export base, but this perceived balance has been such for at least a decade.

The West Midlands has proved to be successful in diversifying the destination of its exports. Even though the top three export destinations remain the same between 2000 and 2009, the value exported to each of them has decreased. This suggests that our dependency to these countries was reduced. The value of exports to lower ranked destinations has increased notably, again signifying a degree of diversification. The region has particularly witnessed a rise in the exports to China and Russia.

When we discuss diversifying the export base of a region, we need to consider the ability of policy to influence product and market diversification. The West Midlands appears reliant on a few large product groups (e.g. road vehicles) but in the region we are seeing these goods being exported to much wider and growing markets.

1.4 International trade of goods

The lack of disaggregated data does not allow us to provide more robust evidence of certain trends. But despite this, anecdotally at least, it is evident that exports from many regions are dominated by a handful of large multinational firms.

The regional trade analysis suggests that the size of the exporting organisation matters. For example, West Midlands' exports to China and Russia are mainly driven by road vehicles. This suggests that our regional exports maybe mainly driven by Jaguar and Land Rover, as opposed to the region's performance as a whole.

The analysis of value per exporter placed the West Midlands in seventh place. However, when the regions were ranked around the number of exporters, the West Midlands was placed towards the middle of the ranking. Can the West Midlands encourage and support its existing exporters to increase their level of trade to achieve parity with other regions?

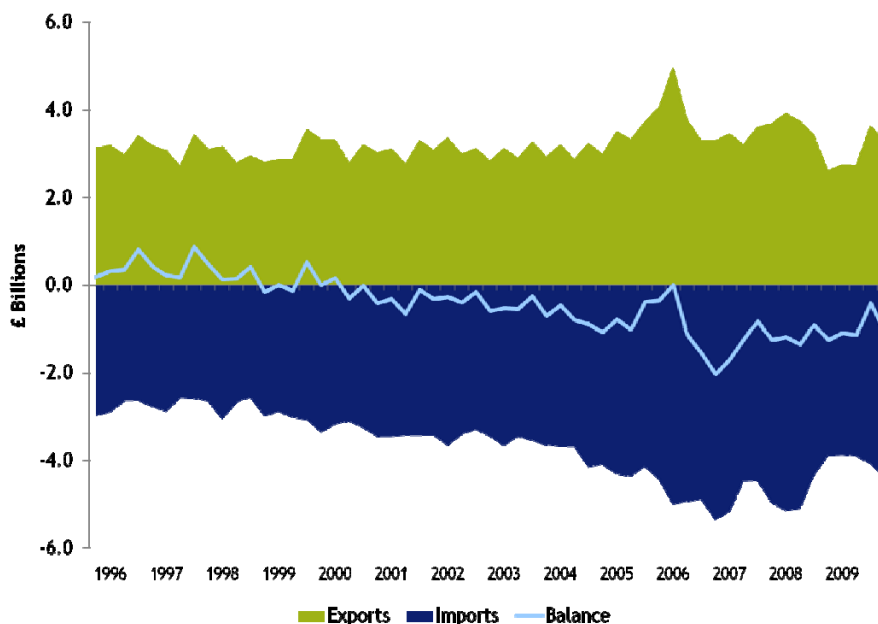
There are a number of well-researched barriers to exporting. Where firms are already exporting, any support aimed at growing trade could potentially obtain quicker results as these firms have an exporting culture and have already overcome some of these barriers. Both large and small firms have established networks and contacts, but how can these be shared and exploited for wider benefit?

2 Introduction

This report has been prepared in response to a recognised research gap within the West Midlands in understanding the impact of international trade with the world's emerging economies. The research was also required to assist policy colleagues within UK Trade and Investment (UKTI) and the AWM Inward Investment team with an additional focus on trade in services, internationalisation and future opportunities for the West Midlands.

To place the analysis in context, in the mid- 1990s the West Midlands was a net exporter of goods. Since then, the volume of international trade has increased, but as it has done so, the region has become a net importer.

Figure 1: Historic International Trade in the West Midlands



Source: Regional Trade Statistics Data, www.uktradeinfo.com

West Midlands Regional Observatory 2010

There is a need to understand the underlying trends behind this change and in particular look at the roles played by trade in services, emerging economies and new business models for international trade. In order to get a full understanding of these issues a series of research questions has been developed. Table 1 below outlines the questions raised in the WMRO proposal and subsequent UKTI paper - 'Key Issues Affecting International Trade in the Region'.

In response to these questions, this paper has been structured as follows. **Section 2** reviews the relevant literature and the limited data on trade in services within the West Midlands. Routes to internationalisation, recent changes and key drivers are discussed in **Section 3**. The analysis of trade statistics is covered in **Section 4**, with a review of the current position before an investigation of the diversification of exports from the West Midlands and the impact of emerging economies is discussed.

Table 1: Research Questions and Report Structure

WMRO Proposal - Analysis of Economic Links between the West Midlands and Emerging Economies	UKTI Document - key issues Affecting International Trade in the Region	Section of Report
What evidence is there (if any) about regional performance in terms of international trade in services?	Availability of figures on trade in services (at the moment we only have figures on trade in goods at the regional level)?	Section 2
What evidence is there about the importance of different routes to international markets, beyond standard trade in goods or services, to the regional economy?	Availability of information on other routes to market than direct exporting e.g. partnering, Joint Venture, offshoring, outsourcing etc?	Section 3
How important is inward investment from emerging economies for the region and how is this likely to change in the future?		Section 3
Why have other regions been more successful at diversifying their export base than the West Midlands and to what extent is this due to the mix of sectors in the regional economy?	Why do other comparable regions appear to be more successful in diversifying their export base?	Section 4
How has the mix of exporting businesses in the region changed in recent years and how are different types of business performing?	How has the mix of exporting businesses changed in recent years (in terms of company size etc) and how are different types of businesses performing?	Section 4
In which emerging (or established) markets does the region have relative strengths and in which are their opportunities for future growth?	Why does the region ‘punch above its weight’ in certain emerging markets and not others?	Section 4
What opportunities exist for the region to improve its export performance and what barriers might prevent it from exploiting those opportunities?	What opportunities exist for the region to improve its export performance and what barriers might prevent it from exploring these opportunities?	Section 4
Which products have seen increasing levels of imports from emerging (and established) economies, what is the driving factor behind these changes and what might be the implications for the region’s economy?		Section 4

3 Trade in services

Q

“What evidence is there (if any) about regional performance in terms of international trade in services?”

3.1 Definition

The World Trade Organisation and the International Monetary Fund refer to the General Agreement on Trade in Services (GATS) definition. It highlights four modes of supply, depending on the location of the supplier and the consumer.

Mode 1 ‘cross-border supply’ is when both the supplier and the consumer remain in their respective home territories; Mode 2 ‘consumption abroad’ occurs when consumers consume services while outside their country; Mode 3 ‘commercial presence’ refers to the establishment of the service supplier in another country through branches or subsidiaries; and finally Mode 4 ‘presence of natural persons’ occurs when an individual has moved temporarily into the territory of the consumer in the context of the service supply¹.

The trade in services section in a country’s balance of payments can derive estimates covering trade in commercial services for modes 1, 2 and 4. However it does not include most of the information around Mode 3. In 2002 a framework to collect data around mode 3 was adopted by the international statistical community but it presents issues regarding comparability and availability of detailed data and long-time series².

The UK Balance of Payments defines trade in services as the provision of services between UK residents and non-residents, and transactions in goods which are not freighted out of the country in which the transactions take place, for example purchases for local use by foreign forces in the UK and by UK forces abroad, and purchases by tourists³. The Balance of Payments classifies trade in services into broad categories showed in Table 2.

Table 2: UK Trade in Services by Product Category, 2008 (£ million)

Product Category	Exports	Imports	Balance	% of total trade
Transportation	20,880	20,376	504	14%
Travel	19,598	37,256	-17,658	20%
Communications	4,639	4,122	517	3%
Construction	1,127	904	223	1%

¹ World Trade Organization (2009), World Trade Organization (2008) and Hijzen et al. (2007)

² World Trade Organization (2009) pp. 164-165

³ Office for National Statistics (2009), p.204

Product Category	Exports	Imports	Balance	% of total trade
Insurance	8,036	1,073	6,963	3%
Financial	52,828	14,209	38,619	23%
Computer and information	7,040	3,055	3,985	4%
Royalties and license fees	7,361	5,500	1,861	4%
Other business	44,697	24,404	20,293	24%
Personal, cultural and recreational	2,091	959	1,132	1%
Government	2,102	4,062	-1,960	2%

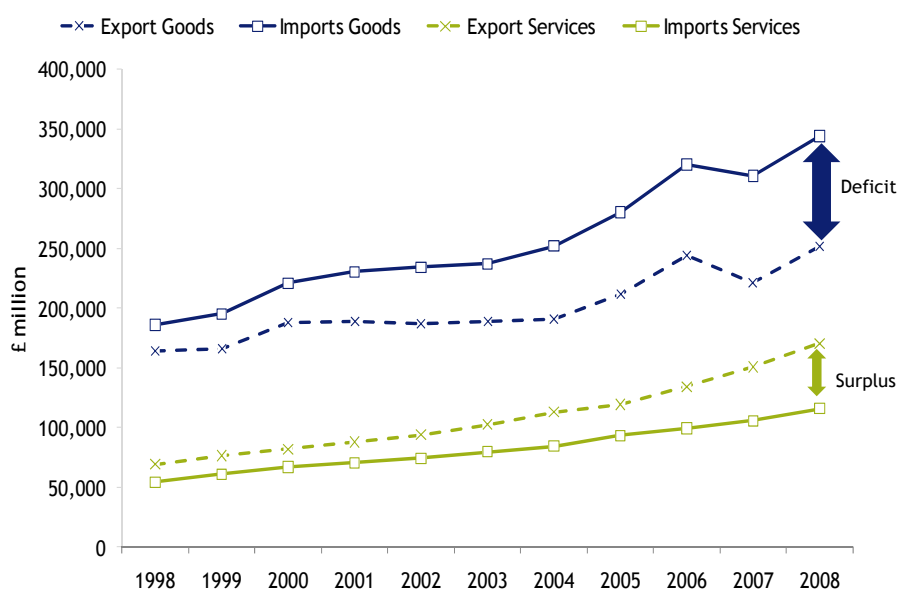
Source: ONS (2009) The Pink Book, p44

3.2 Trade in services vs. trade in goods

Trade in services has become more important for international trade. It has been recognised as the fastest growing component of international trade since the early 1990s⁴.

Figure 2 shows the international trade in goods and services for the UK from 1998 to 2008. Between that period, exports of goods grew 53 per cent while imports of goods grew by 85 per cent. These growth rates were lower than the ones achieved by exports of services (146 per cent) and imports of services (114 per cent).

Figure 2: UK International Trade



Source: ONS (2009) The Pink Book, p 35 and 44

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⁴ World Trade Organization (2008) and Hijzen et al. (2007)

Figure 2 also highlights that for the last decade, the balance of trade in goods has been in deficit while the balance of trade in services has been in surplus.

The proportion of the total trade in services has increased since 1998 by 6 percentage points. The ratio total trade in goods vs. total trade in services in 1998 was 74 percent vs. 26 percent. In 2008 it is now 68 percent vs. 32 percent⁵.

3.3 Profile of trading services firms

Breinlich and Criscuolo (2009) produced a profile of the business trading services in the UK. The research identified the following characteristics:

- Only 8 per cent of firms trade in services.
- Exporting is more common than importing and only 2 percent of firms deliver both activities (export and import).
- Service traders are important in terms of economic activity, accounting for 22.5 per cent of overall employment and 30 per cent of value added.
- Firms trading in services can be found in all sectors of the UK economy.
- Services trade is also heavily concentrated among the top traders. The 1 percent largest exporters and importers carry out 74 per cent of exports and 79 percent of imports.
- Service traders are larger, more productive, more capital intensive, pay higher wages and are more likely to be foreign owned or part of a multinational enterprise than those delivering services only in the domestic market.
- Firms that only export tend to be significantly smaller and less capital intensive, but more productive and skill-intensive than firms that only import.
- Most firms only export or import a single type of service and trade with a small number of countries (mostly three or less).
- Trade volume, employment, turnover and value added are highly concentrated among a small group of firms trading with many countries and / or in many types of service. These firms have higher-than-average productivity and size.
- The average service trader makes 68 per cent of export sales in a single foreign market and produces 76 per cent of imports from a single source country.

3.4 Data sources

The following were identified by the literature as relevant sources that can provide UK data around international trade in services:

⁵ Office for National Statistics (2009)

The Pink Book (UK Balance of Payments) - It measures the economic transactions between UK residents and the rest of the world. It includes exports and imports of services such as international transport, travel, financial and business services. It compiles information collected through the International Trade in Services Inquiry, the International Passenger inquiry, the Bank of England and the Higher Education Statistics Agency⁶.

International Trade in Services Inquiry (ITIS) - It collects data on the international transaction in services of resident UK private sector companies. ITIS also ask for the type of service exported or imported and for the country of destination or origin of exports and imports. It excludes travel and transport, higher education, the financial sector and the public sector. The data collected through ITIS is used in the compilation of the UK Balance of Payments⁷.

The Annual Respondents Database (ARD) - It is based on information from the Annual Business Inquiry (ABI) and is available from the ONS. Since 2000 it includes two questions on exports and imports of producer services⁸.

The third Community Innovation Survey (CIS3) - It contains information on firms' exports and skill intensity, measured as the proportion of graduates in the workforce. It covers manufacturing and services but not retailing and government⁹.

3.5 Data limitations

There are limitations attached to the process of collecting and monitoring data around trade in services. Brienlich and Criscuolo (2009) highlight that services trade cannot be captured by a physical cross-border transaction of merchandise. In addition traded services typically act as inputs to commercial activities rather than simply as consumables¹⁰.

Trade in services data rely entirely on surveys conducted by the Office for National Statistics (ONS), the Bank of England, and the Higher Education Statistics Agency¹¹. Surveys tend to rely on self-reporting information; which raise concerns around data quality and underreporting of trade flows (in particular for transactions between domestic and foreign subsidiaries of multinationals)¹².

⁶ Office for National Statistics (2009), Brook (2008) and Breinlich and Criscuolo (2009)

⁷ Breinlich and Criscuolo (2009), Brook (2008) and Hijzen et al. (2007)

⁸ Breinlich and Criscuolo (2009) p.6

⁹ Ibid p.7

¹⁰ Hijzen et al. (2007) p.5

¹¹ Office for National Statistics (2008) and Breinlich and Criscuolo (2009)

¹² Ibid

In addition, the absence of complete datasets at regional level restricts the analysis that can be produced regarding trade in services¹³. The Department for Business, Innovation and Skills undertakes a partial regional analysis of service exports, mainly covering business services based on the information provided through the International Trade in Services Inquiry.

However, this analysis only covers 30 per cent of UK exports of services (it excludes travel and transport, higher education, the financial sector and the public sector)¹⁴. In addition the data is not broken down by country of destination and does not include any information about regional imports.

3.6 Regional trade in services

As mentioned in the previous section, the regional trade data present limitations and it is not extensive.

The ITIS survey collects and reports activity from businesses but it does not include information on the geographic location of the export of service. The regional allocation is achieved by linking each company reporting unit (RU), back into the Interdepartmental Business Register (IDBR) from which the Local unit sites (LU) structure of each RU can be determined in terms of its employment and regional location.

Allocating all of the export value to each LU is considered to be the best compromise when the company has only a few LUs. When the company has a large number of LUs, it is unlikely that all of the sites will be actively involved in the specialised export of services. In such cases allocating the transaction to the RU, which may be the location of the company headquarters, is considered to be the best compromise. As a result of this, the allocation to London increases due to the high presence of company headquarters¹⁵.

Figure 3 shows the regional share of exports of selected services. In 2008, London and the South East were responsible for more than 70 per cent of the exports in services of computer and information, royalties and licence fees and communication services.

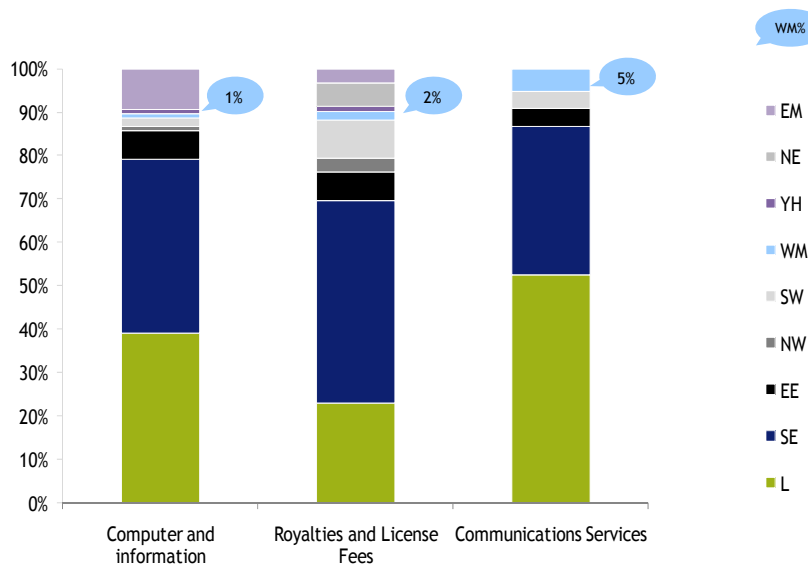
The West Midlands in the same year, contributed with 5 per cent to the exports of communication services; 2 per cent of the royalties and licence fees exports, and 1 per cent of computer and information services exports.

¹³ North West Regional Development Agency (2008)

¹⁴ Brook (2008)

¹⁵ Department for Innovation, skills and innovation (2007)

Figure 3: Regional shares of selected export services (2008)

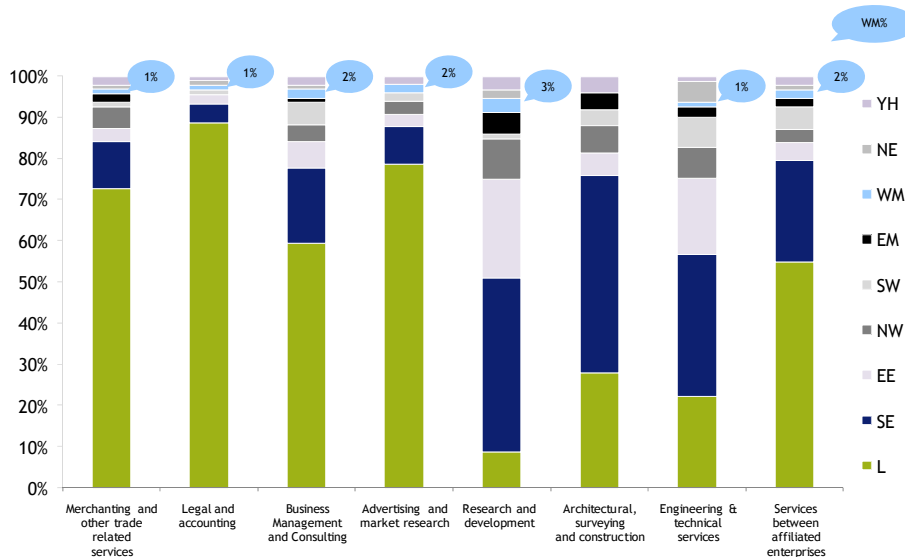


Source: Department for Business, Innovation and Skills (2008) Regional Exports of Services 2008

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The regional data about other business services produced by the Department for Business, Innovation and Skills is disaggregated by selected services. Figure 4 shows the regional share across each service in 2008.

Figure 4: Regional shares of other business exports (2008)



Source: Department for Business, Innovation and Skills (2008) Regional Exports of Services 2008

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Merchanting and other trade related services; legal and accounting; business management and consulting; advertising and market research; and architectural, surveying construction exports are concentrated mainly in London (at least 60 percent of the total exports).

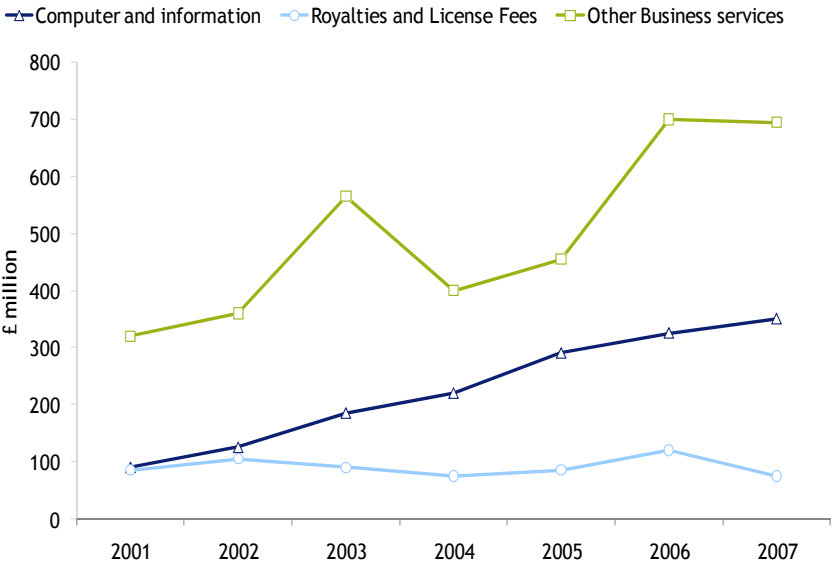
The exports of research & development and engineering & technical services are the only services with a more balanced distribution across regions. Four regions account for more than 80 per cent of the total (London, the South East, the East of England and the North West).

The exports of architectural, surveying and construction, and services between affiliated enterprises are concentrated across two regions: London and the South East.

The sector with the greatest West Midlands’ export contribution is research & development (3 percent). On the other hand, the sectors with the lowest West Midlands’ contribution to exports are merchanting and other trade related services; legal and accounting; and engineering & technical services with only 1 percent.

More specifically for the West Midlands, its exports of computer and information and other business services have increased considerably since 2001¹⁶. The exports of royalties and licence fees have decreased slightly for the same period (see Figure 5).

Figure 5: West Midlands’ exports of selected services



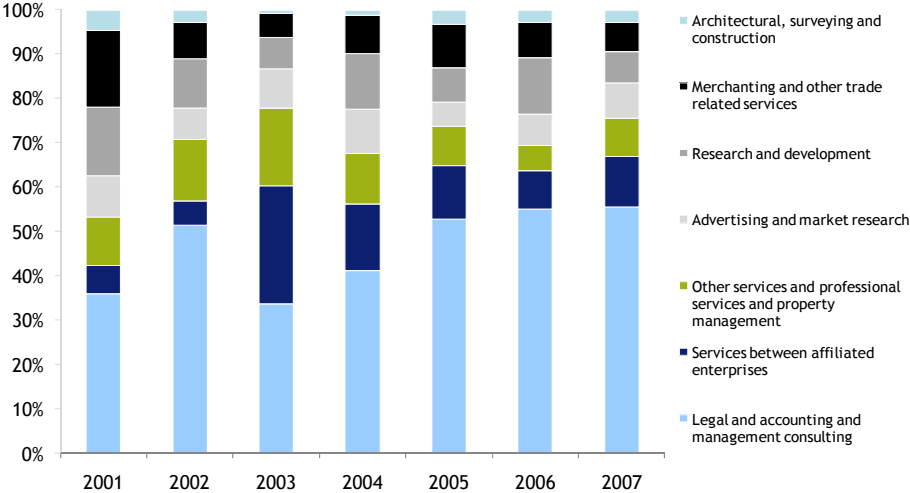
Source: Department for Business, Innovation and Skills (2007) Regional Exports of Services 2007

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¹⁶ The time series only includes data between 2001 and 2007. The 2008 data is not comparable due to a change in methodology.

Figure 6 shows the exports share other business services in the West Midlands. It shows that legal and accounting and management consulting exports has increased its relevance in the region since 2001. On the other hand, the exports of services between affiliated enterprises; merchanting and other trade related services; and research and development have reduced their share in the region over time.

Figure 6: West Midlands’ exports of other business services



Source: Department for Business, Innovation and Skills (2007) Regional Exports of Services 2007

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Trade in services has become an important part of international trade. The lack of reliable data at national and sub-national level is still an issue to be overcome in this topic. The few regional figures available highlight potential opportunities for the West Midlands in ‘other business exports’, more specifically legal, accounting and management consulting.

4 Routes to Market and Internationalisation

Q “What evidence is there about the importance of different routes to international markets, beyond standard trade in goods or services, to the regional economy?”

Q “How important is inward investment from emerging economies for the region and how is this likely to change in the future?”

4.1 Routes to internationalisation

Research by OMB Research (2008) identified the different modes of internationalisation and overseas market entry used by UK business. Three modes were identified: Selling, contractual agreements and overseas site.

1. Selling is the most common mode of internationalisation (98 percent of respondents). It can be done through direct selling, agents or distributors.
2. Overseas site is the second most common mode of internationalisation, but its frequency is much lower than selling, only 11 percent. Overseas sites include production sites, call centres, sales or service delivery sites, and Research and Development facilities.
3. Finally contractual agreements are the least common mode (7 percent of respondents). It includes agreements such as licensing, franchising or other partnerships or joint ventures.

70 percent of the firms surveyed use only one mode; 22 percent use two modes, only 6 percent three modes and just 1 percent use 4 or more modes¹⁷.

Evidence suggests that there were no significant differences in internationalisation modes between manufacturing and services. In addition, businesses are engaged in a range of internationalisation modes regardless of the age of the firm¹⁸.

¹⁷ Department for Business Innovation and Skills (2010) p.44

¹⁸ OMB Research (2008)

Many SMEs follow a traditional model of internationalisation in which they internationalise gradually, having first developed their business in the domestic market. The number of markets into which they sell or operate their business increases with their export experience. Easier markets are entered first before they progress to more challenging markets¹⁹.

'Born Global' firms are a sub-group of firms which are mostly innovative and tend to be in high technology sectors. These firms tend to internationalise rapidly within two years of establishment. In some cases their first customers are from overseas rather than domestic markets. They tend to enter many markets, including those which are more distant²⁰.

Developments in telecommunications, declining transport costs, and falls in tariff and non-tariff barriers are factors that have been identified as contributors to the rise of Born Global firms²¹.

Research by Moen (2001) suggests that, even though Born Global firms are highly competitive in terms of marketing, price or technology; the main difference between Born Global and other firms is around technology advantage²².

4.2 Motivations to internationalise

Expansion is the most frequently cited motive, followed by profit. This highlights the link between internationalisation and business growth. Exposure to new ideas is also an important motive especially for innovative firms²³.

The British Chamber of Commerce has also explored the reasons to internationalise through exports. The most common reasons include: being approached by customer (58 per cent), having established connections in the market (49 per cent), increasing return on investment and profit (45 per cent) and building market share (41 per cent)²⁴.

Finally, cost reduction through access to cheaper labour and materials has also been identified as an important motivation especially for SMEs²⁵.

4.3 Choice of internationalisation mode

The drivers behind each mode are not necessarily the same. Evidence by OMB Research (2008) suggests that meeting customer needs and maintaining control of the intellectual property and quality are the main drivers for those firms choosing the selling direct and overseas site mode.

¹⁹ Department for Business Innovation and skills (2010) p. x

²⁰ Ibid

²¹ Ibid, p32

²² Moen Ø (2001)

²³ Department for Business Innovation and skills (2010), p.28 and Kneller, R. and Pisu, M. (2007a)

²⁴ British Chamber of Commerce (2009) p.11

²⁵ Jones (2006)

Selling via agents or distributors is influenced by the capabilities and connections of the partner firm.

The evidence is not conclusive regarding the contractual arrangement mode. However, there is an indication that the capabilities of the partner firm are an important driver.

Further research by the Department for Business Innovation and skills (2010) suggests that firms which follow a traditional business model tend to focus on selling direct and via agents and distributors.

Firms commercialising knowledge-intensive products or services may use the selling mode first but are more likely to use or consider other modes as the business develops.

For Born Global firms, internationalising using collaborative arrangements can be the preferred choice. This mode could allow them to take advantage of partner's resources, assets and capabilities.

4.4 Drivers of market selection

Serendipity, networks and independent analysis play an important role in deciding which market to approach²⁶.

Practical factors such as logistics and the business framework have less influence on market selection than product suitability, contacts, language and culture²⁷.

Other factors suggested to be considered when choosing a market include product, demand, competition, pricing strategy, size of the market and potential contacts in the target market²⁸.

The Department for Business, Innovation and skills (2010) analysed the drivers involved in the decision of entering two different types of markets: fast-growing markets and high-growing markets²⁹.

- Serendipity and networks are less likely to have influenced market choice when entering a fast growth market, while independent analysis is used slightly more frequently.
- Demand and resources appear to be perceived more favourably in high growth markets than other markets.

The influence of the drivers also differs depending on the number of markets the firm is already in³⁰:

²⁶ OMB Research (2008) p.3

²⁷ Ibid

²⁸ Department for Business Innovation and Skills (2010) p. 37

²⁹ Ibid p. 40

³⁰ Ibid p.41

- A higher proportion of firms in at least 10 markets are influenced by serendipity and networks than among firms in up to 5 markets.
- The use of independent analysis becomes more common as firms enter more markets.

4.5 Specific examples of routes to internationalise

4.5.1 Foreign Direct Investment

The Organisation for Economic Cooperation and Development highlights that the key element of foreign direct investment (FDI) is the level of control that one enterprise in a particular country has over another enterprise in a different country³¹.

Research by Harris (2009) explores the FDI levels across sectors and UK regions. The research identified that foreign-owned plants have become more important and are set to dominate British manufacturing in the near future. The manufacturing sectors with the greatest FDI presence in the UK are: Motor vehicle & engine manufacturing, machinery and mechanical equipment, basic industrial chemicals, printing & publishing, telecommunications & electronic goods and motor vehicle parts.

The research also identifies that the regions with the highest levels of foreign-owned manufacturing output in 2005 were the East Midlands, the South East and the West Midlands.

The services sectors with the greatest FDI presence include: wholesale of intermediate goods; sale of motor vehicles; wholesale of machinery, office equipment and electronic goods; wholesale of textiles, clothing, ceramics and pharmaceutical; computer & related activities; and legal, accounting and management consultancy services. However, the industries with the highest levels of foreign-owned GVA are: computer & related activities; various business activities such as packaging, secretarial and call centre activities; architecture & technical consultancy; and legal, accounting and management consultancy services³².

In terms of the gross output in the service sector, the West Midlands is the region with the third highest level of foreign ownership. However, in terms of gross value-added, the West Midlands slips down the ranking to fifth.

Inward FDI investment in services has become more important between 1997 and 2005, but not to the same extent as in manufacturing.

³¹ Jones and Wren (2006)

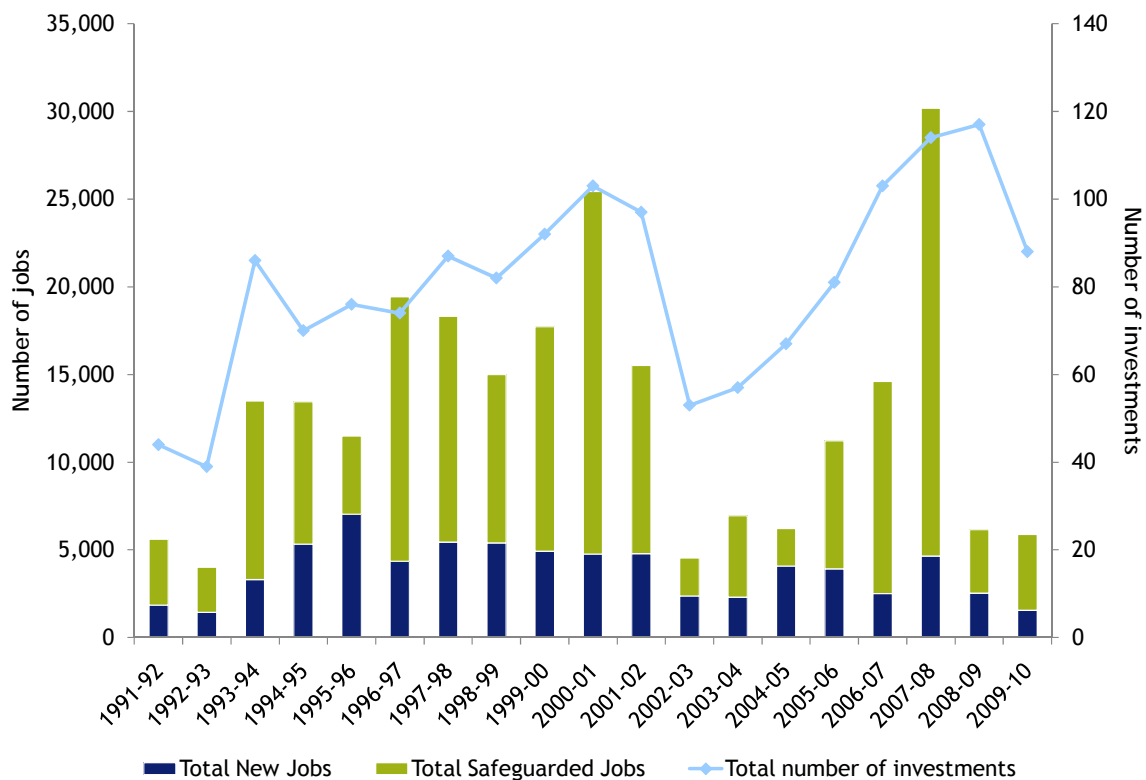
³² Harris (2009)

4.5.1.1 Inward investment in the West Midlands³³

The West Midlands Regional Observatory tracks the inward investment received in the region. Figure 7 shows the number of inward investment projects in the West Midlands and the new and safeguarded jobs that these have delivered.

In 2009/10 there were 88 investments in the region. These were the fewest number of investments since 2005/06 when investment numbers were still recovering from the falls in global investment since 2001. The job numbers also fell. In 2009/10, the total number of new jobs and safeguarded jobs was at the fourth lowest level since 1991/92.

Figure 7: Inward investment in the West Midlands



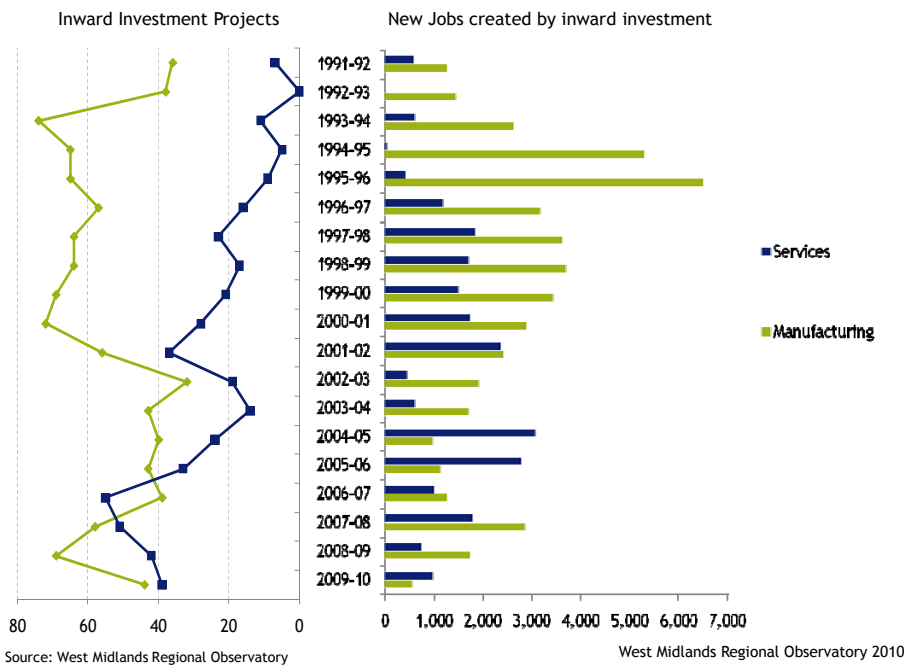
Source: West Midlands Regional Observatory

West Midlands Regional Observatory 2010

Figure 8 shows inward investment projects and the number of jobs created by type of industry, either manufacturing or services. It highlights the positive trend that services had in the last two decades. Manufacturing, on the other hand, has had a more volatile trend and the difference between the inward investments achieved in 91/92 and 09/10 is only 8 projects.

³³ West Midlands Regional Observatory (2010a) and (2010b)

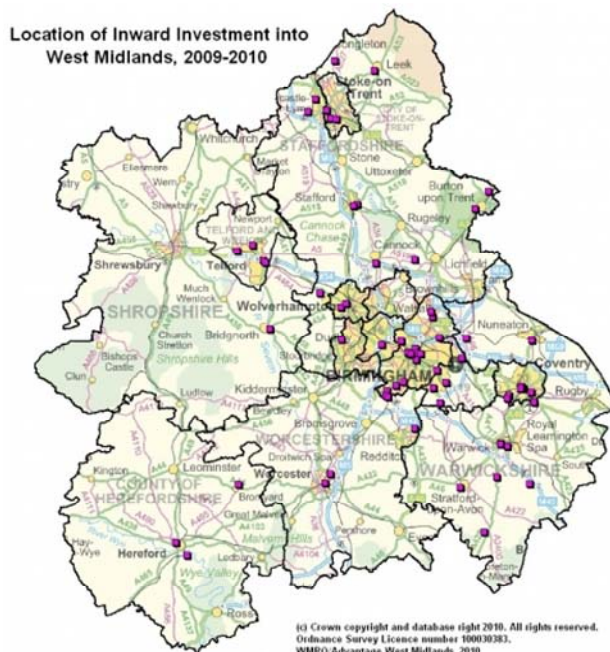
Figure 8: Inward investment in the West Midlands



The number of new jobs created in manufacturing has decreased considerably, especially when compared to the levels achieved in the second half of the 90s. In 2009/10, services delivered more new jobs than manufacturing industries.

Figure 9 shows the location of the inward investment projects in the West Midlands in 2009/2010 (A bigger version of the map can be found in Annex 2). There were 84 inward investment successes in the West Midlands and another four knowledge-based investments.

Figure 9: Location of inward investments 2009/10



Source: West Midlands Regional Observatory (2010) Inward investment into the West Midlands 2009/10 - a local analysis, Observations

West Midlands Regional Observatory 2010

These investments created over 1,500 new jobs and safeguarded another 4,300. The largest acquisition in the region in 2009/10 was Cadbury’s acquisition by Kraft Foods (USA). Within the West Midlands the two locations which received the highest numbers of inward investment projects were Birmingham and Warwickshire (21 projects each).

The projects that created the highest number of jobs in the West Midlands Met Areas in 2009/10 include Netherlands’ FourstaR in Birmingham, Shanghai Automotive in Longbridge and Portugal’s ALERT Life Sciences in Solihull. The projects that created the highest number of jobs in the West Midlands shire Counties include: Fortis Insurance of Belgium, France’s Areva and USA’s TK Maxx.

Table 3 shows the countries that invested in the West Midlands in 2009/10. The United States have been the country with the majority of investments in the region since 1991 (a third of the total investments).

Table 3: Inward investment into the West Midlands by Country 2009/10

Country	Inward Investments
United States	13
Germany	10
Sweden	8
France	7
Australia	6
India	5
China	4
Japan	4
Norway	4
Canada	3
Italy	3
Singapore	3
Ireland	2
Spain	2
Taiwan	2
United Arab Emirates	2
Other ³⁴	10

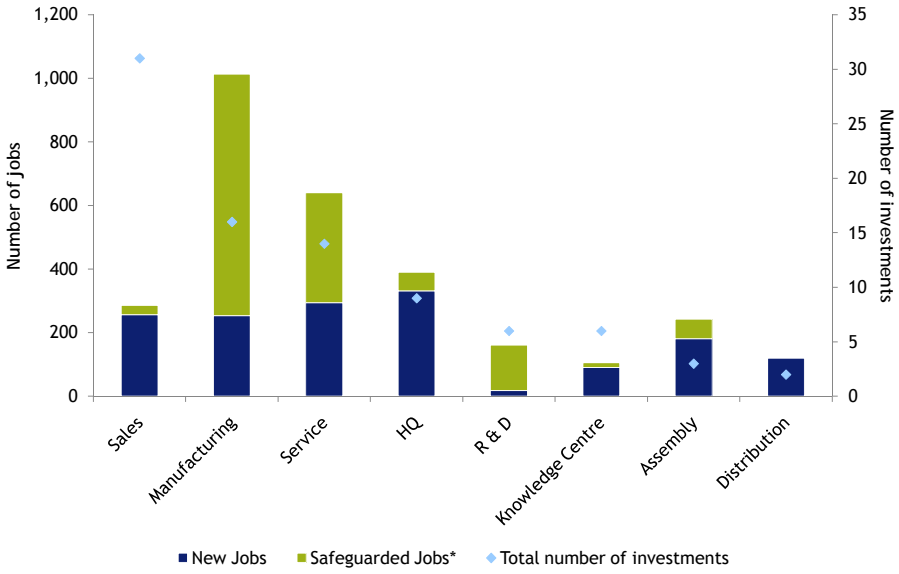
Source: West Midlands Regional Observatory (2010a)

Finally, Figure 10 shows the type of business actually carried out at the investment locations in 2009/10. It shows that even though half of all inward investment was in the manufacturing sector, only 16 of those 44 investments involved the manufacture of products.

Other functions such as sales, servicing, headquarters and distribution are also strongly represented with sales being the dominant activity in 31 investments. It suggests that sales offices and associated servicing of manufactured products are on the rise.

³⁴ The countries included in the ‘Other’ category are: Austria, Belgium, Cayman Islands, Denmark, Finland, Mexico, Netherlands, New Zealand, Portugal and South Africa.

Figure 10: Inward investment in the West Midlands 2009/10



Source: West Midlands Regional Observatory
* Excluding Cadbury

West Midlands Regional Observatory 2010

4.5.2 Joint Ventures

Joint ventures involve two or more legally distinct organisations sharing the decision-making activities of the jointly owned entity³⁵. Joint ventures are used as mechanisms of sharing risk, resources and knowledge.

Since the organisations involved bring different capabilities, the venture could reduce the overall investment costs. These two benefits suggest that joint ventures are an attractive mechanism to invest in an option to expand in new markets³⁶.

Research by Kirby and Kaiser (2003) focused on joint venture activities of SMEs. The research suggests that they appear to be successful and that the problems faced are no different to the ones experienced by large multi-national enterprises.

The research also identifies that the key element of a successful joint venture is selecting the right partner. Support should be designed for SMEs to help them locate and select appropriate partners³⁷.

³⁵ Geringer and Hebert (1991)

³⁶ Kogut (1991)

³⁷ Kirby and Kaiser (2003)

4.5.3 Outsourcing and Offshoring

Outsourcing refers to specialisation outside the firm. It occurs when firms opt to ‘buy’ rather than ‘produce’ in-house. Offshoring occurs when firms move production overseas³⁸. This can be in two ways: either where the firm relocates or expands its department abroad (offshore in-house sourcing) or through subcontracting abroad, where firms buy the service from an overseas firm (offshore outsourcing)³⁹.

Outsourcing and offshoring have been models followed by manufacturing industries for a long time. However, technological developments have enabled increasing internationalisation of some sectors within the service economy.

The decision to outsource is related to efficiency, innovation and returns to scale. The decision to offshore is usually related to costs, access to technology or access to scarce resources such as skilled labour⁴⁰.

The main source of evidence about internationalisation routes is the survey commissioned by UKTI around International Business Strategies.

A *However, its findings are not disaggregated at a regional level. The evidence suggests that entering international markets tends to be driven by serendipity and relying on one mode of exporting - selling.*

³⁸ Abramovsky, et al. (2004), p.2

³⁹ Heckley (2005), p.375

⁴⁰ Abramovsky, et al. (2004), p.18

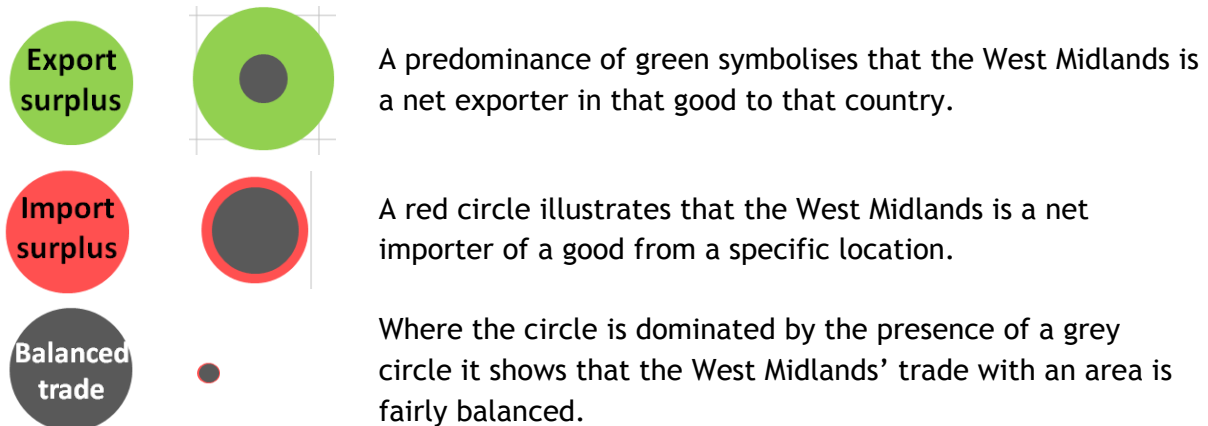
5 Trade Analysis

5.1 Current position

Before considering the specific research questions, it is worth getting an understanding of the current position of international trade in the West Midlands. Figure 11 (below) is a graphical representation of the trade flows between the West Midlands and its biggest trade partners in 11 sectors.

The diagram uses a three-year average (2007-09) to get an understanding of the general importance of countries and regions, helping remove any judgements based on immediate recessionary impacts. Some countries have been grouped because individual statistics would provide data too small for meaningful analysis.

How to read the table: The size of the circle is proportional to the value of trade with each partner.



Key Trends:

- The West Midlands' biggest trading partners are Western European (Germany, Scandinavia, Benelux, France) and America.
- Apart from motor vehicles, trade with these leading economies results in an import surplus. The biggest trading partner is Germany from whom the West Midlands is a net importer in all high-level product groups.
- Trade with smaller and emerging economies results in export surplus for the West Midlands in manufactured and final products. The region is a net importer from these areas for raw materials and inputs.

Table 4 includes all the data behind Figure 11.

Figure 11: Trade by Country/Region and Industrial Sector 2007 - 2009

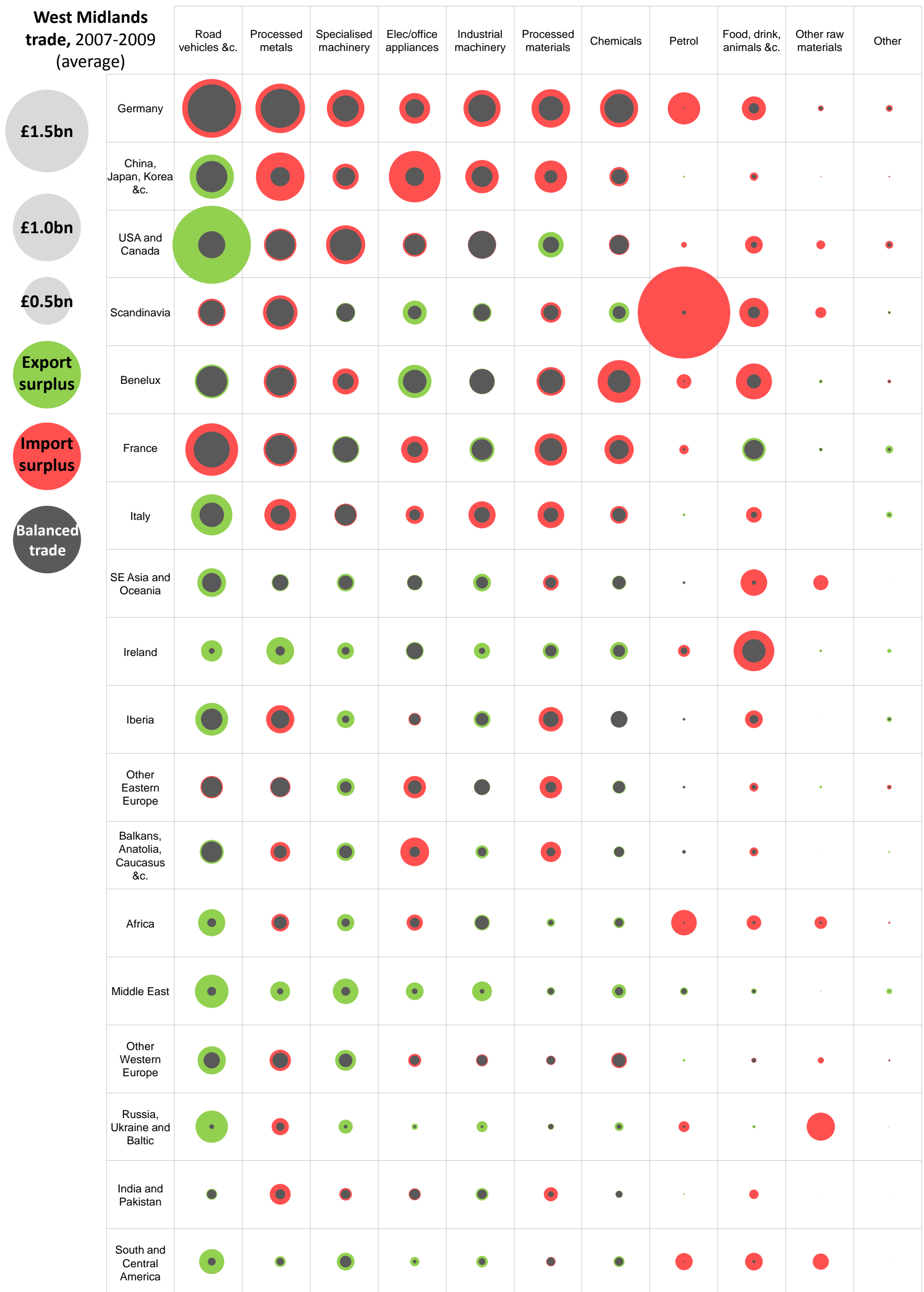


Table 4: Trade by Country/Region and Industrial Sector 2007 - 2009

Total trade	Imports	Total (£m)		Road vehicles &c.		Processed metals		Specialised machinery		Elec/office appliances		Industrial machinery		Processed materials		Chemicals		Petrol		Food, drink, animals &c.		Other raw materials		Other	
	Exports																								
Total (£m)		36 701	21 435	7 762	2 749	4 866	2 994	3 144	1 533	2 944	1 876	2 793	1 421	2 677	1 771	2 513	1 476	2 463	2 417	1 983	1 579	383	369	93	40
		15 266	-6 168	5 013	+2 264	1 872	-1 123	1 611	+78	1 068	-809	1 372	-49	907	-864	1 037	-439	45	-2 372	404	-1 175	15	-354	53	+13
Germany		5 290	3 568	1 254	755	867	536	457	309	281	204	465	301	452	320	499	316	225	224	149	126	10	7	13	9
		1 723	-1 845	500	-255	332	-204	148	-162	77	-127	163	-138	132	-188	183	-133	0	-224	23	-102	3	-4	4	-6
China, Japan, Korea &c.		3 922	2 826	638	211	591	508	223	146	659	582	335	242	268	231	132	83	1	0	19	15	0	0	1	1
		1 096	-1 729	427	+215	83	-425	77	-69	77	-504	93	-150	37	-193	49	-34	1	+1	4	-11	0	-0	0	-0
USA and Canada		3 887	1 507	1 491	157	411	224	546	329	217	125	336	170	201	57	168	91	8	8	79	70	16	16	18	14
		2 380	+874	1 333	+1 176	186	-38	218	-111	92	-32	166	-5	144	+87	76	-15	0	-7	9	-61	0	-16	4	-10
Scandinavia		3 764	2 920	296	165	425	260	151	71	164	41	139	61	139	90	129	37	1 850	1 846	215	185	26	26	3	1
		843	-2 077	131	-35	166	-94	81	+10	123	+82	78	+18	49	-41	92	+55	4	-1 841	30	-155	0	-25	2	+1
Benelux		3 459	2 082	455	206	404	235	206	150	358	119	278	136	305	178	510	395	46	45	324	282	4	1	5	3
		1 377	-704	249	+43	169	-65	56	-94	239	+120	141	+5	126	-52	115	-281	1	-44	42	-240	3	+2	1	-2
France		3 217	1 911	883	598	433	246	296	136	212	162	233	95	345	230	269	187	21	19	201	83	4	2	15	2
		1 306	-605	285	-313	187	-59	160	+23	51	-111	137	+42	115	-116	83	-104	2	-18	118	+35	3	+1	13	+11
Italy		1 884	1 111	504	132	306	223	205	111	99	74	215	161	198	151	107	68	2	0	62	54	0	0	10	1
		773	-338	372	+239	83	-140	94	-17	25	-49	54	-107	46	-105	39	-29	2	+1	8	-46	0	-0	9	+8
SE Asia and Oceania		1 464	875	262	82	117	52	113	45	97	46	99	31	77	52	82	38	3	1	159	155	49	48	0	0
		589	-286	180	+98	65	+13	69	+24	52	+6	68	+37	25	-27	44	+6	2	+0	4	-151	0	-48	0	-0
Ireland		1 462	605	107	7	183	18	73	14	126	57	66	8	85	29	101	31	40	30	483	365	2	0	4	0
		857	+252	100	+93	165	+146	59	+45	69	+12	58	+49	56	+26	70	+38	10	-20	118	-246	2	+2	3	+3
Iberia		1 380	666	334	98	244	171	80	12	60	35	95	35	183	129	120	61	3	1	86	69	0	0	8	1
		713	+47	236	+138	73	-98	68	+56	26	-9	60	+25	54	-75	59	-2	1	-0	17	-52	0	+0	6	+5
Other Eastern Europe		1 118	666	199	107	167	89	99	28	150	111	112	55	137	111	68	32	3	1	22	17	1	0	7	5
		452	-213	92	-15	78	-11	70	+42	39	-72	57	+2	26	-85	36	+5	2	+0	5	-12	1	+1	1	-4
Balkans, Anatolia, Caucasus &c.		1 069	616	219	96	121	84	111	38	205	182	54	18	105	88	49	22	6	3	22	17	0	0	1	0
		453	-163	123	+27	37	-46	73	+35	23	-158	36	+18	17	-70	27	+5	3	-1	5	-12	0	+0	1	+1
Africa		945	506	178	18	105	68	78	14	80	58	93	39	21	6	40	15	141	140	48	46	34	33	1	1
		439	-67	161	+143	37	-32	63	+49	22	-37	54	+15	15	+9	25	+10	1	-140	2	-43	1	-31	0	-1
Middle East		891	145	257	17	93	9	157	16	78	8	89	4	24	8	57	15	20	7	11	3	0	0	7	0
		746	+602	240	+224	84	+75	141	+125	70	+63	85	+80	15	+7	42	+28	13	+6	8	+5	0	+0	7	+6
Other Western Europe		855	395	229	58	150	98	137	41	57	38	54	31	33	18	91	53	1	0	10	6	9	9	1	1
		460	+64	171	+113	52	-46	96	+54	20	-18	23	-9	15	-4	38	-14	1	+1	4	-2	0	-9	0	-0
Russia, Ukraine and Baltic		672	306	235	5	80	64	45	3	10	1	28	1	15	6	21	5	28	27	2	0	171	171	0	0
		367	+61	230	+225	16	-48	42	+40	8	+7	26	+25	8	+2	16	+11	2	-25	2	+2	0	-171	0	+0
India and Pakistan		670	401	46	20	118	96	53	34	54	32	55	19	50	43	21	9	0	0	20	19	0	0	0	0
		270	-131	27	+7	22	-74	18	-16	23	-9	35	+16	7	-36	12	+3	0	+0	0	-19	0	+0	0	-0
South and Central America		646	310	149	13	38	12	98	28	22	3	37	10	35	20	40	15	63	63	68	66	56	56	0	0
		336	+25	136	+123	26	+13	70	+42	19	+15	27	+18	15	-5	26	+11	1	-62	2	-64	0	-56	0	+0

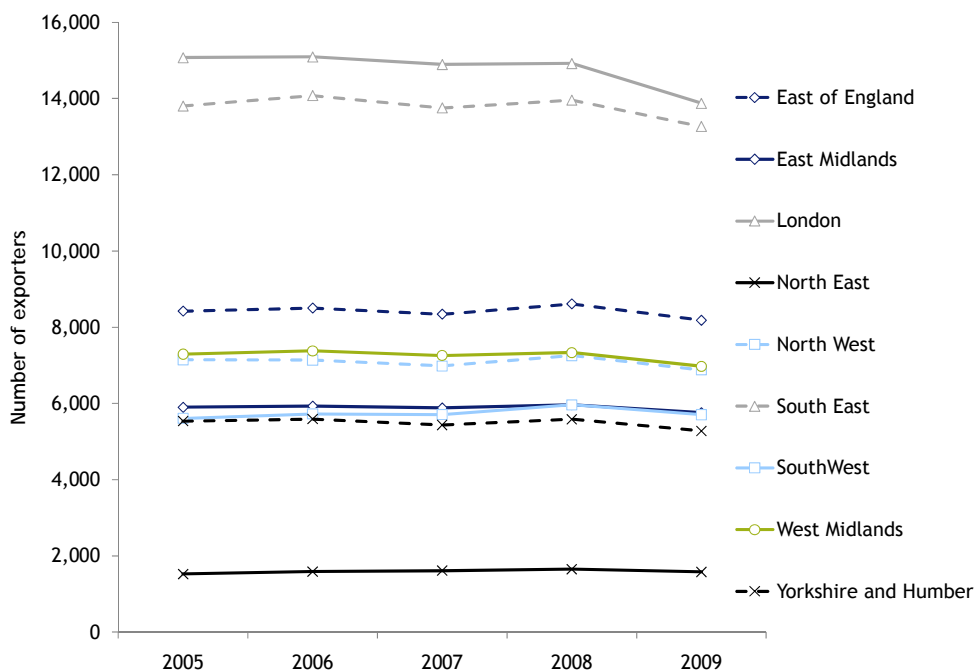
Q “How has the mix of exporting businesses in the region changed in recent years and how are different types of business performing?”

5.2 Mix of Exporting Firms

There is very little data available on the characteristics of exporting firms in administrative sources. HM Revenue and Customs do collect information on the number of exporting firms by region, but it is not possible to understand the size of company, the industries they operate in and ultimately how successful they are.

Figure 12 (below) shows the total number of exporters in each of the English regions. It is apparent that the level of exporters has stayed relatively constant over the last 5 years. There has been a slight fall in the last year which is presumably to do with current economic climate. The West Midlands has the fourth highest number of exporting firms and is very similar to the North West.

Figure 12: Total Number of Exporters

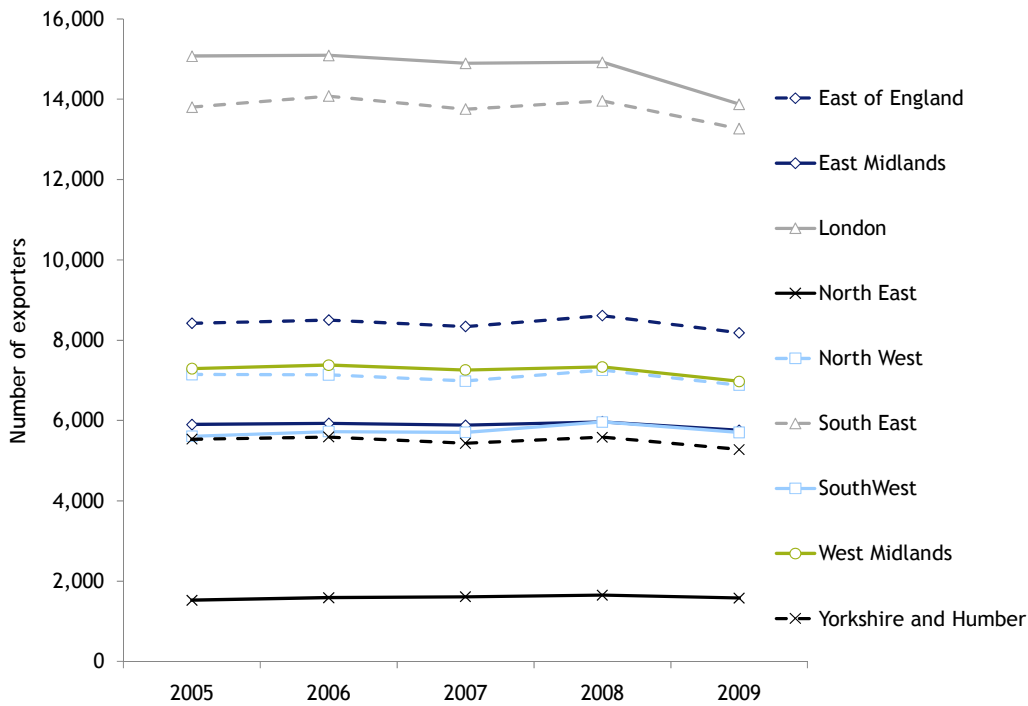


Source: HMRC www.uktradeinfo.com

West Midlands Regional Observatory 2010

The most interesting trend is seen in Figs 13 and 14 (below) where it is possible to differentiate between the number of firms exporting to EU and non-EU countries. The number of firms who export to non-EU destinations is far greater than to the EU which is surprising when compared to the finding in Section 4.1 that Western European countries dominate the West Midlands trade in terms of volume. Figure 13 also shows that the number of firms exporting to the EU has fallen in virtually all regions over the last 5 years.

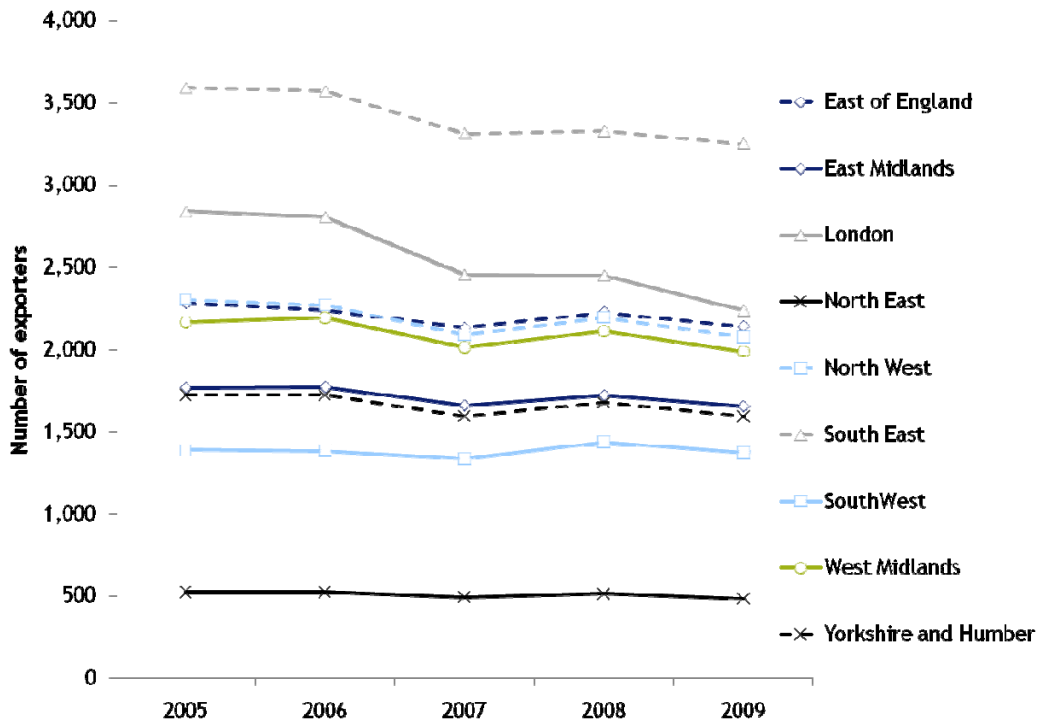
Figure 13: Exporters to EU Countries



Source: HMRC www.uktradeinfo.com

West Midlands Regional Observatory 2010

Figure 14: Exporters to Non-EU Countries



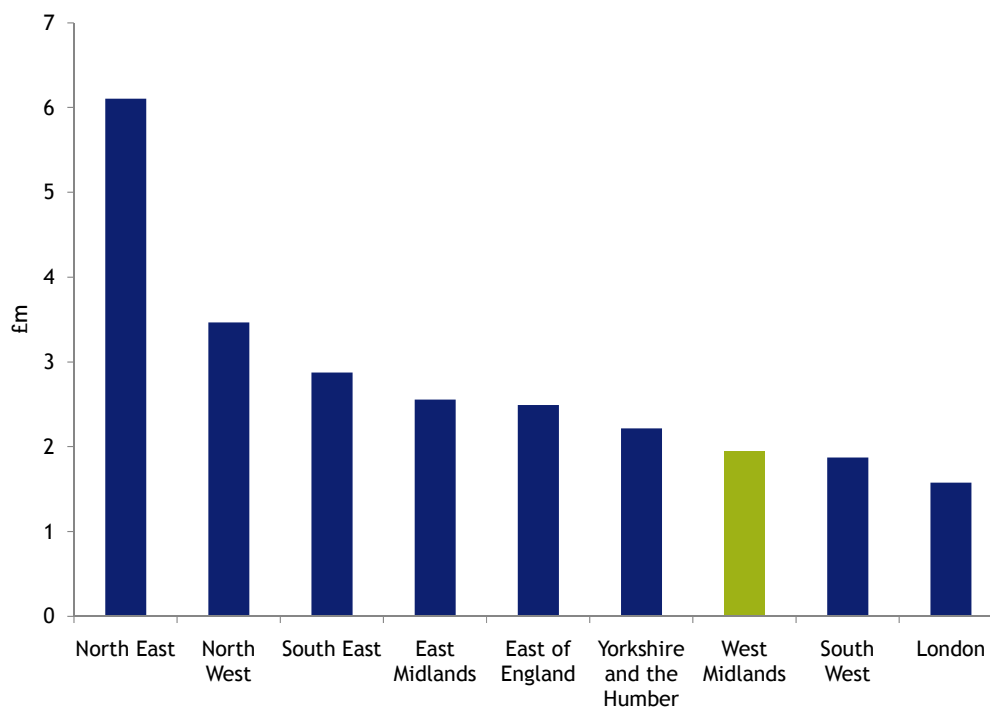
Source: HMRC www.uktradeinfo.com

West Midlands Regional Observatory 2010

Given the trend noted above - that the number of exporters to non-EU countries is far greater than those to EU countries - it is important to consider how this relates to the average value of exports.

Figure 15 shows the average value of exports per exporter in each region. Figure 16 then breaks it down by EU and non-EU countries. The value per exporter of EU exports is between 3 and 5 times that of the average value of non-EU trades. So whilst the number of exporters to non-EU countries is high, the value per exporter is much lower.

Figure 15: Total value of exports per exporter



Source: HMRC www.uktradeinfo.com

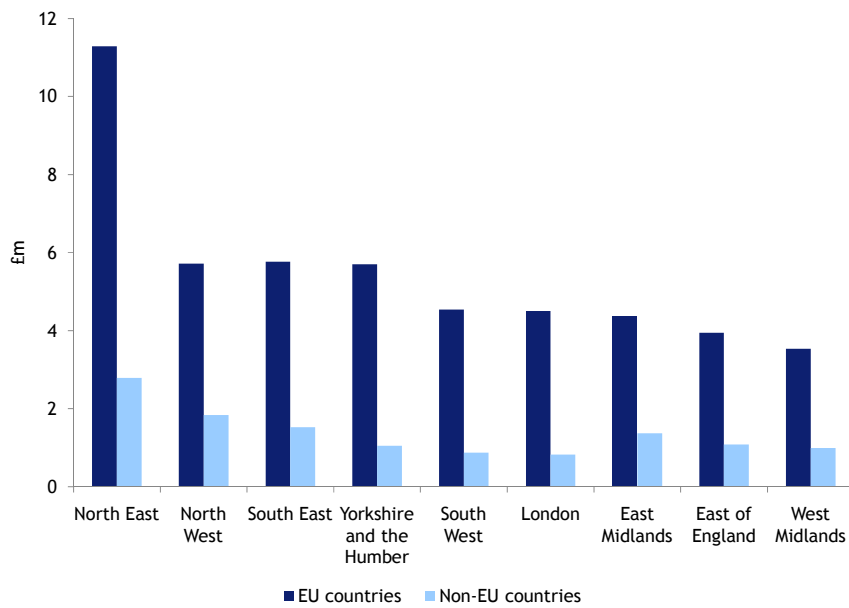
West Midlands Regional Observatory 2010

One thing that is also very notable is that the North East has the highest value per exporter under each of the three measures, between two and three times that of other regions. This is particularly interesting when considered against the data in Figures 12-14, where the North East had the lowest number of exporters.

It is evident that the average value per exporter in the West Midlands is low compared to the other regions. Possessing the lowest value per exporter to EU countries is important considering that the EU represents some of the region's biggest export destinations.

When compared against those regions that have a similar number of exporters (North West and East of England) the average value from the West Midlands firms is less. In terms of EU trade, exporting firms in these two regions export more than £2m more per company than in the West Midlands.

Figure 16: Value of exports per exporter to EU and Non-EU countries



Source: HMRC www.uktradeinfo.com

West Midlands Regional Observatory 2010

A *The number of firms exporting to EU countries is much lower than those who export to outside of the EU for all UK regions. However, the value per exporter to non-EU countries is significantly less. The West Midlands has a similar number of exporters to the North West and East of England, but the value per exporter is notably lower.*

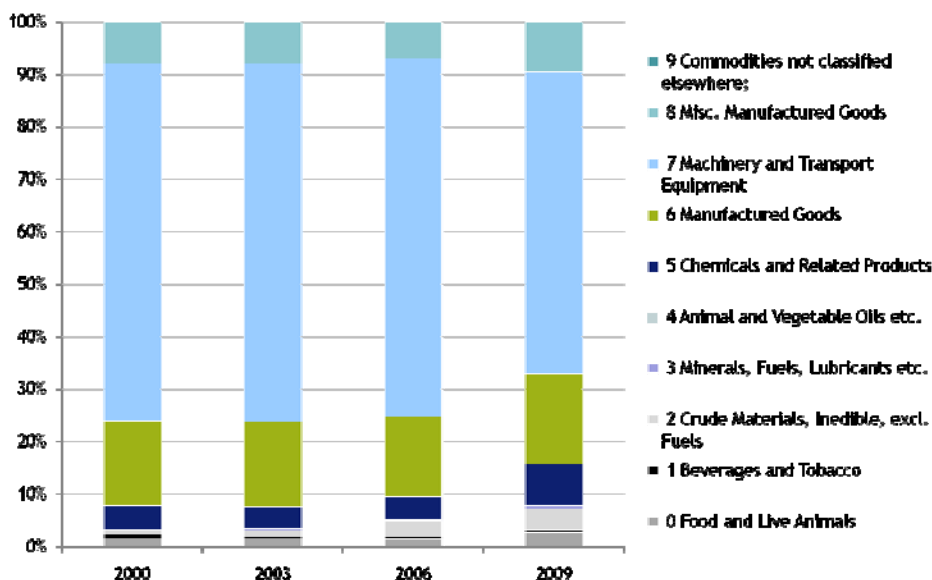
Q “Why have other regions been more successful at diversifying their export base than the West Midlands and to what extent is this due to the mix of sectors in the regional economy?”

5.3 Diversification of exports

In order to find out if the West Midlands has been successful in diversifying its export base we compared its exports by product group across 2000, 2003, 2006 and 2009. We also replicate the analysis for our closest comparable regions: the North West, North East, Yorkshire and the Humber and the East Midlands.

The findings show that the exports composition by product in the West Midlands has not changed significantly since 2000. We found a slight reduction in the proportion of machinery and transport equipment exports which has been compensated mostly by increasing exports of chemicals and related products.

Figure 17: West Midlands’ exports by product group



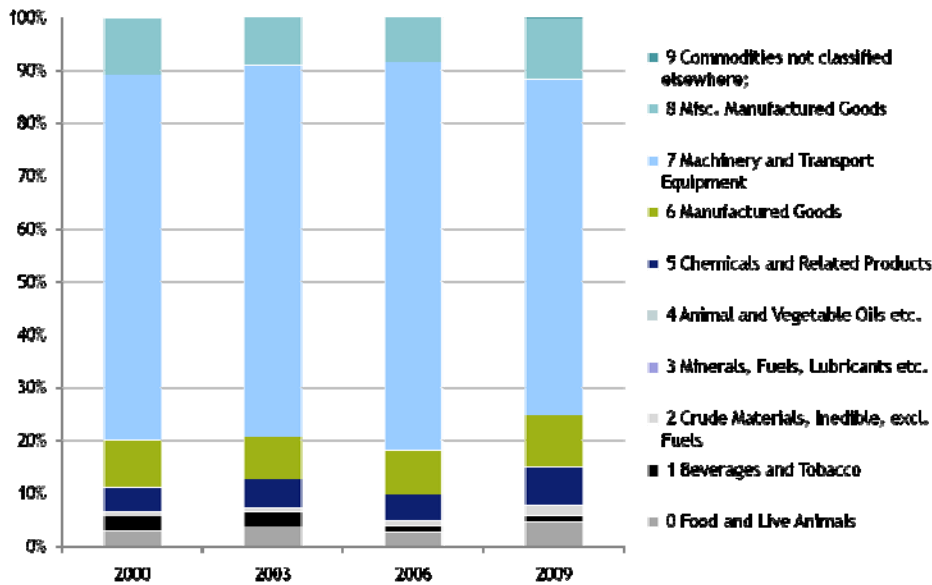
Source: UK Trade Info Regional Statistics

West Midlands Regional Observatory 2010

The majority of the machinery and transport equipment exports from the West Midlands are around road vehicles, general industrial machinery and electric machinery and appliances.

The West Midlands composition of exports is similar to the one in the East Midlands, where little change has also been achieved. The East Midlands’ exports are dominated by machinery and transport equipment. The majority of the exports within this group include power generating machinery equipment and road vehicles.

Figure 18: East Midlands' exports by product group

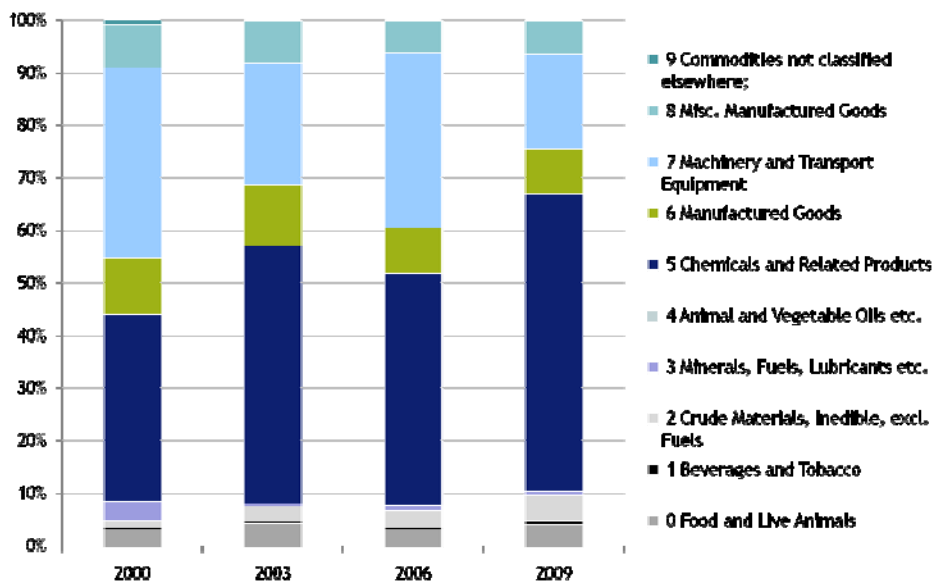


Source: UK Trade Info Regional Statistics

West Midlands Regional Observatory 2010

The North West, had a balanced distribution in 2000 but still dominated mainly by two groups of products (machinery & transport equipment and chemicals & related products). However, by 2009 the North West had considerably increased its dependency on chemicals and related products exports.

Figure 19: North West's exports by product group



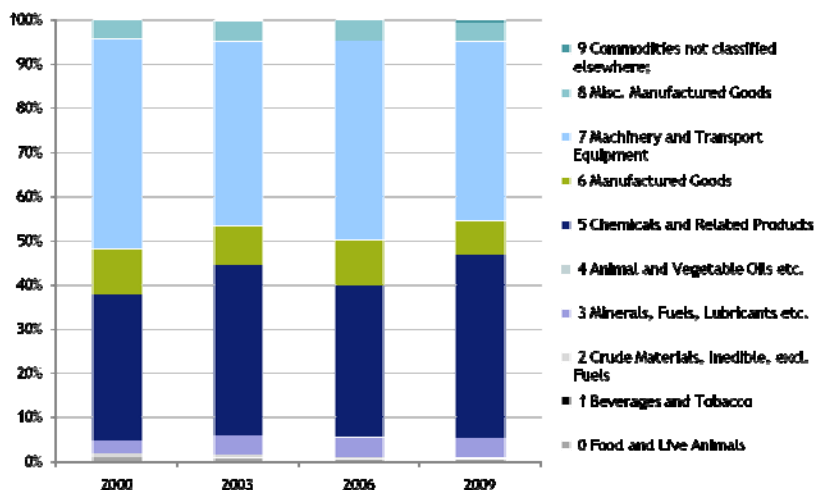
Source: UK Trade Info Regional Statistics

West Midlands Regional Observatory 2010

Within this category the products mainly exported by the North West include medicinal and pharmaceutical products, organic chemicals and inorganic chemicals.

The North East exports composition has changed very little since 2000. The majority of their exports are around chemicals & related products (mainly medicinal and pharmaceutical products and organic chemicals) and machinery & transport equipment (mainly road vehicles and power generating machines).

Figure 20: North East's exports by product group

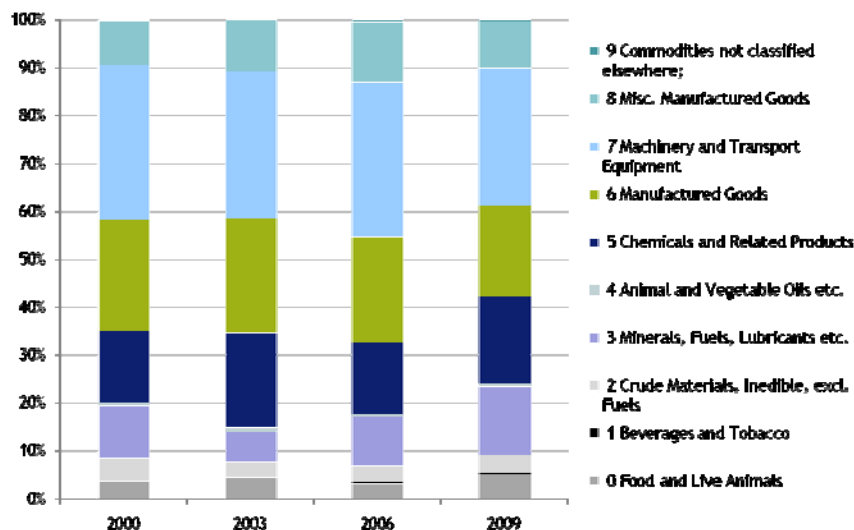


Source: UK Trade Info Regional Statistics

West Midlands Regional Observatory 2010

Finally, Yorkshire and the Humber presents the most balanced distribution of exports compared to the rest of the regions presented. Even though little change has been achieved since 2000, the majority of their exports fall within four product groups: machinery & transport equipment, manufactured goods, chemicals and related products and crude materials, inedible excluding fuels.

Figure 21: Yorkshire and the Humber's exports by product group

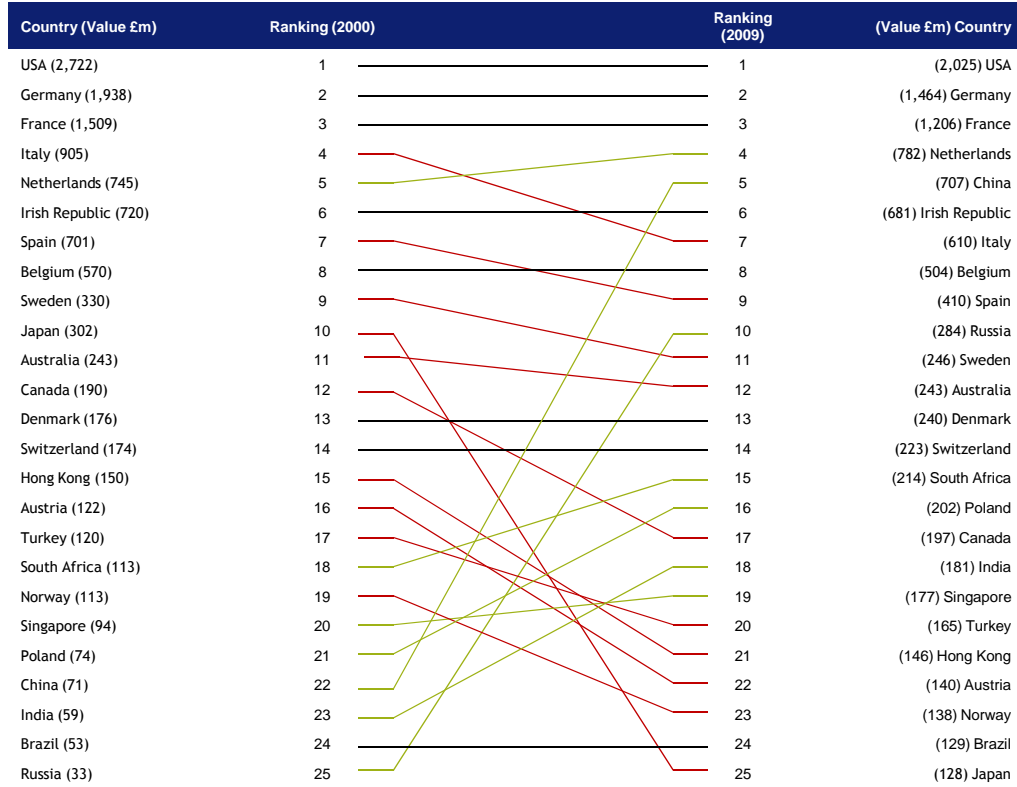


Source: UK Trade Info Regional Statistics

West Midlands Regional Observatory 2010

We also review the main export destinations for the West Midlands and its closest comparable regions: North West, North East, East Midlands and Yorkshire and the Humber. The following charts compare the top 25 export destinations in 2000 and 2009.

Figure 22: West Midlands' top 25 export destinations



Source: UK Trade Info Regional Statistics

West Midlands Regional Observatory 2010

The top 3 export destinations in the West Midlands haven't changed since 2000 (USA, Germany and France). However, the ranking that China, Russia and India achieved in 2009 shows our interest in diversifying our markets and exploiting market opportunities in emerging markets.

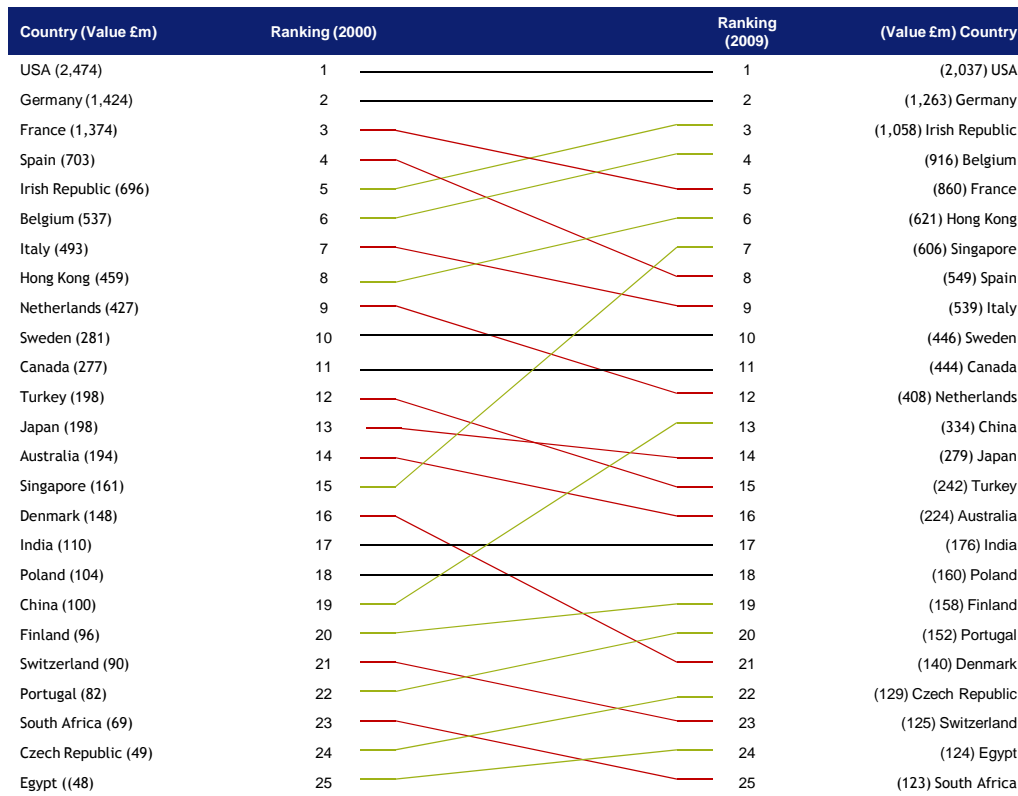
The products driving our exports to China are machinery and transport equipment (mainly road vehicles) and crude materials, inedible excluding fuels (mainly metalliferous ores and metal scrap).

The majority of the products exported to Russia from the West Midlands belong to the machinery and transport equipment group and are mainly road vehicles.

Our exports to India are centred in three product groups: machinery and transport equipment (mainly general industrial machinery, road vehicles and electric machinery and appliances); Crude materials, inedible excluding fuels (mainly metalliferous ores and metal scrap) and manufactured goods (mainly non ferrous metals, manufactures of metal, iron and steel and rubber manufactures).

When compared to the East Midlands' ranking, it seems that our region has been more successful in diversifying into new markets. The changes in the ranking appear less radical with countries mainly losing one or two places in the ranking. China and Singapore stand out as the two countries that have been able to move up in the ranking list.

Figure 23: East Midlands' top 25 export destinations



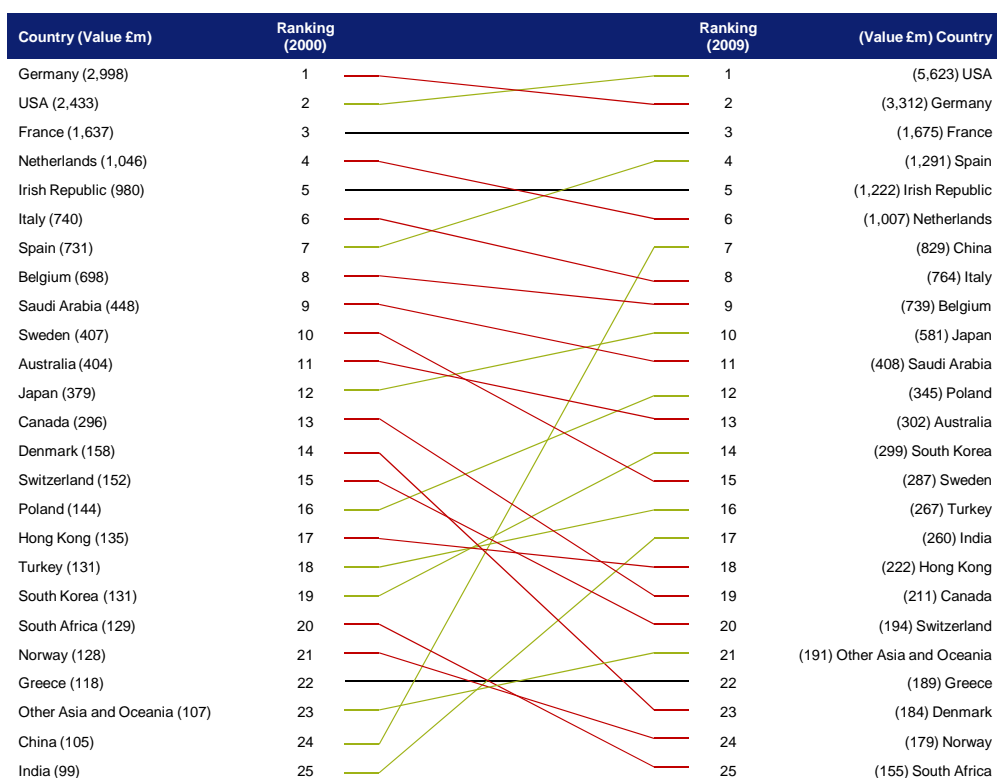
Source: UK Trade Info Regional Statistics

West Midlands Regional Observatory 2010

The majority of their exports to Singapore are around machinery and transport equipment (mainly power generating machinery). For China, the majority of their exports are around machinery and transport equipment (mainly power generating machines, electric machinery and appliances and metal working machinery) and crude materials, inedible excluding fuel (mainly pulp and waste paper).

The North West shows similar changes to the West Midlands. China and India are the countries with the greatest jumps towards the top of the ranking. China has come to the top 10 in the list (from 24th place in 2000). The majority of countries moving up in the ranking tend to be from Asia while the majority of countries moving down tend to be from Europe.

Figure 24: North West's top 25 export destinations



Source: UK Trade Info Regional Statistics

West Midlands Regional Observatory 2010

The majority of the exports to China from the North West fall within the following three groups: Crude materials, inedible excluding fuels (mainly metalliferous ores and metal scrap); chemicals and related products (medicinal and pharmaceutical products, organic chemicals and plastics in primary forms) and machinery and transport equipment (general industry machinery, road vehicles and office machines).

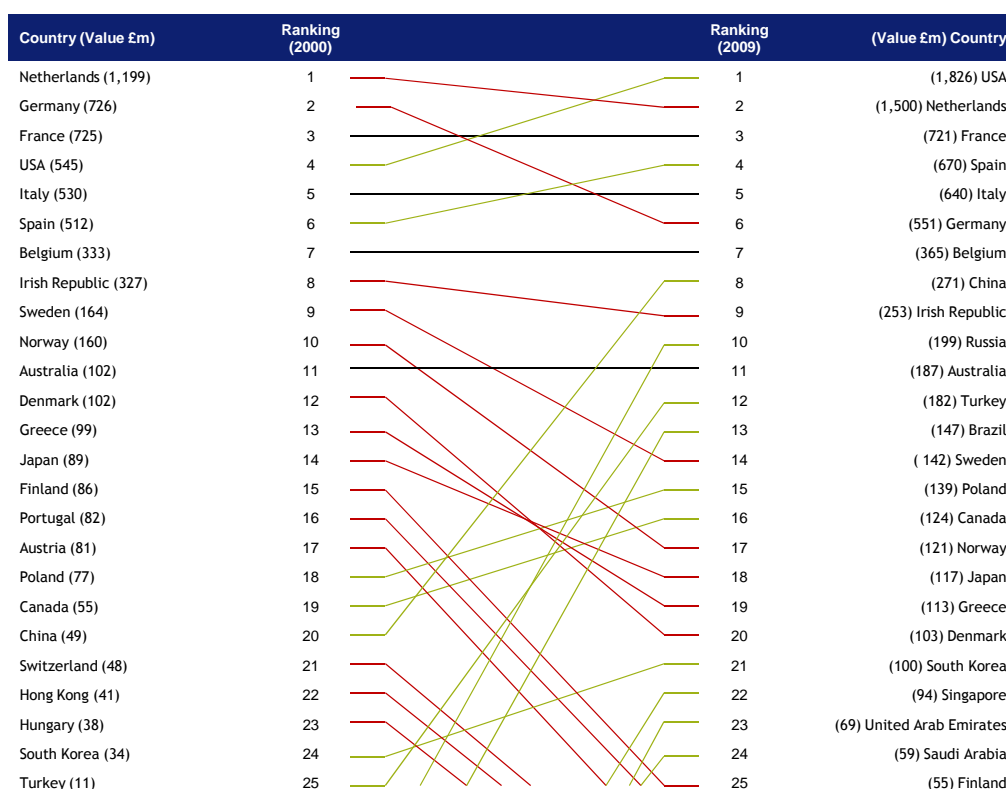
The main products exported to India by the North West are similar to the ones exported to China. The only difference is around the main products exported in the machinery and transport equipment group. For India, these include general industrial machinery, other transport equipment and machinery specialised for particular industries.

The North East has a more dynamic ranking. For the regions presented so far (West Midlands, East Midlands and North West) the list of countries included in the top 25 export destinations between 2000 and 2009 showed no change. It was the order of the ranking that showed a change over time.

For the North East, five countries that appeared in the ranking in 2000 are no longer in the top 25 in 2009 (Portugal, Austria, Switzerland, Hong Kong and Hungary). As a result, new countries appear at the top 25 in 2009 (Russia, Brazil, Singapore, United Arab Emirates and Saudi Arabia).

China, Russia, Turkey and Brazil are the countries that achieved the greatest upward movement in the ranking.

Figure 25: North East's top 25 export destinations



Source: UK Trade Info Regional Statistics

West Midlands Regional Observatory 2010

The main product groups exported to China from the North East include: Machinery and transport equipment (Power generating machinery, electric machinery and appliances and general industry machinery) and chemicals and related products (medicinal and pharmaceutical products, plastic in primary forms and dyeing, tanning colour materials).

Machinery and transport equipment is the main product group exported to Russia from the North East. The majority of the exports within this group are road vehicles.

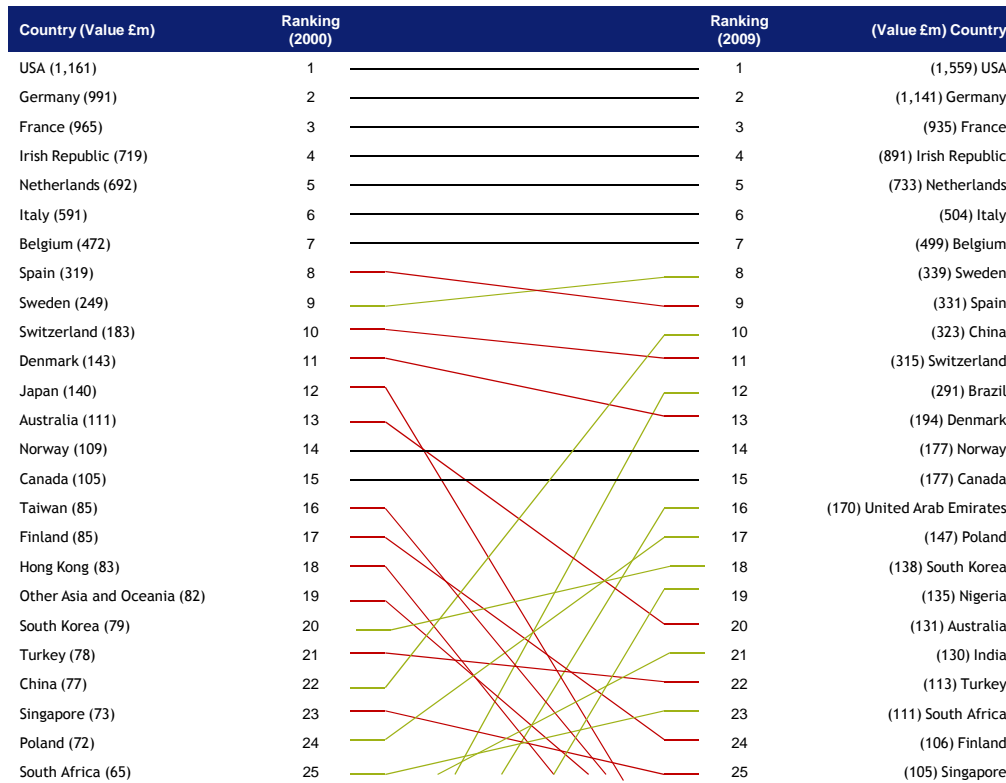
The main products exported to Brazil fall within two categories: chemicals and related products (fertilizers and dyeing, tanning colour materials) and manufactured goods (manufactures of metal and iron & steel).

The exports from the North East to Turkey mainly include: chemicals and related products (organic chemicals, plastics in primary forms) and machinery and transport equipment (road vehicles and power generating machinery).

The ranking for Yorkshire and the Humber is quite different to the ones presented before. Firstly, their top 7 has not changed since 2000. This is not only in terms of the countries listed in the top 7 but also the order has not changed.

Secondly, and similarly to the North East, they have a more dynamic ranking. Four countries listed in 2000 no longer appear in 2009 (Japan, Taiwan, Hong Kong and Other Asia and Oceania). The new countries listed include: Brazil, United Arab Emirates, Nigeria and India.

Figure 26: Yorkshire and the Humber's top 25 export destinations



Source: UK Trade Info Regional Statistics

West Midlands Regional Observatory 2010

The countries with the greatest improvements in the ranking are: China, Brazil, United Arab Emirates, Poland, Nigeria and India.

The main products exported to China are machinery and transport equipment (general industrial machinery, metal working machinery and power generating machinery); crude materials, inedible excluding fuels (metalliferous ores and metal scrap and textile fibres not manufactures and their waste); manufactured goods (iron and steel, manufactures of metal and textile yarn) and chemicals and related products (chemical materials, medicinal and pharmaceutical products and organic chemicals.)

The main products exported to Brazil include chemicals and related products (chemical materials and organic chemicals) and manufactured goods (iron and steel and manufactures of metal).

Their exports to United Arab Emirates fall within three product groups: machinery and transport equipment (general industrial manufacture, power generating, machinery and equipment, telecoms and sound recording and reproducing appliances and electric machinery and appliances); manufactured goods (manufacture of metal, iron and steel and rubber manufactures) and miscellaneous manufactured goods (buildings, sanitary, plumbing, heating and lighting fixtures; articles of apparel and clothing accessories and miscellaneous manufactured articles).

The exports to Poland fall within three product groups: machinery and transport equipment (machinery specialised, road vehicles and general industry machinery); manufactured goods (iron and steel, textile yarn and manufactures of metal) and chemicals and related products (chemical materials, dyeing, tanning and colouring materials and essential oils).

Yorkshire and the Humber's exports to Nigeria mainly fall around two groups: machinery and transport equipment (power generation machinery, machinery specialised and general industrial machinery) and minerals, fuels lubricants (petroleum, petroleum products and related materials)

Finally their exports to India fall within four product groups: machinery and transport (general industrial machinery, machinery specialised, metalworking machinery); chemicals related products (organic chemicals and chemical materials and products); crude materials, inedible excluding fuels (metalliferous ores and metal scrap and textile fibres not manufactures) and manufactured goods (iron and steel, manufactures of metal and non ferrous metals).

The evidence presented in this section suggests that the current perception of other regions being more successful in diversifying their export trade is not strictly true. In the last decade none of the five regions studied had been able to change their export base. In terms of diversifying the destination of its exports, the West Midlands has proved to be successful.

- Q ““In which emerging (or established) markets does the region have relative strengths and in which are their opportunities for future growth?”
- Q “Why does the region ‘punch above its weight’ in certain emerging markets and not others?”
- Q “Which products have seen increasing levels of imports from emerging (and established) economies, what is the driving factor behind these changes and what might be the implications for the region’s economy?”

5.4 Trade with Emerging Markets

Section 4.1 of this report looked at the value of trade with international partners. If we now distil this information to have a look at which are the 25 biggest export destinations and import origins, we can see in more detail how the international trade of the West Midlands is dominated by large Western European Countries, the USA and to an extent China.

Of the BRIC countries (Brazil, Russia, India and China), only China appears in the top 10 partners for both trade flows. Whilst all four countries are in the top 25 export destinations, the value of imports from Brazil is insufficient for it to appear in Figure 27.

Figure 27 combines the trade flows to rank the top 25 international trade partners for the West Midlands. As highlighted previously trade is dominated by Western Europe and the USA.

Only three of the largest 10 trade partners provide an export surplus: USA (road vehicles, transport equipment), Ireland (misc. manufactured goods) and Spain (road vehicles, chemicals). Other countries in the top 25 that provide this surplus include Russia, Switzerland, South Africa and Australia).

All BRIC countries are in the top 25 trading partners but only China appears in the top 10.

Figure 27: West Midlands' top 25 individual import origins and export destinations

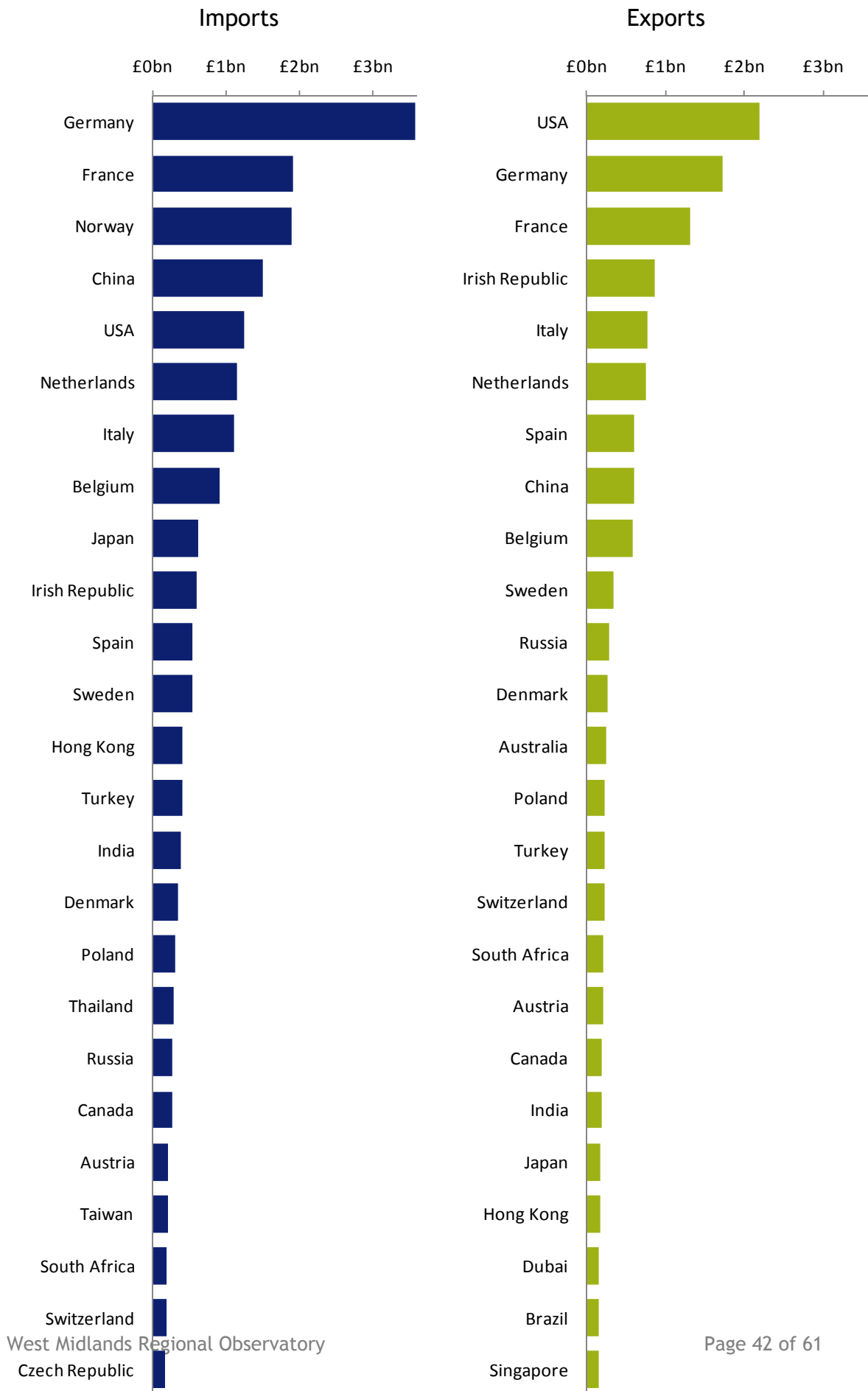


Figure 28: West Midlands' average annual trade (2007-2009) by geographical origin/destination

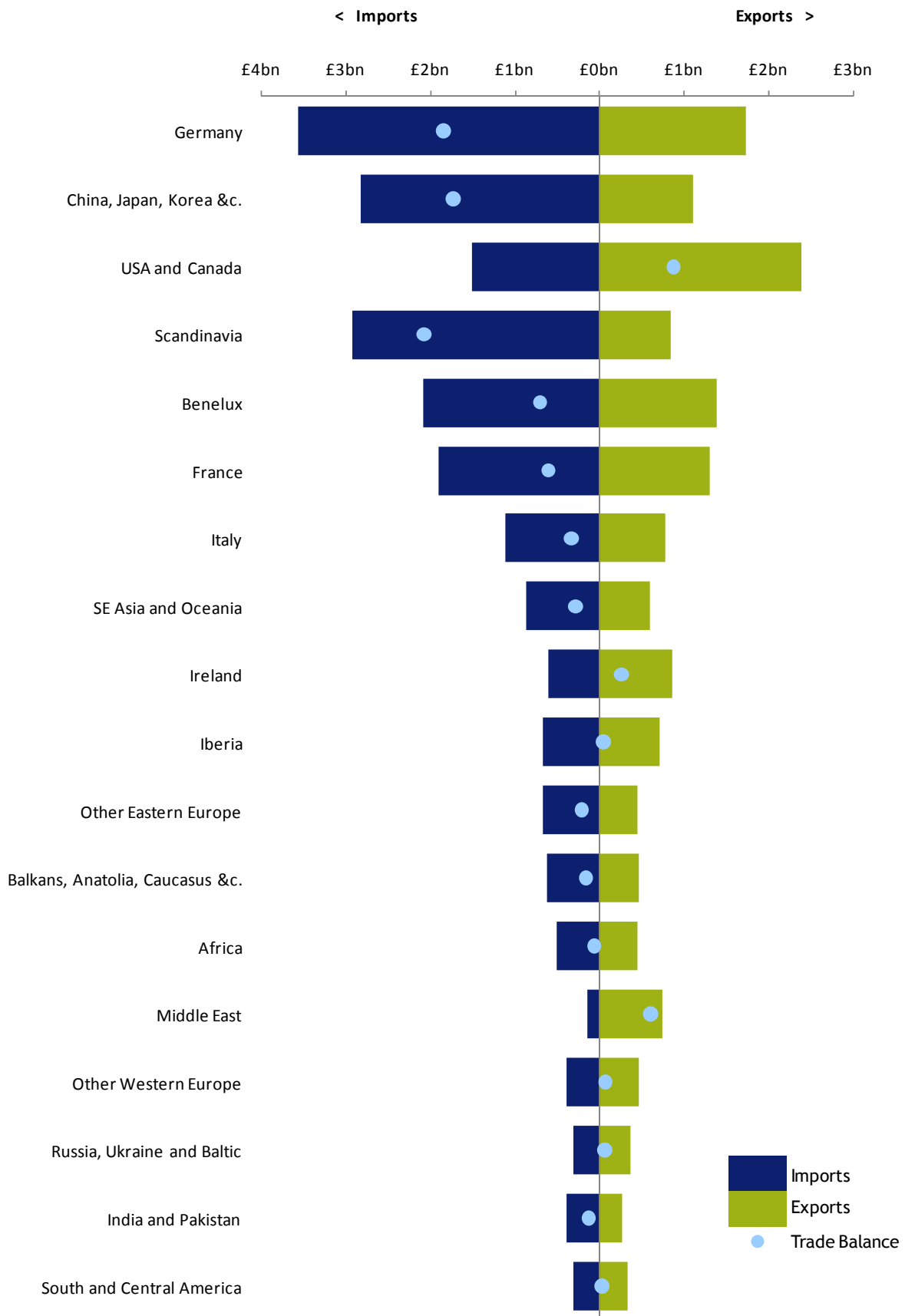


Figure 29 (below), looks at the imports and exports within each of the BRIC countries and also the extent to which these trades contribute to national flows.

Brazil - The level of imports has grown modestly, as has its proportion of national flows. Exports have fluctuated notably, but on the whole, the region has seen its share of national trade with Brazil increase since 2001.

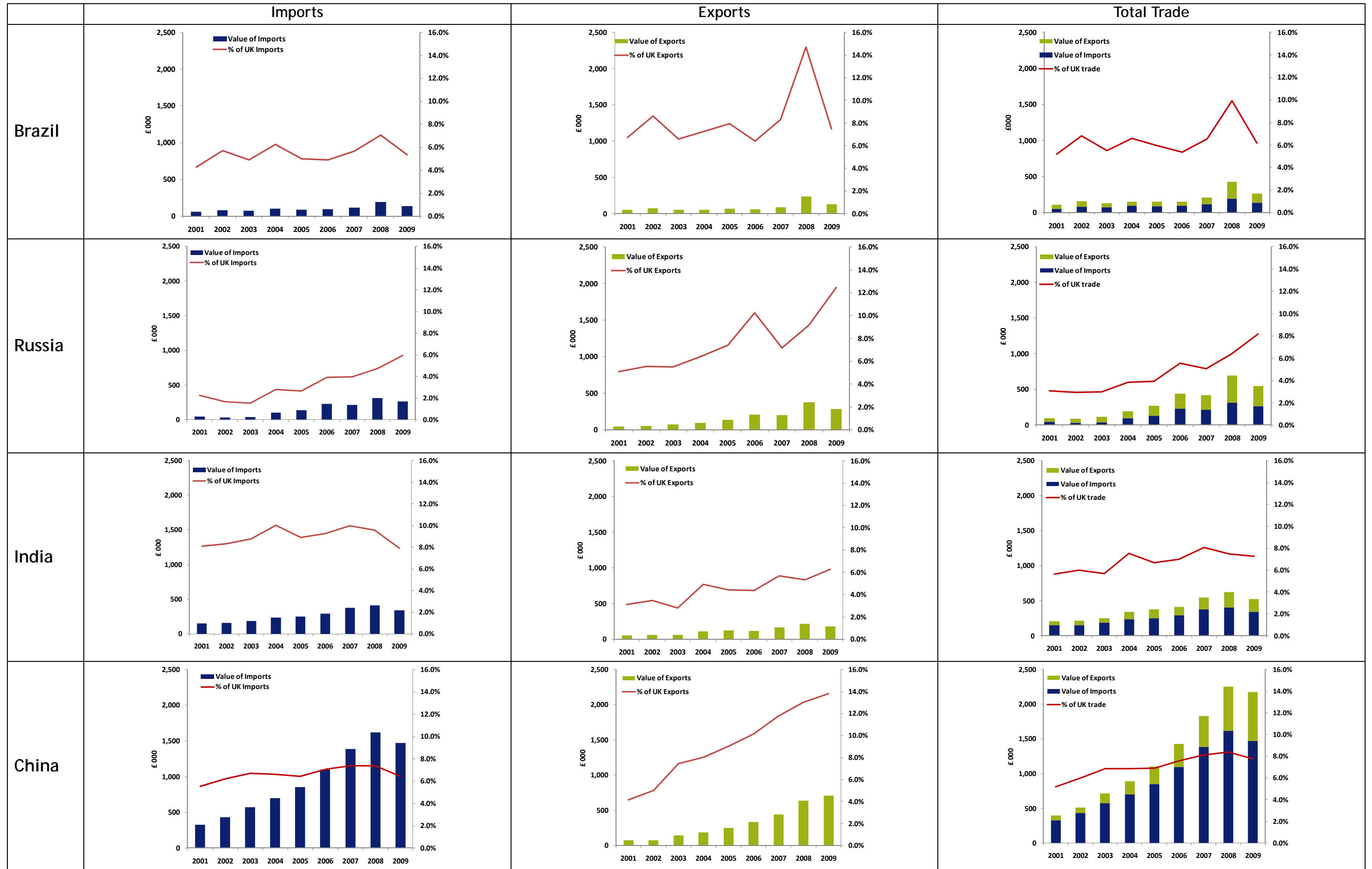
Russia - There has been consistent growth in import and exports with Russia over the decade. This has resulted in the West Midlands' share of UK trade increasing from 3.1% in 2001 to 8.2% in 2009.

India - The value of imports from India has grown over the period but the share of UK imports has remained relatively constant. However, the volume of exports has grown, as has the West Midlands share of UK trade.

China - As already stated, China is the largest trading partner of the emerging economies. Both imports to and exports from the West Midlands have increased dramatically since 2001. This has increased the region's share of UK trade with China from 5.2% to 7.8% between 2001 and 2009.

The West Midlands has a notable and increasing share of UK trade with China. Despite data limitations, exports from the West Midlands (and many regions) are likely to be dominated by a small number of large companies. In the West Midlands, exports to China and Russia are led by road vehicles, which infers that our regional exporting performance could be reliant on Jaguar and Land Rover, as opposed to the region's performance as a whole.

Figure 29: Trade with BRIC Countries



Q “What opportunities exist for the region to improve its export performance and what barriers might prevent it from exploiting those opportunities?”

Q ““What opportunities exist for the region to improve its export performance and what barriers might prevent it from exploring these opportunities?””

5.5 Opportunities for businesses

The literature identifies four main opportunities for UK businesses:

1. **Impact of globalisation** - The majority of UK businesses currently involved in international trade have the perception that globalisation will have a positive impact on their businesses in the coming years. This perception is mainly shared across the following sectors: primary industries, health and education, and financial services⁴¹.
2. **Low cost manufacturing base** - China and Eastern Europe can provide an opportunity for UK firms to reduce costs through offshoring (buying services from an overseas firm⁴²) as a result of their low cost manufacturing base⁴³.
3. **Demand for goods and services** - Developed economies may still account for the majority of world output, but emerging economies are the ones driving growth in the world economy (mainly Asia, Middle East and Central and Eastern Europe). Even though much of this growth comes from exports, demand for more sophisticated goods and services and rising household incomes provide opportunities for the UK⁴⁴.
4. **Innovation, research and development** - Countries such as China, Thailand and Malaysia are developing their own research, innovation and design capabilities. The development of supporting infrastructure for innovation and the emphasis being placed on developing a more highly qualified workforce, could also provide opportunities for companies wishing to expand their design and development activities beyond the UK's shores⁴⁵.

⁴¹ The Institute of Chartered Accountants in England and Wales (2009a)

⁴² Heckley (2005)

⁴³ EEF (2008) and EEF (2007a)

⁴⁴ EEF (2008)

⁴⁵ EEF (2007a)

5.6 Market opportunities

The Centre for International Business from the University of Leeds, produced evidence to identify countries that are likely to offer the most attractive opportunities for British businesses in the medium term.

The research suggests that industrialised countries will recover slowly from the recent global crisis. This will encourage UK businesses to focus their attention on emerging markets in Asia such as China, India, Indonesia, Thailand and Malaysia. More advanced Asian economies such as Hong Kong, Korea, Singapore and Taiwan can also deliver opportunities but to a lesser extent⁴⁶.

The research also highlights that even though the US has been seriously affected by the 'credit crunch', it still plays a vital role in UK's international trade. In addition, the size of the US market has potential for growth once the global economy starts recovering⁴⁷.

Finally, a number of countries which have not traditionally been important destinations for British investment and trade will deliver clear opportunities. These countries include Lybia, Egypt, Angola, Nigeria, Ukraine, Russia, Romania and Poland⁴⁸.

Long term projections are also quite positive in terms of the opportunities that emerging markets can deliver. Research by Hawksworth and Cookson (2008) 'The World in 2050' estimate the following⁴⁹:

- By 2050, China, India, Brazil, Russia, Mexico, Indonesia and Turkey will be around 50 percent larger than the current G7 (US, Japan, Germany, UK, France, Italy and Canada)
- China is expected to overtake the US as the largest economy in around 2025 while India is expected to nearly catch up with US by 2050⁵⁰
- The Brazilian economy could be larger than the Japanese economy by 2050
- The Russian, Mexican and Indonesian economies could be larger than the German, French or UK economies by 2050
- The Turkish economy could be similar a size to the Italian economy by 2050.

⁴⁶ Cross (2010), EEF (2008), EEF (2207a), EEF (2007b) and UK Trade and Investment (2009)

⁴⁷ Cross (2010)

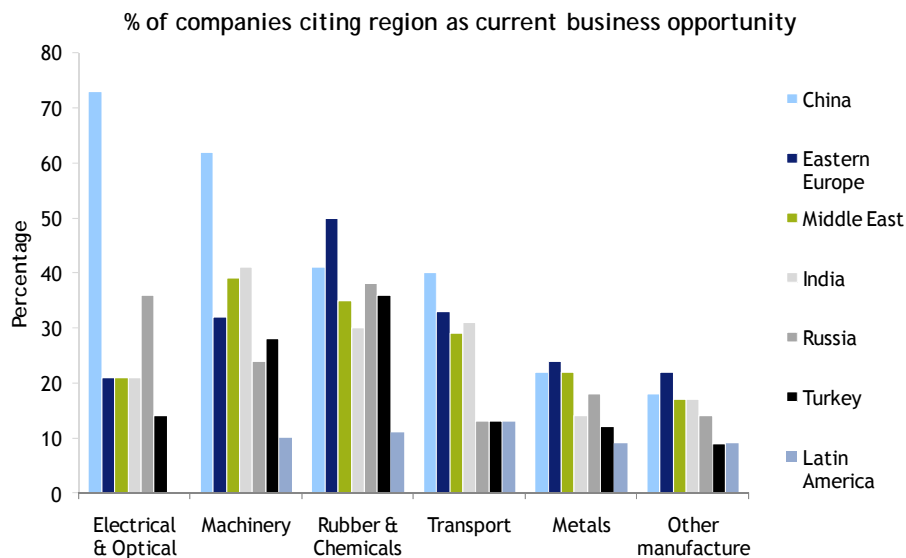
⁴⁸ Ibid

⁴⁹ Hawksworth and Cookson (2008)

⁵⁰ Supported by research from the Department for Business Enterprise and Regulatory Reform (2009)

The literature also suggests that market opportunities can vary by sector. In 2008 EEF ‘The manufacturers’ organisation’ conducted a survey with its members to identify the challenges and opportunities arising from global markets. Figure 30 shows the percentage of businesses citing the region as a current business opportunity.

Figure 30: Market opportunities by sector



Source: EEF and BDO Stoy Hayward (2008) Global Challenge Survey, February 2008

West Midlands Regional Observatory 2010

China is the main market opportunity for electrical & optical and machinery. Eastern Europe is perceived as a greater market opportunity for rubber & chemicals. However China is not far behind.

Four markets are highlighted as the main opportunities for transport: China, Eastern Europe, Middle East and India. Finally, the opportunities for metals and other manufacture tend to be more balanced across the six potential markets.

5.7 Barriers

The literature identifies several types of barriers. The main groups include⁵¹:

1. Legal and regulatory barriers include dealing with legal requirements, bureaucratic regulations, company registration, intellectual property rights, legal and financial tax regulations, and standards overseas.

⁵¹ OMB Research (2008), OMB Research (2005), Kneller and Pisu (2007b), UKTI (2008), Chaplin (2009), The Institute of Chartered Accountants in England and Wales (2009a) and British Chamber of Commerce (2009)

2. Local linkage barriers refers to finding suitable premises, or identifying and recruiting suitable staff, or retention of staff or identifying suitable local suppliers or partners.
3. Contact barriers for example having difficulties identifying who to make contact with in the first instance, or establishing an initial dialogue with prospective customers, networks, or building relationships with key influences or decision makers.
4. Information barriers involve difficulties obtaining basic information about a market.
5. Access to finance refers to being able to identify potential channels of funding as well as being able to access them.
6. Fixed cost barriers such as marketing costs associated with doing business in an overseas market, exchange rates and foreign currency, not having an office or site in an export market or logistical problems.
7. Language and cultural barriers including facing strong and protectionist attitudes or even customer bias preferring to do business with firms in their own country.
8. Political environment including issues such as political risk, macroeconomic instability and corruption.

These barriers can vary by market with firms generally experiencing more barriers in emerging markets⁵². Barriers are also related to export experience but in a non-linear manner. Some barriers arise after the firm has exported for more than two years, but fall after the firm has exported for at least ten years⁵³.

Research by Kneller and Pisu (2007) explored the frequency of occurrence of these barriers. The least common barriers were related to obtaining basic information about an export market, logistical problems, language barriers, cultural differences and not having an office or site in an export market.

More common barriers include building relationships with key influencers or decision making; dealing with financial and tax regulations and standards overseas; establishing an initial dialogue with prospective customers or business partners and exchange rates and foreign currency.

Finally, the most common barriers were those associated with identifying who to make contact with in the first instance and the marketing costs associated with doing business in an overseas market.

⁵² Department for Business Innovation and Skills (2010)

⁵³ Department for Business Innovation and Skills (2010) and Kneller and Pisu (2007)

5.7.1 West Midlands' opportunities and barriers

The Institute of Chartered Accountants delivered in 2009 their UK enterprise survey report. The findings include regional highlights and this is the only literature identified that provides specific information for the West Midlands regarding barriers and opportunities⁵⁴.

Businesses in the West Midlands that are already globally engaged⁵⁵ have the perception that globalisation will have a positive impact on their businesses in the next five years.

Businesses in the West Midlands also have the perception that they will face fewer significant barriers to trading than the UK average.

Businesses in the region identified the following three barriers as the most significant ones: the political environment, the existence of effective legal systems regarding commercial agreements and corruption.

The barriers that the West Midlands' businesses perceive as less significant include: availability of internal resources, access to finance and language.

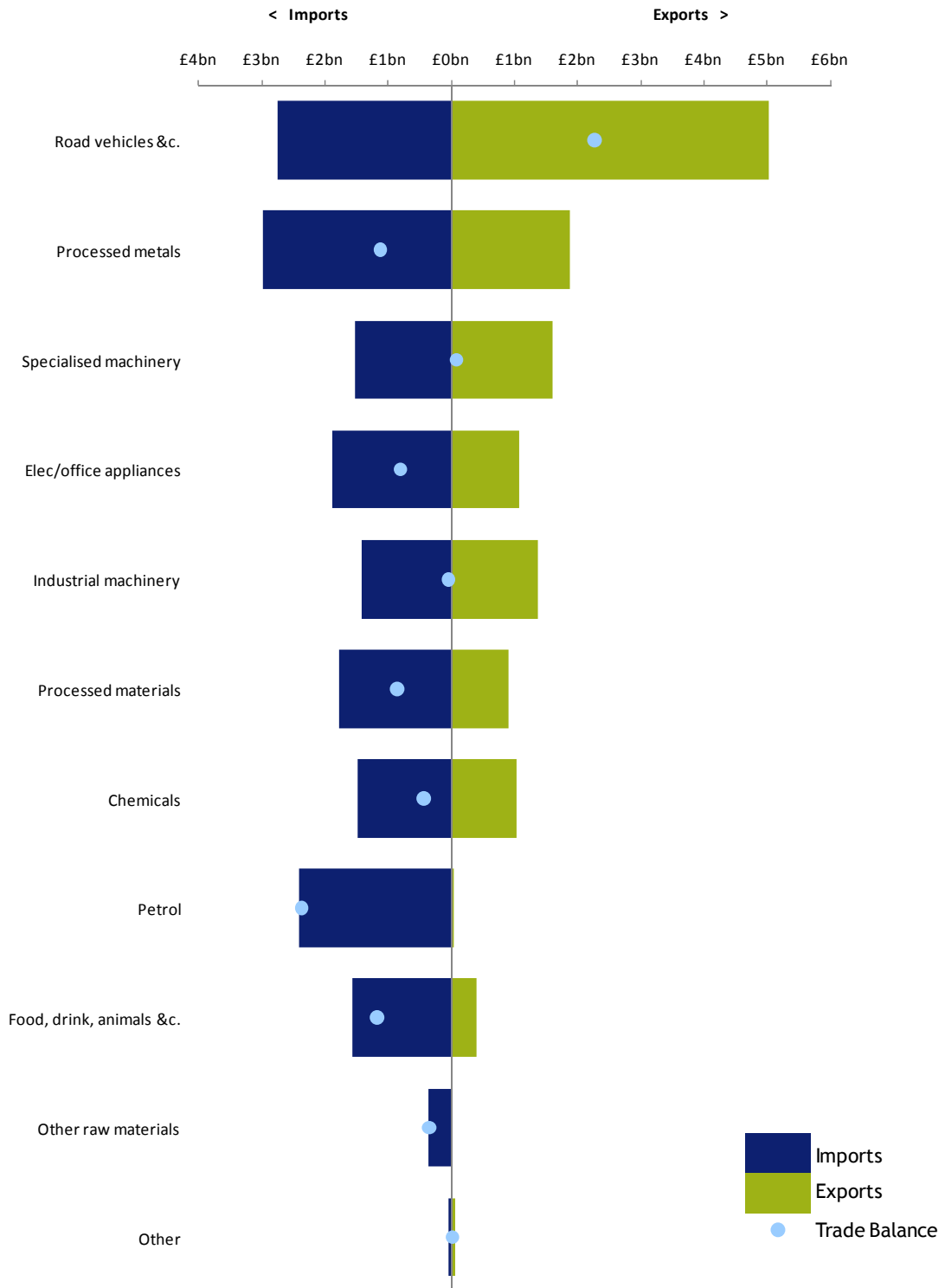
The evidence shows that there are business and market opportunities for exporting organisations. However, there are also a series of barriers to be overcome. Businesses recognise that the most common barrier is to identify who to make contact with in the first instance and the marketing costs associated.

⁵⁴ The Institute of Chartered Accountants in England and Wales (2009b)

⁵⁵ Global engagement is defined as having operations or activities outside their home country or outsourcing business activities or business functions, selling to customer, making acquisitions or adapting products or services to countries outside their home country

Annex I: Trade by Product Grouping

Figure 35: West Midlands' average annual trade (2007-2009) by product group traded



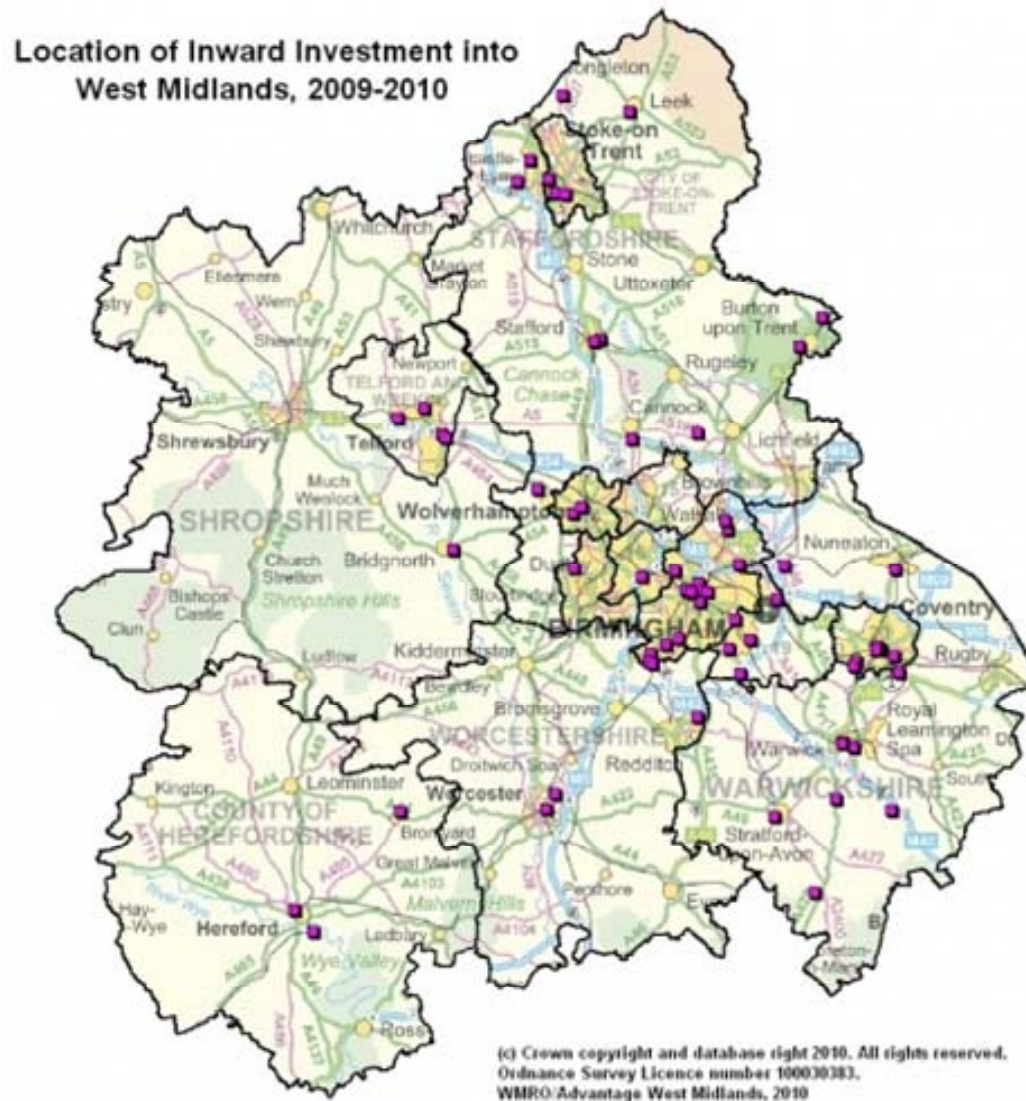
Sector (quarterly trade by value)		Key Products within Sector (2009)	Partners within Sector (2009)
<p>Road vehicles & c.</p>	Exports	<ul style="list-style-type: none"> Road Vehicles (Inc. Air Cushion Vehicles) £3,887m Other Transport Equipment £426m 	<ul style="list-style-type: none"> USA £1,158m Germany £390m
	Imports	<ul style="list-style-type: none"> Road Vehicles (Inc. Air Cushion Vehicles) £1,622m Other Transport Equipment £196m 	<ul style="list-style-type: none"> Germany £491m France £156m
<p>Processed metals</p>	Exports	<ul style="list-style-type: none"> Manufactures Of Metal N.E.S. £730 Non-Ferrous Metals £419m 	<ul style="list-style-type: none"> Germany £243m France £160m
	Imports	<ul style="list-style-type: none"> Manufactures Of Metal N.E.S. £971m Iron & Steel £801m 	<ul style="list-style-type: none"> Germany £386m China £273m
<p>Specialised machinery</p>	Exports	<ul style="list-style-type: none"> Machinery Specialized For Particular Industries £705m Power Generating Machinery & Equipment £542m 	<ul style="list-style-type: none"> USA including Puerto Rico £193m France £119m
	Imports	<ul style="list-style-type: none"> Power Generating Machinery & Equipment £883m Machinery Specialized For Particular Industries £434m 	<ul style="list-style-type: none"> Germany £384m USA including Puerto Rico £186m

Sector (quarterly trade by value)		Key Products within Sector (2009)	Partners within Sector (2009)
<p>Elec/office appliances</p>	Exports	<ul style="list-style-type: none"> Elec Machinery, App & Appliances & Elec N.E.S. £616m Office Machines & Adp Machines £285m 	<ul style="list-style-type: none"> Netherlands £250m USA including Puerto Rico £80m
	Imports	<ul style="list-style-type: none"> Elec Machinery, App & Appliances & Elec N.E.S. £1,169m Office Machines & Adp Machines £331m 	<ul style="list-style-type: none"> China £291m Germany £200m
<p>Industrial machinery</p>	Exports	<ul style="list-style-type: none"> General Industrial Machinery & Eqp. & Machine Pt. N.E.S. £1,001m Metalworking Machinery £162m 	<ul style="list-style-type: none"> USA including Puerto Rico £134m Germany £124m
	Imports	<ul style="list-style-type: none"> General Industrial Machinery & Eqp. & Machine Pt. N.E.S. £1,074m Metalworking Machinery £165m 	<ul style="list-style-type: none"> Germany £272m USA including Puerto Rico £133m
<p>Processed materials</p>	Exports	<ul style="list-style-type: none"> Rubber Manufactures N.E.S. £399m Non-Metallic Mineral Manufactures N.E.S. £282m 	<ul style="list-style-type: none"> France £125m Germany £125m
	Imports	<ul style="list-style-type: none"> Rubber Manufactures N.E.S. £713m Non-Metallic Mineral Manufactures N.E.S. £349m 	<ul style="list-style-type: none"> Germany £321m France £214m

Sector (quarterly trade by value)		Key Products within Sector (2009)	Partners within Sector (2009)
<p>Chemicals</p>	Product	Partner	
	<ul style="list-style-type: none"> • Medicinal & Pharmaceutical Products £296m • Organic Chemicals £170m 	<ul style="list-style-type: none"> • Germany £225m • France £82m 	
<p>Petrol</p>	Product	Partner	
	<ul style="list-style-type: none"> • Petroleum, Petroleum Products & Related Materials £54m 	<ul style="list-style-type: none"> • Other Middle East And N Africa £20m • Irish Republic £10m 	
<p>Food, drink, animals &c.</p>	Product	Partner	
	<ul style="list-style-type: none"> • Meat & Meat Preparations £140m • Beverages £81m 	<ul style="list-style-type: none"> • France £141m • Irish Republic £123m 	
<p>Food, drink, animals &c.</p>	Product	Partner	
	<ul style="list-style-type: none"> • Meat & Meat Preparations £756m • Vegetables & Fruit £360m 	<ul style="list-style-type: none"> • Irish Republic £365 • Netherlands £246m 	

Sector (quarterly trade by value)		Key Products within Sector (2009)	Partners within Sector (2009)
<p>Other raw materials</p>	Product	Partner	
	Exports	<ul style="list-style-type: none"> Gas, Natural & Manufactured £35m Coal, Coke & Briquettes £1m 	<ul style="list-style-type: none"> Germany £10m France £8m
<p>Other</p>	Product	Partner	
	Exports	<ul style="list-style-type: none"> Commodities not classified elsewhere; £23m 	<ul style="list-style-type: none"> France £4m Irish Republic £3m
	Imports	<ul style="list-style-type: none"> Coal, Coke & Briquettes £366m Gas, Natural & Manufactured £25m 	<ul style="list-style-type: none"> Russia £201m Indonesia £76m
	Imports	<ul style="list-style-type: none"> Commodities not classified elsewhere; £22m 	<ul style="list-style-type: none"> USA including Puerto Rico £13m France £2m

Annex 2: Location of inward investments 2009/10



Source: West Midlands Regional Observatory (2010) Inward investment into the West Midlands 2009/10 - a local analysis, Observations
West Midlands Regional Observatory

West Midlands Regional Observatory 2010

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