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Business and Trade Committee
House of Commons
London
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IoD Response to the Export Led Growth Inquiry

About the IoD

The IoD is an independent, non-party political organisation representing approximately 20,000 company directors, senior business leaders, and entrepreneurs. It is the UK's longest-running organisation for professional leaders, having been founded in 1903 and incorporated by Royal Charter in 1906. Its aim is to promote good governance and ensure high levels of skills and integrity among directors of organisations. It campaigns on issues of importance to its members and to the wider business community with the aim of fostering a climate favourable to entrepreneurial activity in the UK.

The IoD welcomes the opportunity to respond to this inquiry.

Specific Questions

What should be the government's ambition for the contribution from trade in helping deliver the fastest growing economy in the G7?

The government recognises that exporting businesses are important in driving economic growth.[1] Yet data from the Office for National Statistics (ONS) suggests that only around 11% of UK businesses export.[2]

At the same time, according to the Office for Budget Responsibility (OBR), UK trade intensity (exports plus imports as a share of GDP) has not recovered in line with other G7 countries since the pandemic.[3] However, they note there has been a significant difference between goods and services trade: whilst at the end of 2023, goods trade was around 10% below pre-pandemic levels, compared to a 5% increase on average in G7 counterparts, UK services growth was actually the strongest of the G7. UK services growth ended 2023 at around 12% above pre-pandemic levels, where the remaining G7, at the end of the third-quarter of 2023, reached around 9% on average.

Digging deeper into the services trend, it was the sector 'other business services', including consulting, research and development and R&D that performed the best, whilst financial services and transport, services the most likely to have been impacted by Brexit, performed less strongly. Meanwhile, goods trade – being predominantly with the EU – will have been significantly impacted by changes in the terms of trade with the EU following Brexit.

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[1] House of Commons Library, Economic Update: Service exports outpace goods, 30/08/2024, https://commonslibrary.parliament.uk/economic-update-services-exports-outpace-goods/#:~:text=Trade%20can%20help%20improve%20economic,improve%20products%20and%20reduce%20prices.

[2] ONS, Annual Business Survey exporters and importers, 01/07/2024, https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/annualbusinesssurveyimportersandexporters

[3] Office for Budget Responsibility, How are our Brexit trade forecast assumptions performing, 03/2024 https://obr.uk/box/how-are-our-brexit-trade-forecast-assumptions-performing/#:~:text=Composition%20of%20trade%20in%20the%20UK%20and%20the%20rest%20of%20the%20G7&text=Growth%20in%20UK%20goods%20trade,G7%20in%20the%20third%20quarter.

Data from the ONS shows that UK exports, whilst recovered from the pandemic, have since seen a steady decline from £79 billion in October 2022 to £69 billion in November 2024.[4]

IoD data from January 2025 shows just over half of members export, 33% regularly and 19% on an ad hoc basis. Of those which have never exported, the primary reasons cited relate to resource constraints:

You said your organisation has never exported, but sells an exportable good or service. Which of the following have contributed to why your organisation has never exported?

Insufficient management time to explore opportunities	47.8%
Lack of business connections in overseas markets	39.1%
Regulatory or tax compliance burdens	26.1%
Sufficient business in the UK	26.1%
Lack of knowledge about export markets	21.7%
Uncertainty about economic conditions in target markets	17.4%
Concerns about payment and financial risks	17.4%
Cultural/language barriers	13.0%
Insufficient returns relative to costs	13.0%
Customs procedures	8.7%

[4] ONS, UK exports time series, https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/timeseries/ikbh/mret

Of those members that used to export but do not anymore, the overwhelming reason is the UK's trading relationship with the EU:

You said your organisation used to export but do not do so currently. Which of the following, if any, have contributed to why you stopped exporting?

The UK's trading relationship with the EU	54.8%
Regulatory changes	25.8%
Decline in international demand	25.8%
Customs procedures	22.6%
Lack of international business support or partnerships	16.1%
Exchange rate fluctuations	16.1%
High costs of maintaining export operations relative to returns	16.1%
Strategic shift to focus on domestic market	9.7%
Payment and financial risks	6.5%
Logistical challenges and shipping delays	6.5%

IoD data from January 2025 also shows that, on balance, members are expecting a net increase in exports over the next 12 months compared to the previous. However, with the largest proportion expecting no change, there looks to be a certain lack of growth prospects:

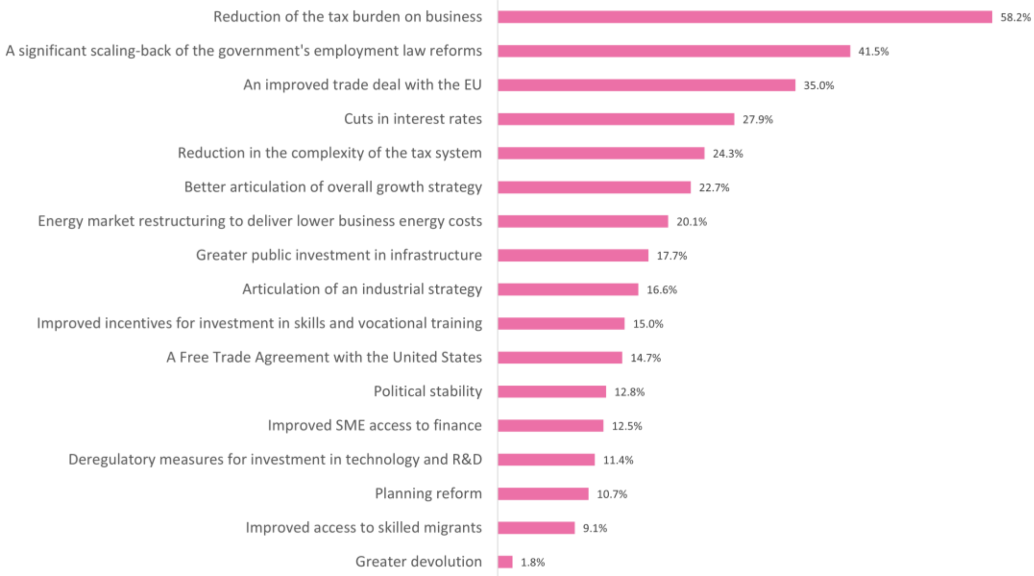
Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of exports:

Much higher	4.3%
Somewhat higher	24.9%
No change	48.6%
Somewhat lower	13.5%
Much lower	6.3%
Don't know	2.4%
Total	414 respondents

* This data set removed all those who selected N/A, i.e. those organisations that do not export

When asked what they think would do most to boost growth for their organisation in 2025, 35% responded with ‘an improved trade deal with the EU’, the third most selected option behind ‘a significant scaling-back of the government's employment law reforms’ (42%) and ‘reduction of the tax burden on business’ (58%).

What would do most to boost growth for your organisation in 2025? Please select up to three.



Overall, the ambition should be to remove barriers to exports to enable those businesses that are hampered by regulatory and resource constraints to benefit from the international trading environment. There should be an ambition to increase the number of exporting companies in the UK to help to foster economic growth.

The evidence above shows how the UK's trading relationship with the EU remains one of the biggest barriers to business growth. The UK-EU reset must therefore be the government's priority for trade moving forwards. Being the UK's closest and biggest trading partner, easing trade frictions with the EU will go a long way in encouraging firms to export.

To complement this, the government should seek to strengthen ties with other international partners and emerging markets to ensure UK exporters have access to broad opportunities globally.

How can the UK's trade strategy better align with the government's new industrial policy, and the UK's known comparative advantages?

The industrial strategy is expected to have a sector lens and be focused on stimulating activity in sectors with the highest growth potential. By definition, growth potential is a function of opportunities in both the domestic market and the international market. Given that a trade strategy is in the process of being developed, it would make sense for the industrial strategy to highlight those sectors where growth potential is particularly influenced by export potential, and note that these will likewise be prioritised for support via the trade strategy. The complication will be where the realisation of export potential is contingent on successful negotiation of trade deals. Attributing probabilities of success to trade negotiations will yield high ranges of potential outcome, inevitably complicating the selection of priority sectors. It is important that the industrial strategy and trade strategy come to mutual agreement regarding the methodology for defining growth potential, which necessitates close collaboration between DBT and HMT.

What are the most important foreign country and product markets for delivering the fastest possible trade growth?

Trade market opportunities are functions of size, policy and regulatory closeness, physical proximity, cultural proximity, growth opportunity, and relevance to UK export strengths.

In 2023, the UK's largest export market was the EU, accounting for £348 billion and 41% of total UK exports.[5] In terms of individual partners, the US accounted for £179 billion (21%), exports to Germany totalled £59 billion (7%), exports to Ireland totalled £54 billion (6%), and the Netherlands accounted for £52 billion (6%).

The EU is the UK's largest trading partner and, at the moment, the partner that creates the biggest challenge to exporting. Therefore, removing barriers to EU trade needs to be the biggest focus. But, with the US also being key for UK exporters, it will be important to focus on relations there to continue to support UK businesses at a time when political relations under the Trump administration are somewhat uncertain.

[5] ONS UK total trade: all countries, seasonally adjusted, July to September 2024 edition of this dataset, https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktotaltradeallcountriesseasonallyadjusted

Anecdotal evidence from IoD members suggests they would value stronger ties with the US and the EU:

"With the current geopolitical situation the UK needs, more than ever to have stronger ties to its allies in the EU and US. This should be a priority in order to maintain stability and is especially relevant to our near neighbours in the EU where we must work together." (Professional, scientific and technical activities, London, 2-9 employees)

"With the UK market being static we have acquired businesses in EU countries and the US. This has driven growth and also had a positive knock-on effect for our UK business." (Manufacturing, North West England, 100-249 employees)

However, the importance of emerging markets should also be recognised. The UK's accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) presents business opportunities amongst a trading bloc with a combined GDP of £12 trillion. CPTPP includes some fast-growing economies with growing consumer demand, particularly for services – a key exporting strength for the UK – which UK businesses now have greater access to as a result of the agreement.

For example, Vietnam is expecting 6.1% GDP growth in 2025, and GDP growth by an annual average of 5.9% up to 2029. Similarly, GDP in Malaysia is expected to grow by 4% in 2025, and an average of 4% annually up to 2029.[6] Analysis from the government in October also anticipates that CPTPP could in the long-run increase UK trade by £4.9 billion every year, boost the economy by £2 billion every year and add £1 billion to real household wages every year.[7]

Focusing on a combination of boosting trade with the EU, US and fast-growing markets such as those within CPTPP would provide the UK with balanced and broad opportunities,

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[6] IMF data mapper, Real GDP growth, https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/MYS?zoom=MYS&highlight=MYS

[7] UK Parliament, UK accession o the Comprehensive and Progressive Agreement for Trans-Pacific Partnership – Entry into Force, 16/01/2024, https://questions-statements.parliament.uk/written-statements/detail/2024-10-16/hcws142#:~:text=Statement%20made%20on%2016%20October%202024&text=The%20latest%20analysis%20shows%20that,this%20Government's%20vital%20Growth%20Mission.

facilitating the 'friends with everyone approach', whilst supporting exporters to trade with markets that do create business for UK firms.

What should be the priorities for new free trade agreements and for trade diplomacy? What are the key barriers to trade in priority markets and how are these barriers best taken down?

The IoD supports the government's approach of prioritising quality over quantity when negotiating trade deals. Similarly, we agree that the UK should focus on building stronger relationships with international partners. At a time where geopolitical pressures are playing a greater role in shaping international trade flows, it is important to strengthen diplomatic ties where possible.

IoD data from January 2025 shows that 57% of exporting members are re-examining their export markets due to rising geopolitical pressures.

To what extent are rising geopolitical pressures, such as the election of President Trump or global conflicts, causing your organisation to re-examine export markets?

To a significant extent	15.6%
To some extent	41.3%
To no extent	31.3%
Don't know	3.6%
Not applicable: we are not impacted by external geopolitical pressures	8.1%

However, the government's approach of balancing all trading partners to create business in all possible opportunities, whilst understandable given the poor prognosis for UK growth, comes with uncertainties.

The UK should avoid becoming too dependent on China as an economic partner from a national security perspective. Similarly, it should be careful not to compromise its relationship with the US in light of President Trump's strong anti-China rhetoric. This is particularly important given the US is the UK's top individual export market.

On Free Trade Agreements, IoD members have varied perspectives. Most agree that they are a good indicator of partnership, that they are a perception of shared values, goals, and priorities on trade. And it is of course a benefit that they remove certain barriers to imports and exports.

However, businesses also agree that FTAs will not sway their decision on where to export to. They will export to where the demand is, and if there happens to be a FTA in place, that is an added bonus.

Within these agreements, the most beneficial provisions for business are on the reduction or complete removal of tariffs. However, advantages businesses have raised are that the agreements increase exposure and competition, and have the potential to increase regulatory alignment. For example, one member told us, particularly in relation to chemical regulation, but also generally, “if free trade agreements would recognise the regulatory standards of the UK as being equivalent that would be a very good thing.” (Chemical distribution, medium business)

Another said, “…for us, exporting exposure is the key thing and our exposure comes from being able to be in catalogues, being able to be visible on the internet and of course one of the problems with the catalogues is getting stock there. Catalogues want you to hold stock and we can’t do that because there’s no Free Trade Agreement.” (Manufacturing, medium business)

In relation to tariffs, members agree tariff reduction predominantly applies to goods traders: a member in the construction industry said “[FTAs] are [a priority] at the moment because it's important that we get a sensible and reasonable treatment regarding tariffs in those negotiations, or it could affect our ability to export to some of those markets.” (Construction, medium business). He told us he has been grappling with tariffs as high as 25% - 35% in some African countries.

Our members highlight the difference between the approach to goods trade and services trade. It is felt that FTAs focus much more on goods trade because of their emphasis on tariff and customs related barriers, rules of origin procedures and trade remedies in relation to goods. Hence services traders feel they do not gain much from trade deals.

For example, a member considered, “I think it depends on the business. So if you're a steel manufacturer or in the commodities, it matters because tariffs affect you. But if you're working in consultancy services, professional services, creative services, you're doing maybe AI and virtual reality, it doesn’t [matter]… it’s just good optics.” (Consultancy, small business)

So for many exporters, FTAs are merely a convenience. But for some, who are looking to expand, this ‘good optics’ associated with signing deals could influence their decision. One member told us, “If I was in a room with different nationalities, the ones that have signed the trade deals will warm to you easier.” (Consultancy, small business)

However, for smaller businesses and less frequent exporters, trade agreements are perceived to be hugely long and complex documents that are difficult to break down and comprehend. So many may not be making as much use of the opportunities as they could be.

The overall rhetoric therefore is that FTAs are an enabler of easier trade flows, but not necessarily a facilitator of new ones. For businesses to really be able to feel the benefit of trade deals, they need to offer something more than they do now, particularly for services. They also need to be broken down into something smaller businesses feel confident to engage with.

How can the UK best support the WTO in addressing its challenges, such as resolving trade disputes effectively, advancing trade liberalization, and ensuring a fair and rules-based trading system?

N/A

What is the role of government-to-government relations in driving up trade?

N/A

How should the government best safeguard UK trade from the spectre of tariffs?

President Trump has confirmed that he will be imposing tariffs on the EU, because it trades at a surplus with the US. Similarly, he is heavily targeting Mexico, Canada and China. But, despite promising a blanket 10% tariff on all US imports on day one of his administration, in reality he has actually commissioned reports on trade and investment that are due on April 1.

So, while the UK looks to have side-stepped the onslaught for now, the uncertainty of the tariff agenda still looms. The UK, not being aligned with a major trade bloc, finds itself somewhat exposed in the global geopolitical environment.

The UK should use this opportunity to accelerate the EU Reset. With the EU being the UK’s primary trading partner, accounting for 41% of UK exports in 2023, the government should focus much of its trade promotion activity there. Exports to the US and China account for 22% and 4% respectively. Therefore, the UK’s reset of relations with the EU, removing barriers to business with our closest and biggest ally would provide businesses with the most practical opportunities for trade.

Meanwhile, as a smaller nation, taking a pragmatic, deal-making approach from individual trading partners internationally will provide alternative opportunities. The UK's accession to the Comprehensive and Progressive Trans-Pacific Partnership is a good example of where the UK has taken advantage of expanding global demand in a large free trading bloc with strong growth prospects.

It may also be the case that there are opportunities to be gained from tariffs and escalating tensions between the US and China. According to the London School of Economics, during the first US – China trade war, UK exports to the US grew approximately 10% more than those of other US trading partners against the backdrop of a 25-30% contraction in total US exports.[8]

Anecdotally, some businesses have told us that if firms from those countries most impacted by the tariffs will reorient export markets in response, there may be increased opportunities for the UK to grasp in the US. Negotiating sector-based deals and state-by-state agreements with the US could help these companies to capitalise on the opportunities that do open up.

On balance, IoD members are wary of the impact of the tariff agenda. However, they are not overwhelmingly worried. When surveyed in November 2024, 36% expect the Trump administration to have a negative impact on their business, compared to 26% which said 'no impact', and 21% positive impact. Similarly, 25% expect the tariffs to have a negative impact on their organisation, with 54% expecting no impact and 4% expecting a positive impact.

[8] London School of Economics, Trump's tariffs will put post-Brexit trade policy to the test, 13/01/2025, https://blogs.lse.ac.uk/politicsandpolicy/trumps-tariffs-will-put-post-brexit-trade-policy-to-the-test/?mc_cid=396d0e4f60&mc_eid=83a0442b06

To what extent do you think the election of Donald Trump as President of the United States will impact your business?	
Significant positive impact	6.5%
Slight positive impact	14.0%
No impact	29.8%
Slight negative impact	25.8%
Significant negative impact	10.6%
Don't know	13.1%
Other	0.2%
Grand Total	**100.00%**

Do you expect Trump's proposed blanket tariff of 10% on all US imports, and up to 60% tariffs on US imports from China, to impact your organisation?	
Significant positive impact	1.5%
Slight positive impact	2.8%
No impact	53.7%
Slight negative impact	25.5%
Significant negative impact	9.3%
Don't know	7.0%
(blank)	0.2%

Supporting exporters large and small:

What goals should the government set itself for improving the UK's export performance and how is progress towards these goals best measured?

To be able to judge when UK export levels are truly improving, there must be a measure of what success looks like.

The Institute of Directors urges the government to aim higher on its strategy for export growth – the previous target set by the Conservative Government of £1 trillion exports in current prices by 2030 is not sufficiently stretching.

In our policy paper, Setting a Meaningful Export Target for Britain, we assessed whether the £1 trillion headline target is appropriate and consider whether there are alternative measures that better capture what government export policy is trying to achieve. We concluded that because the £1 trillion target is affected not only by inflation, but also by longer-term global economic trends, a preferable measure would be linked to the volume of trade and set at a level that takes account of trend growth rates.

In addition, we also urge a second target: to increase the proportion of UK businesses that are exporters. Meaningful targets would enable Parliament to better judge the success of government policy designed to support exporters, as well as providing government itself with a framework around which it can judge the effectiveness of different policy interventions.

Moreover, it would be useful to monitor disaggregate data to assess growth in specific demographics. For example, understanding trends in different regions across the UK, as well as sizes of business – small, medium and large – could help to identify where further policy interventions might spur increased export growth.

The IoD is calling for:

- A chained-volume target of £900bn of exports in 2019 prices by 2030
- A second target of 15% of all businesses exporting either goods or services by 2030

How should the UK Government deliver trade support services - directly, or through existing business support organisations? What is the role of government-to-government relations in driving up trade?

IoD data shows there are a significant number of members who feel they lack the relevant tools needed to export internationally. In response to an IoD poll in December 2023, of those businesses which do not currently export, 11% responded this is due to a lack of availability to finance and 16% said they do not have the relevant knowledge and skills.

An IoD survey in January 2025 found that the majority of members have not benefited from export support offerings. However, of those which have, government trade advisors, events and webinars and local embassies have been the most used:

Has your organisation ever benefited from any of the following support offerings to help with exporting challenges?

None of the above	52.8%
Government trade advisors	19.8%
Events and webinars	18.3%
Local embassies	18.3%
Guidance and advice from trade associations	14.9%
Private consulting support	14.2%
Government factsheets and explainers	7.7%
Translation services	6.7%
UK Export Finance	5.7%
The UK Export Academy	4.6%
Government Export Champion programme	3.1%

Anecdotally, members tell us guidance tends to be ad hoc and important communications often do not reach them. At the same time, GOV.UK guidance is seen to be overcomplicated, and often sends the reader into a maze of links to new pages and documents.

Meanwhile, some members have had said trade advisors do not necessarily offer better advice than what is available online. Businesses consistently tell us they value tailored, in person advice over generic guidance fact sheets and have therefore welcomed services like the Export Support Service helpline.

Additionally, funding options are limited, especially as a first-time exporter. The Internationalisation Fund, which offered finance for SMEs looking to expand into new markets, was discontinued in January 2023. UK Export Finance, which provides government backed insurance and guarantees for UK exports, is primarily aimed at more experienced exporters.

Many members also feel that the government should offer better services which connect businesses to international opportunities. For example, they have not been able to successfully use government sources to find suppliers or connect with international buyers or partners.

Overall, despite the 2021 strategy, practical export support seems rather haphazard and could be much better organised to ensure it is accessible and comprehensible for all types of business.

The IoD is calling for government to:

- Create a one-stop-shop style portal for all export guidance and funding initiatives. This would include contact information for local trade advisors, simplified, step by step guidance sheets for processes throughout the export journey, and details for customs helplines.
- Better facilitate business to business connections by publishing a database where firms can find buyers and partners across the globe, attend trade shows and access UK embassies in international markets.
- Provide training for International Trade Advisors to ensure advice is consistent and dependable across all regions.

- Reopen an equivalent of the Internationalisation Fund to provide grants to SMEs and first-time exporters, which can be used for travelling to new markets, attending trade shows, using translation services and employing consulting services.
- Monitor and publish the impact of government assistance for exporters - teams both at overseas missions and those UK-based trade advisors - to assess their effectiveness and ensure all businesses have the right support for their exporting needs.

How should the UK 'level up' export performance around the country?

N/A

Trade and Economic Security:

What are the principal causes of the UK trade deficit and is the UK's trade deficit sustainable? If not, what adjustments to UK economic strategy are required, and over what period?

N/A

How does Government best de-risk critical supply-chains and protect UK jobs from international trade vulnerabilities, and what metric could be used to determine whether the UK economy is secure?

N/A

Which critical supply chains should the Government seek to de-risk? What imports from which countries should the Government seek to de-risk?

N/A

Safeguards against a 'race to the bottom'

How can trade policies be designed to support the UK's transition to net-zero and support economic growth?

Trade policy can be an effective lever in supporting sustainable economic growth. The global trajectory towards decarbonisation, particularly in Europe, is such that demand for low carbon goods and services will only grow. In light of the current US administration's disengagement from global leadership on climate change, the UK has an opportunity to reinforce its global leadership on climate change and concomitantly strengthen its ability to export low carbon goods and services.

A key means of achieving this goal is via trade deals. Negotiating sustainability chapters within Free Trade Agreements (FTA) helps to facilitate the flow of 'green' goods and services and encourages cooperation on supporting environmental policies. The UK's FTA with Australia, which includes commitments to ensure that neither party can derogate from, waive, or fail to enforce their domestic environmental laws in order to promote trade and investment[9], is a good example of such an approach.

Another promising approach would be for the UK to establish trade missions focused on green technologies, prioritising countries that actively promote sustainable business to open new markets for UK green exports.

For exporters, the government could offer training programmes, for example within the UK Export Academy courses, to help firms understand how they can embed sustainability within their own exporting strategies, how they can decarbonise their business, and how they can export low-carbon technologies.

The government's plans to implement the Carbon Border Adjustment Mechanism (CBAM) to prevent carbon leakage are welcome as a means of preventing carbon leakage and supporting domestic green industries. It should consider reinvesting the revenue raised by the CBAM to support domestic industries to decarbonise.

Trade policies to promote green trade will ultimately only succeed if accompanied by domestic strategies to support business decarbonisation. IoD data shows that only 30% of business leaders measure their carbon footprint, while 27% do not currently but have plans to do so in the future, and 41% do not and do not have any plans to do so.[10] Similarly, over three quarters of IoD members do not have a commitment to become net zero by a certain

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[9] Department for Business and Trade, UK-Australia Free Trade Agreement: chapter explainers, 16/12/2025, https://www.gov.uk/government/publications/uk-australia-fta-summary-of-chapters/uk-australia-free-trade-agreement-chapter-explainers

[10] Institute of Directors Policy Voice, Does your organisation measure its carbon footprint, N=642

date.[11] Business, particularly SMEs, need support in order to understand how they can transition to more sustainable business practices.

The IoD is calling on the government to provide an incentive for those companies which have achieved net zero emissions by lowering the rate corporation tax paid by net zero companies.[12] But the government could go further by providing, for example, tax breaks, grants or low interest loans for UK businesses in low carbon industries such as renewable energy, electric vehicles or energy efficient technologies. This could encourage firms to expand exports at the same time as incentivising them to meet sustainability targets.

How can trade policy best ensure ethical standards for human and labour rights within global supply chains?

N/A

How should UK trade policy be used to guard against corruption, money laundering, and sanctions evasion?

N/A

[11] Institute of Directors Policy Voice, Has your organisation committed to becoming net zero by a certain date, N=642

[12] Institute of Directors, Introduce a lower corporation tax for net zero firms, 16/05/2022, https://www.iod.com/news/sustainable-business/iod-press-release-introduce-a-lower-corporation-tax-rate-for-net-zero-firms/