

REPORT



AT THE CROSSROADS

REGIONAL TRADE IN THE NORTH EAST

Anna Round

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ABOUT THE 'REWIRING THE NORTH' SERIES

This report is the first in a three-part series entitled 'Rewiring the North'. Taken together, these three reports will explore the North East's position as a critical hub of economic activity, and consider how it can maximise the potential of its role as the nexus between vital markets to the north (Scotland), the south (London and the wider South East), the east (the EU) and the west (the rest of so-called 'northern powerhouse').

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SUMMARY

The North East is exceptional among English regions both in having recorded a positive balance of trade for most of the past 20 years, and in the scale of its goods export growth over the past decade. The available data suggests that the region's exports to its *domestic* neighbours – London, Scotland and the rest of the north of England – are also strong. This is unsurprising. The North East sits at the intersection of these four important markets and, with its good connectivity, it plays a vital role as a burgeoning trading hub.

However, it stands at a crossroads in another sense, too. Because a greater proportion of its trade is with the EU than that of other English regions, the impact of any change in Britain's relationship with the EU – positive or negative – will be greater for businesses in the North East than for those elsewhere. Furthermore, the region's dependency on the export of road vehicles and chemicals is too great. And, given that its trade with the North West and Yorkshire is of a higher value than that with any other EU nation, its relationship with the 'northern powerhouse' is also critical.

For these reasons, the North East Local Enterprise Partnership must provide targeted support to help the North East's businesses to trade outside the region, and it must press ahead with its smart specialisation programme to address the region's dependence on a narrow range of goods exports. More widely, the North East's business representatives and local authorities must play a full part in the northern powerhouse initiative, and develop more formal links with Scotland.

ABOUT THE 'REWIRING THE NORTH EAST' SERIES

This is the first of three reports in a series entitled 'Rewiring the North East'. Each of them examine links between the economy of the north east of England and its current and potential trading partners.

This report considers trade flows between key EU and UK destinations in detail; the second report will discuss innovation and the movement of skills; and the third will consider perceptions and representations of the North East as a region in and with which to do business. Taken together, the series will explore the North East's position as a critical hub of economic activity, and consider by what means it can maximise the potential of its role as the nexus between vital markets to the north (Scotland), the south (London and the wider South East), the east (the EU) and the west (the rest of so-called 'northern powerhouse').

TRADE WITH THE EU

The north east of England is rightly celebrated for its sustained and substantial success as an exporter. At around £12 billion in 2015, the total value of international goods exports from the North East may be low compared to other English regions, but those exports account for a relatively *high* proportion of the region's GVA, and it also has a high export value per employee job.

At £7 billion, the EU accounts for 57.7 per cent of the North East's international exports. Compared with other English regions, the value of good exports from the North East is high relative to the size of its population and business base, and has remained stable over time. Given that a greater proportion of the North East's international trade is with the EU than that of other English regions, the impact of any change to this relationship – positive or negative – will be greater for businesses in the North East than elsewhere.

International exports from the region are heavily dominated by three types of goods: 'road vehicles' accounted for 40.9 per cent of exports to the EU in 2015, while 'medicines and pharmaceutical products' and 'organic chemicals' together made up a further 22.4 per cent.

The region's impressive strengths in automotive manufacturing and chemical production form the basis of its reputation as a 'specialist' exporter, and represent considerable achievements in terms of both attracting investment and establishing a strong presence in international markets. However, the fact that the North East's goods exports to the EU depend on a relatively narrow number of industrial sectors potentially leaves the region vulnerable to future economic 'shocks' in global markets. Trade figures for 2015 suggest that the potential for diversification is being recognised; this should be nurtured and sustained.

TRADE WITH DOMESTIC MARKETS

The available data suggests that the value of the North East's exports to other parts of northern England may be *higher* than that of those to any individual EU country. In 2010 (the most recent year for which figures are available) the value of the former stood at nearly €1.5 billion – nearly twice the value of trade with Germany, France and the Republic of Ireland.

Furthermore, in 2010 the value of the North East's goods exports to Scotland, and to London and the South East, were both comparable to those of the region's major EU export destinations.

There are also significant differences in the types of goods and services traded domestically compared to foreign exports, with higher value sectors such as 'high tech' and 'mid tech' manufacturing characterising domestic trade.

Put simply, trade with the rest of the northern powerhouse and other domestic markets might be just as important to the North East as any international links.

RECOMMENDATIONS

On the basis of the analysis presented in this report we make a number of recommendations.

- First, the North East Local Enterprise Partnership (NELEP) should press ahead with the ‘smart specialisation’ approach it adopted in its 2014 strategic economic plan, in order to address both the region’s dependence on a narrow range of goods exports, and the issues and risks associated with the historical features of the region’s economy.
- Second, the importance of the North East’s trade with markets *within* the UK should be better recognised and exploited by NELEP and its partners – not least by developing more formal business and governmental links with Scotland, and by playing a full part in ‘northern powerhouse’ developments.
- Third, NELEP should lead the way in providing specific support for North East businesses to enter into and increase domestic and international trade outside of the region.
- Finally, the Office for National Statistics and GLA Economics should work to provide more comprehensive data on trade *between* regions of the UK, as well as on international trade, covering as broad a range of goods and services as possible.

1.

INTRODUCTION

THE NORTH EAST OF ENGLAND AS AN EXPORTING REGION

The north east of England has a strong profile as an exporter of manufactured goods, with substantial flows of trade to the EU and beyond. It is one of the few English regions that consistently records a positive balance of trade (NELEP 2013a) – a fact that is frequently quoted in discussions of opportunities for economic development in the region. This report examines the North East’s exports to major EU destinations, and also explores the extent to which the region ‘exports’ goods and services to three key markets *within* the UK. It is the first of three linked pieces of research exploring how links between the North East and its current and potential trading partners support – and could grow – the region’s economy. The second report in this ‘Rewiring the North East’ series will discuss skills development and innovation in relation to the development and sustainability of exporting industries, and the third will consider perceptions and presentations of the North East as a region in and with which to do business.

The North East’s geographical location gives it a great deal of potential as a ‘hub’ for trade, and in this research we concentrate on trade flows to four key ‘neighbouring’ markets. This is not to ignore the importance of trade links with other parts of the EU (eastern Europe, for example), nor that of intercontinental exports. However, we are keen here to examine the trading relationships associated with the most ‘immediate’ links in terms of transport, commerce and culture. In particular, given that regional policy discussions currently focus strongly on domestic road and rail links in the north of England, we will examine how these links relate to flows of *goods* as well as passengers.

Cox et al (2013) have noted the North East’s potential as an international ‘gateway’. Its six ports are important to international trade locally and nationally, and link the region to northern European countries, such as the Netherlands and Scandinavia, with which it has strong historical and cultural ties. This makes it an attractive location for manufacturers, as the cost of transporting goods from manufacturing sites to transport hubs can be comparatively very low. Furthermore, the low population of parts of the region offers opportunities to establish manufacturing bases close to these gateways. The North East’s strengths in transport manufacture undoubtedly reflect the exploitation of these natural resources.

Two regional airports are crucial to regional economy, with Newcastle Airport alone accounting for around £403 million in gross value added (GVA) and 9,550 jobs (ibid: 18). The addition of direct flights to Dubai was associated with an increase in trade to related destinations;

direct flights to the US began to operate in 2015, and it is hoped that this may have a similar impact on the region's business links with North America. Rail networks in the region require investment, and have a number of known weaknesses. An exception to this, however, is the east coast mainline, which was singled out for praise by participants in earlier research (ibid: 8). The recent relocation of the Eurostar terminal to St Pancras, next door to King's Cross, where east coast services terminate, also means that journeys between the North East and France and/or Belgium have become shorter and more convenient.

As well as international trade, transport and communications links provide opportunities for businesses in the North East to 'export' to neighbouring regions *within* the UK. Various indicators suggest that even before the 2008 financial crash the North East's economic performance was generally weaker than that of other UK regions, and its recovery since has been slower and more fitful. For example, its gross disposable household income (GDHI) and GVA are both the lowest of any English region, and have been for several decades. Unemployment in the North East rose higher than elsewhere during the recession, and remains the highest in England (NELEP 2014). Thus demand *within* the region is likely to be relatively weak. The North East therefore has much to gain through building relationships to support domestic 'exports' to its more prosperous neighbours.

Schmuecker et al (2012) examined the potential impact of greater autonomy for Scotland on the economies of the English regions with which it shares a border. Then and now, indicators suggest that Scotland is close to or even just above the UK average in most areas of economic performance, and somewhat ahead of all of the northern English regions. In addition, investment in public services and research and development is higher in Scotland than in the north of England (ibid: 9). Growing prosperity in Scotland could offer an expanding market for goods, services and supply chains located in the North East.

The relationship between the North East and the other northern English regions is a matter of some lively debate at present, as the 'northern powerhouse' agenda gathers momentum. For example, concerns have been voiced over whether the North East is at risk of being overlooked in favour of the 'higher profile' North West (centred on Manchester) and Yorkshire (centred on Leeds). An alternative view would cast increased economic development and devolution across the North as an opportunity for the North East to develop new markets for those goods and services that are its strengths, or in which it can establish a specialist advantage or leading status. The precise nature of that opportunity will depend partly on the terms and implementation of the devolution deals struck across the region, and the extent to which pan-northern co-operation follows from them. But in any case, it is crucial that the North East's businesses exploit opportunities to trade with the rest of the North, and particularly the 'M62 corridor'.

London continues to deliver a strong economic performance. The capital's GVA outstrips other regions, and London and the wider South East benefit from high levels of public and private investment relative to those in the North. Although employment and output growth in London slowed during

the first quarter of 2015, and unemployment rose slightly, both business activity and new orders for firms in the city rose over the summer of 2015, and consumer confidence remains high (Douglass and Keijonen 2015). With good transport links to London and its environs, the North East has an opportunity to gain from this dominant force within the UK economy.

This report will explore the value and composition of exports to these destinations. Chapter 2 sets out the value of North East goods exports to the EU, and the commodity composition of the region's export portfolio. Chapter 3 looks at the importance of different EU countries as export destinations, and at the part that different commodities play in exports to these markets. Chapter 4 presents data on exports from the North East to three UK markets examined in this research (the South East, Scotland and the rest of the North), while chapter 5 assesses the risks and opportunities for the North East region, placing its current position as an exporter in context and setting out the case for adopting a 'smart specialisation' approach.

Note on the data used in this report

Except where otherwise stated, the statistics on the value of goods exports between the north east of England and the EU that are used in this report are drawn from the customs and excise data made available by HM Revenue and Customs in the 'Regional Trade Statistics' section of its 'UKTradeInfo' portal (HMRC 2016).¹ This dataset provides extensive and detailed information about the value of exports of manufactured goods and commodities between the UK regions (at the NUTS-1 level) and international destinations (at country level). Figures relate to the *value of goods exports* in all cases.

Obtaining data on trade between UK regions and on regional trade in *services* is considerably more challenging. Comparable records of the value of trade flows between UK regions are not routinely collected by any national body. Some surveys include partial data for samples of firms (see for example Raley and Moxey 2000), but these tend to relate to narrow sectoral or company groupings, or to the impact of specific factors such as connectivity rather than the overall value of inter-regional trade (for example, MIER 2009 explores the nature and density of connections between businesses and the impacts that they have on business practice and innovation). Input-output tables are not generally available for any of the regions considered in this report. The Office for National Statistics has begun work on providing more extensive estimates of inter-regional trade flows (Keijonen 2015), but these are not yet available.

This data gap raises problems not only for researchers, but for businesses and other stakeholders engaged in planning transport and logistics for the North East. Current discussions of the most effective developments for road and rail links between the constituent parts of the north of England, and between the North and the rest of the UK, would benefit from a more comprehensive picture of past and current trade flows as these relate to domestic connectivity.

¹ <https://www.uktradeinfo.com/Statistics/RTS/Pages/default.aspx>

Individual companies also lack a detailed picture of the context for their domestic trade planning.

The value of this data to local economic strategy and planning will, if it emerges, be considerable. There is also a further data gap for statistics on exports of services between regions of the UK and international destinations, which are not routinely collected by any official body. Estimated figures for services exports from London are available (Keijonen 2015), but this is not the case for other English regions.

The statistics presented here for services exports between the UK and the EU, and for exports of goods between regions within the UK, come from the EU trade visualisation in the 'Regional Imports and Exports' section of the EU Regional Competitiveness Scoreboard (Thissen and Gianelle 2014), a project of the Netherlands Environmental Assessment Agency (PBL). It contains figures that are calculated using the methods described in Thissen et al (2013a, 2013b and 2014), using data on consumption, production, and transportation; the latter relates to freight for goods exports, and to business travel for services. The figures represent the value of goods flows between NUTS-2 regions of the EU, and are based on a model in which total production is treated as 'traded', whether this occurs within a region, intranationally or internationally.

In this report, data drawn from the PBL visualisation is *not* combined at any point with the HMRC (2016) figures. This is for a variety of reasons. Most importantly, the latest year for which PBL data is available is 2010, while the most recent HMRC figures for a full year relate to 2015. Furthermore, the PBL data is given in euros, the value of which varied considerably during 2010. As a result, it is difficult to convert euros to sterling in a way that will offer an accurate account of trade flows during the whole of the year. In addition, trade flows worth less than €1 million annually are not included in the PBL figures, whereas the HMRC data covers trade flows worth more than £1,000. Finally, the level of aggregation applied in the PBL visualisation is much higher than that applied in this report. For example, it was not possible to separate figures for road vehicles, pharmaceuticals or organic chemicals from the larger manufacturing categories used.

This is not to in any way question the accuracy or criticise the usefulness of the PBL figures. While it would not be appropriate to attempt to integrate them with the HMRC data, they represent a valuable data source on inter-regional trade.

2. THE NORTH EAST'S EXPORTS TO THE EU

2.1 THE VALUE OF THE NORTH EAST'S EXPORTS TO THE EU

While the total value of international goods exports from the North East is low compared to that of other English regions, at around £12 billion in 2015, in the previous year it was equivalent to just over 26 per cent of the region's GVA – a higher proportion than in any other region in England (see figure 2.1). This is in fact slightly *lower* than has been the case at times during the past two decades: the proportion rose to almost 30 per cent in 2011 and 2012, and the North East has led England in this regard for almost a decade. It also has the highest value of exports per job in the UK, at just over £10,000. This compares to just under £10,000 in the West and East Midlands, around £8,000 in the North West, and around £6,000 in London.

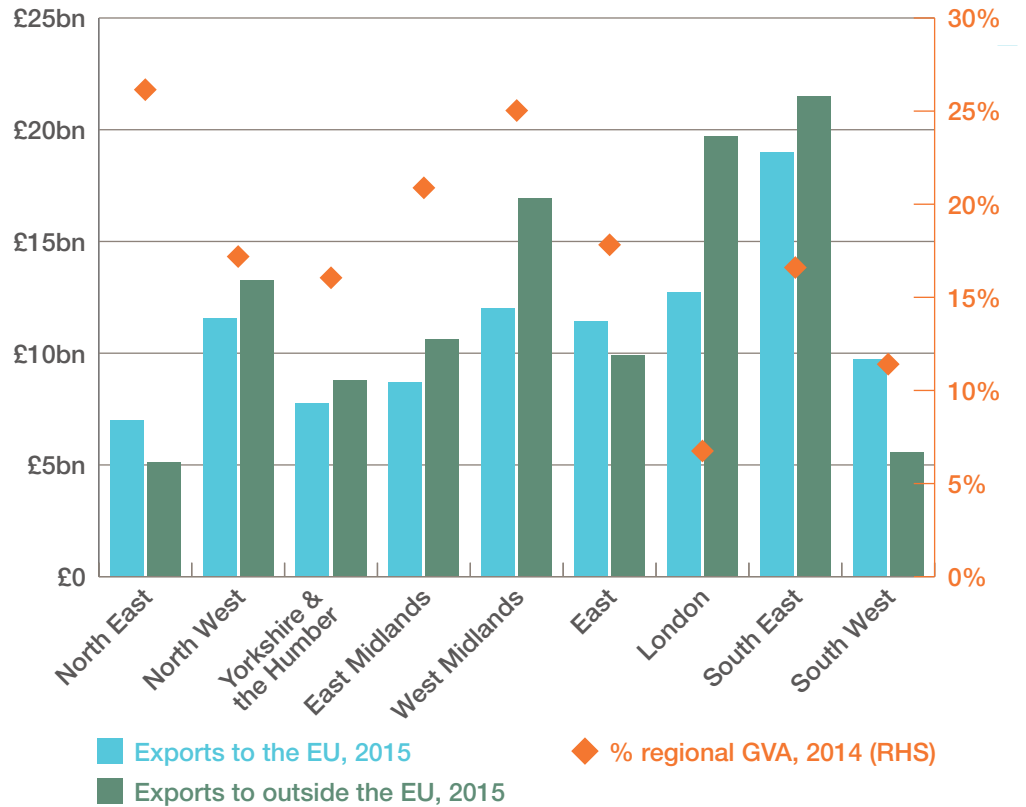
The EU accounts for a relatively high proportion of the North East's goods exports – around 57.7 per cent in 2015. This compares to 46.6 per cent from the North West and 46.9 per cent from Yorkshire and the Humber. The only region in which the EU accounted for a higher percentage of goods export value in 2015 than the North East was the South West (63.6 per cent). For England as a whole, exports to the EU accounted for 47.2 per cent of total goods export value.

The North East has also experienced a greater growth in goods exporting than most other English regions: between 2005 and 2015, the value of the region's international goods exports grew by 44.9 per cent, with the greatest growth in exports to countries outside the EU (71.7 per cent); the value of goods exports to EU countries grew by 30 per cent (HMRC 2016, and author's calculations). The only English region to enjoy a higher rate of growth in export value during this period was the West Midlands, where the total value of international goods exports grew by 90.5 per cent. By comparison, the value of international goods exports from the North West grew in value by 28.6 per cent, those from Yorkshire and the Humber by 39.6 per cent, and those from London by 23 per cent across that decade. Like most other regions, the North East saw a fall in the total value of exports between 2008 and 2009. However, its recovery was swift and marked: exports grew by 20.7 per cent between 2009 and 2010, the second highest rate for any region outside London.

FIGURE 2.1

While the value of the North East's exports is relatively low, it accounts for a high proportion of the region's GVA

Total value (£ billion) of goods exports from UK regions in 2015 (LHS) and total value of exports as a percentage of regional GVA in 2014 (RHS)



Source: author's calculations based on HMRC 2016 and ONS 2015b

Between 2011 and 2014, the total value of goods exports from England to all destinations fell from £223.8 billion to £210.8 billion, with a slight rise (to £211.4 billion) in 2015. The value of goods exports to the EU fell by 15.9 per cent between 2011 and 2015, while the value of goods exports to non-EU destinations rose by 6.1 per cent over the same period. The picture in other parts of the North was similar to the national one over this period, although export values began to decline in both the North West and Yorkshire and the Humber in 2013 rather than in 2011.

By contrast, the North East saw a rise in its export values between 2011 and 2012, a slight fall to 2013, and then a recovery in 2014. This was followed by a fall (of 2.7 per cent) in 2015, although this was smaller than the concurrent drops in the North West, Yorkshire and the Humber, the East of England and the East Midlands. For the North East, the fall was largely due to a drop in the value of exports to countries outside the EU, from £5.46 billion in 2014 to £5.14 billion in 2015. By contrast, exports to other EU countries remained stable at around £7 billion. This is a different pattern from that seen in most other parts of England, and indeed than in the rest of the North.

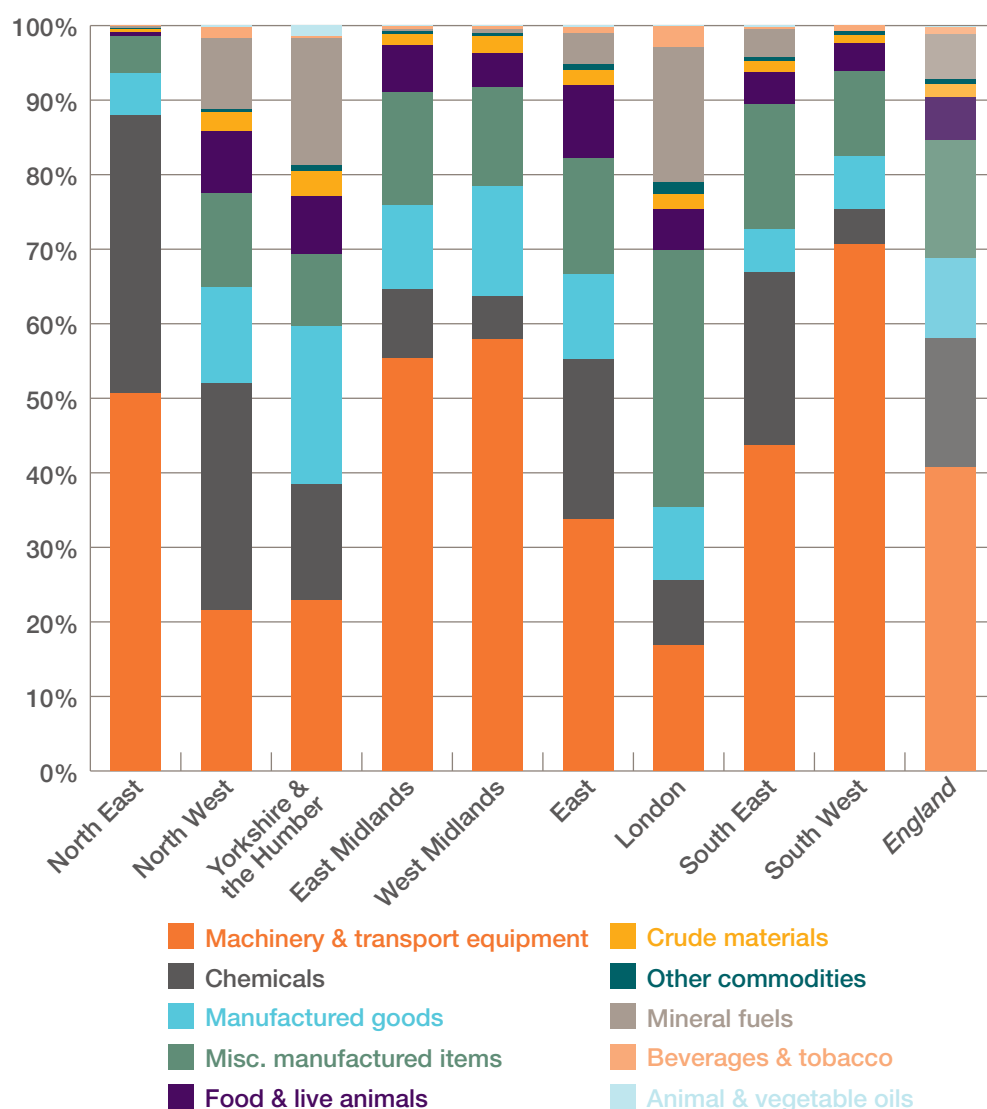
2.2 THE PROFILE OF GOODS EXPORTS TO THE EU

The value of different categories of goods exports from the North East to the rest of EU is shown in table 2.1. It indicates that just two categories at the SITC1 level² dominated the North East's export profile in that year: 'machinery and transport equipment' accounts for just over 50 per cent of exports, and 'chemicals and related products' accounts for well over a third. Figure 2.2 offers a visual comparison of the EU goods export profiles of English regions in 2015, and shows the former category to be similarly dominant in several other parts of the country.

FIGURE 2.2

Just two categories of export dominate the North East's goods exports to the EU

Percentage of total goods export value from English regions to EU countries accounted for by major categories of goods, 2015



Source: HMRC 2016

² SITC (Standard International Trade Classification) categories are used here, as this system is used in the report's main data source (HMRC 2016). See <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=14>

TABLE 2.1

Value of goods exports (£m) to EU countries from the North East in 2015, and proportion of total value (%), by SITC category.

	Value of 2015 goods exports from the North East to the EU (£m)	Proportion of total value of 2015 goods exports from the North East to the EU
Machinery & transport equipment	£3,547.5	50.67%
Chemicals & related products	£2,611.8	37.3%
Manufactured goods class. by material	£396.5	5.66%
Miscellaneous manufactured articles	£339.6	4.85%
Food & live animals	£44.4	0.63%
Crude materials	£25.4	0.36%
Other commodities	£16.2	0.23%
Mineral fuels...	£14.4	0.21%
Beverages & tobacco	£5.6	0.08%
Animal & vegetable oils	<£1.0	<0.01%

Source: HMRC 2016

However, when the ‘machinery and transport equipment’ category is broken down further to the SITC2 level, differences begin to emerge, and we see that the North East is somewhat atypical (see figure 2.3). Within this diverse category, most regions export a fairly wide range of products – even what in the South West appears to be a dominant classification is in fact a composite one (‘other transport equipment’). Only in the West Midlands does a single SITC2 category account for more than 30 per cent of *total* goods exports to the EU. By contrast, 40.9 per cent of the value of all goods exports from the North East to the EU in 2015 was accounted for by exports of road vehicles, and this figure was also over 40 per cent in each of the four previous years.

The North East is strongly associated with the manufacture of road vehicles, and the dominance of regional exports by this category may also reflect its importance as a specialism to the region’s economy. It may also reflect the extent to which the entire supply chain for automotive manufacture has become engaged in exporting, because the ‘road vehicles’ SITC category³ actually includes *parts and accessories* as well as fully assembled vehicles.

Within the category of ‘chemicals’, medicinal and pharmaceutical products accounted for around 16.7 per cent of the total value of exports from the North East to the EU; organic chemicals make up a further 5.7 per cent. In other words, almost two-thirds of the North East’s total goods export value to the EU during 2015 depended on just three relatively narrow areas of manufacturing.

The dominance of these few export categories has not arisen because of a fall in the diversity of exports from the North East, but because of the substantial *increase* in exports of road vehicles. Figure 2.4 shows the annual value of goods exports to the EU from the North East for all SITC2 categories with a total export value of more than £100 million in any year between 2005 and 2015. In 2005, the value of road vehicle exports

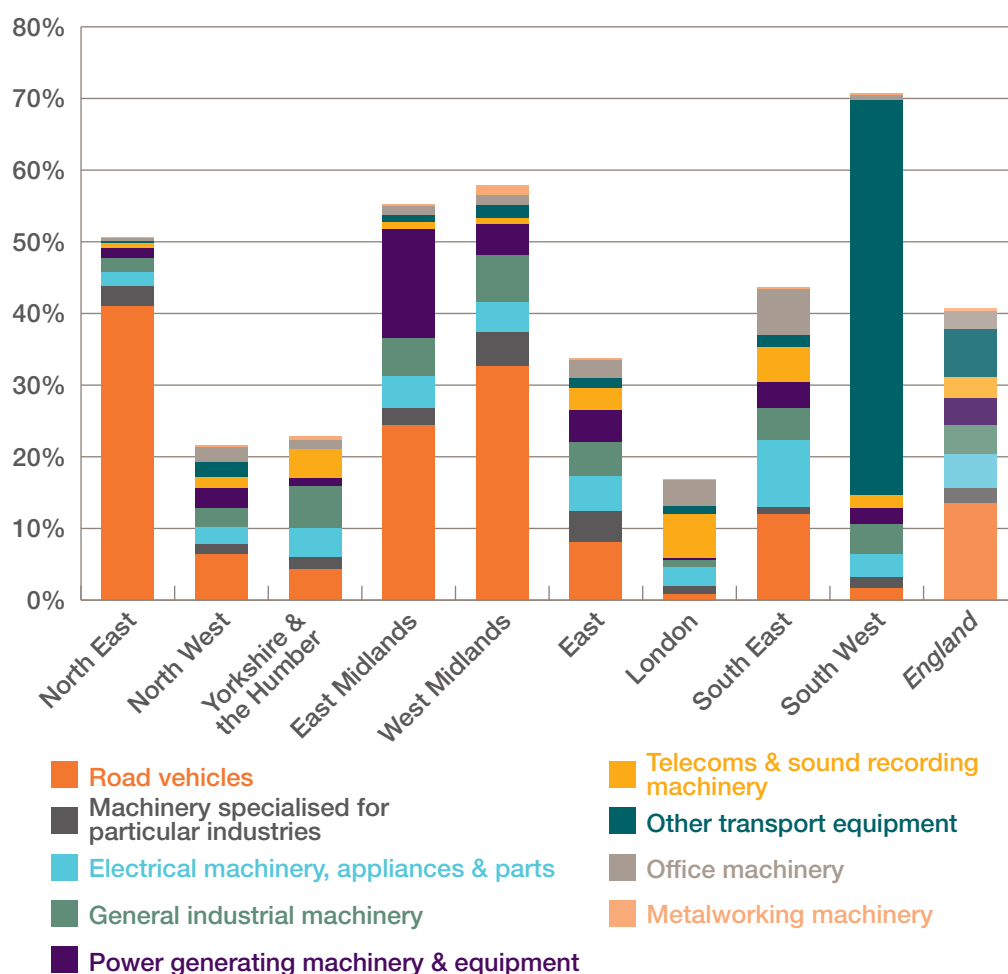
3 <http://unstats.un.org/unsd/cr/registry/regcs.asp?Cl=28&Lg=1&Co=78>

to the EU was £1.36 billion, accounting for around 25 per cent of total goods export value – as it had since 1997. Medicinal and pharmaceutical products accounted for around 15 per cent of total export value, less than two percentage points less than today, and organic chemicals for 10.4 per cent.

FIGURE 2.3

Road vehicles account for an unusually large proportion of the North East’s goods exports to the EU

Percentage of total goods export value from English regions to EU countries accounted for by subcategories of items within the ‘machinery and transport equipment’ category, 2015



Source: HMRC 2016

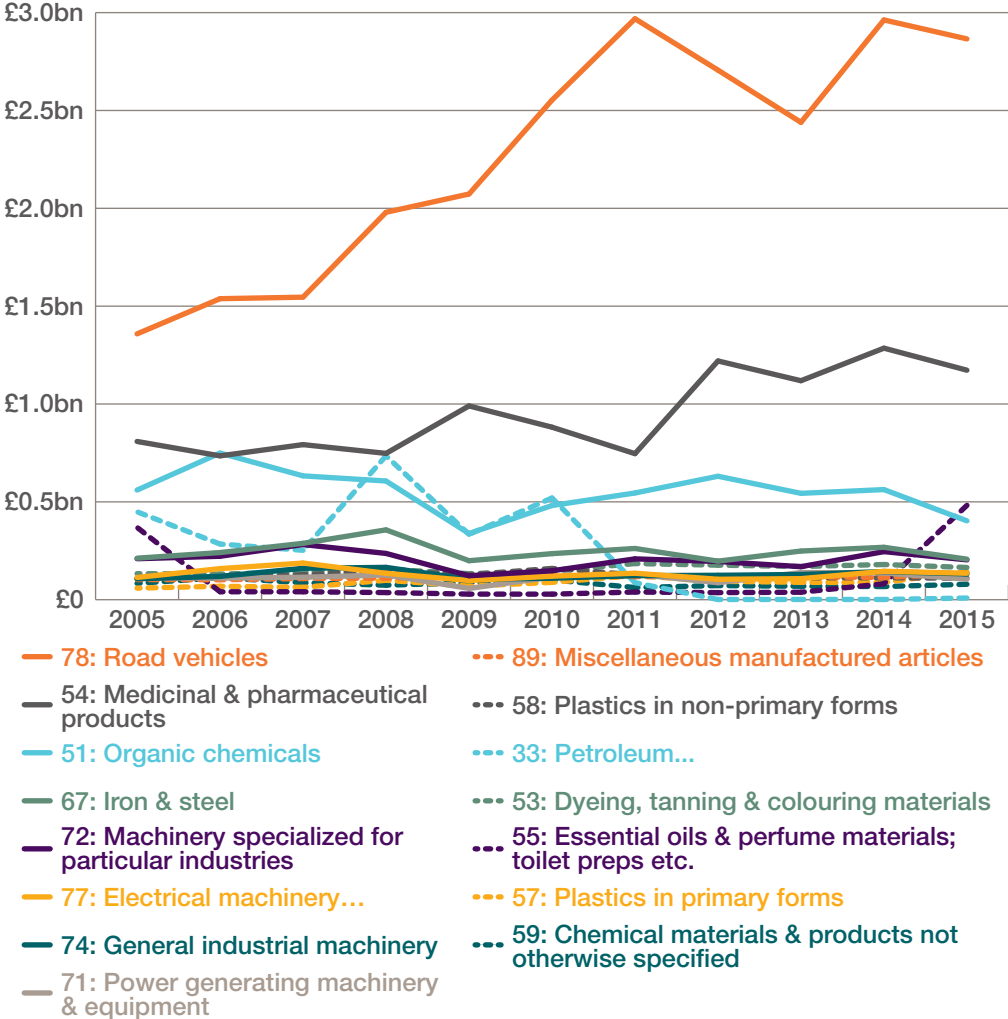
In the intervening period the value of road vehicle exports from the North East grew by 118 per cent – around twice the rate of growth of medicinal and pharmaceutical products. In other categories total export value remained relatively stable (this is the case for organic chemicals), or increased from such a low base that even growth of between 25 and 35 per cent led to only a very small change in absolute value. The exception to this is the category of ‘essential oils, perfumes and toiletries’, the export value of which increased sharply in 2015.

However, 2015 saw a fall in the value of exports in several of the dominant categories – most notably medicinal and pharmaceutical products, organic chemicals, and iron and steel.

FIGURE 2.4

The value of the North East’s road vehicle exports to the EU grew by 118 per cent between 2005 and 2015

Total value (£ billion) of goods export flows to the EU from the north east of England, for SITC2 export categories* with a value of over £100 million in any year during the period 2005–2015



Source: HMRC 2016
 *Note: SITC2 category numbers are included in the key for ease of reference.

Numerous goods categories with total EU export values of below £100 million have shown considerable increases since 2005, and increases in the export value of these relatively ‘minor’ categories in part accounts for the maintenance of total export value in 2015 despite falls in some of the formerly dominant areas. Many of these more minor categories fall within the same broad definitions as the region’s ‘key’ exports, suggesting that a ‘building on strengths’

approach has been successful. Between 2014 and 2015 there was strong growth in exports of plastics in primary forms, other types of chemicals, metals, office machinery and transport equipment other than road vehicles. The other areas in which export value has increased in very recent years are textiles, paper, travel goods, and food (particularly meat and vegetables). Furthermore, prefabricated buildings and building parts (such as sanitation, plumbing, heating and lighting equipment) accounted for 1 per cent of the region's exports in 2015, an increase from 0.5 per cent in 2014.

Even before motor vehicles came to dominate the North East's exports to the extent that they do now, the region already achieved a positive balance of payments on a regular basis. Indeed, it was the second highest-performing of all English regions in this regard in 2005 (behind only the East Midlands), 2000, 1999 and 1997 (behind the North West), and the very highest-performing in England in 1996, 1998, and between 2001 and 2004. The strong export performance of the North East has been sustained over two decades and within that over the greater part of two recessions.

There is some evidence that a relatively small proportion of firms within the North East engage in exporting. Data from the UK Innovation Survey 2013 (BIS 2014) suggests that at that time only around 20 per cent of enterprises in the North East were exporters, compared to little under 30 per cent elsewhere in the North, and higher rates in the Midlands, London and the South East. The proportion of firms that are *not* classed as 'innovators'⁴ that engage in exporting is even smaller, at around 2.5 per cent; the comparable figure for of 'non innovators' in other regions is at least 5 per cent, and almost 10 per cent in the Midlands and London.

This relationship between innovation and exporting may provide further support for the strategy advocated in chapter 5 of this report, of increasing innovation as a means of building new export flows and exploiting or maintaining established ones.

4 The definition of an 'innovator' in the UK Innovation Survey follows the one adopted by Eurostat, whereby an innovator is a firm that, during the period of the survey, engaged in any of the following activities: 'introduction of a new or significantly improved product (good or service) or process; engagement in innovation projects not yet complete or abandoned; [or] new and significantly improved forms of organisation, business structures or practices and marketing concepts or strategies' (BIS 2014: 3).

3. THE NORTH EAST'S EU EXPORT DESTINATIONS

3.1 MAJOR EU DESTINATIONS FOR THE NORTH EAST'S EXPORTS

Exports to the EU, as noted above, account for over half of the North East's international exports. While its non-EU exports have grown over the past decade, their total value remains lower than those within the EU. However, the relative importance of different EU countries as export partners of the North East varies considerably. Figure 3.1 illustrates the total value of exports to the 'highest value' destinations for the North East between 2005 and 2015. This group of countries has in fact remained largely unchanged for two decades, although their relative importance within it has shifted in some cases.

The Netherlands has accounted for the highest proportion of the North East's EU export value throughout most of the last 10 years, and accounted for almost a quarter (23.6 per cent) in 2015. The value of exports to Germany, by contrast, declined between 2005 and 2013, but rose again in 2014 and 2015, to 12.8 per cent in the latter year. The value of exports to Italy and France rose over the past decade, although in both cases there was a fall in both 2014 and 2015. Exports to Belgium, previously a relatively minor trading partner, rose in 2014 and remained relatively high in 2015, at 12.4 per cent (see the boxed text below on the potential impact on these figures of trade via Belgian ports). Exports to Norway, Spain and the Republic of Ireland have all grown slightly in value since the end of the recession. Although not in the 'top 10' shown here, the North East's trade with Poland, Denmark and Hungary has also substantially increased recently.

The North East, not surprisingly, has a history of positive balances of payments with the majority of its major EU trading partners. In 2015, the only countries for which this was not the case were Germany and France, although in the latter case the figure had previously been positive; by contrast the North East has not had a positive balance of payments with Germany since before 2009. In general, the region's balance of payments with these 'major' trading partners has *improved* over the past decade, with even the post-recession years showing an increase in most cases.

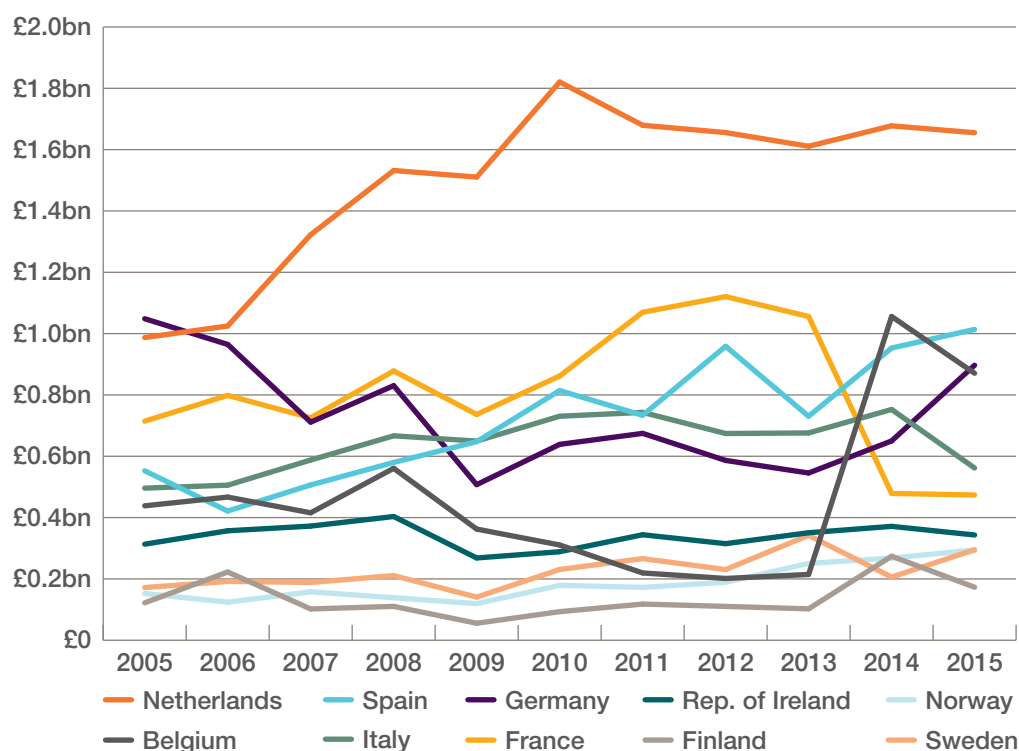
There are some contrasts between the North East and the UK as a whole in terms of the proportion of the value of goods exports accounted for by different countries within the EU over the 2005–2015 period. The percentage of total EU goods export value that is accounted for by Austria, Sweden, and the majority of eastern European nations (although these latter account for a very small percentage of UK goods exports) is consistently lower for the North East than for the UK as a whole; prior to 2015 the same was true of Belgium, and several of the countries among the 'top 10' European

destinations shown in figure 3.1, including Germany, Ireland and (albeit by a fairly small margin) France. By contrast, goods exported to Spain, Italy, Norway and Finland have accounted for a *higher* percentage of total EU goods export value from the North East than they have for the UK as a whole. The same is true of the Netherlands.

FIGURE 3.1

The Netherlands is the number one European destination for the North East’s exports

Total value (£ billion) of goods exported to the 10 ‘highest value’ EU and European destinations from the north east of England, 2005–2015



Source: HMRC 2016

A ‘Rotterdam effect’?

High recorded export value to destinations where major ports are located is sometimes said to reflect a ‘Rotterdam effect’, a term that refers to ‘... asymmetries and other anomalies arising from transit trade through major ports, such as Rotterdam... Principally, the Rotterdam effect causes imports and exports to be attributed to the country of transit as opposed to the “real” partner country’ (Herrigan et al 2005: 4).

Other factors may lead to asymmetries in recorded trade value: problems in measuring trade in certain types of goods (including sea products and installations, and industrial plants); difficulties in recording goods leased or moved for repair; data issues, including differences between the thresholds at which export values are declared; exchange rate variations; and variations in the

determination of statistical value (HMRC 2012: 2–4). In 2011, the most recent year for which data is available, the relative asymmetry for trade between the UK and the Netherlands was relatively small, accounting for around 1 per cent of total trade asymmetries between the UK and the EU in that year (HMRC 2011: 10). This suggests that if a Rotterdam effect is present, its impact may be fairly minor.

The recording of *exports* may be less vulnerable to asymmetries than that of imports, because ‘[t]he tendency is for an export to be declared to the goods['] final destination, whereas the import is declared in that final destination as coming from the transit country’ (Herrigan et al 2005: 10). It is sometimes suggested that figures for the scale of trade from the UK to the EU could be substantially overstated due to this factor, partly because the reported values would indicate implausibly high domestic consumption in countries with major ports (see for example Milne 2011: 55–56).

Despite this, ‘... there is evidence to suggest that there are legitimate reasons why the value of UK trade with Belgium and the Netherlands appears high, relative to their populations, which are not related to the Rotterdam-Antwerp effect’ (HM Government 2014: 62). For example, a high volume of crude oil is exported from the UK for processing in the Netherlands (Eddols 2015), and HMRC declarations indicate that the UK does, in fact, send a proportion of its exports for consumption in the Netherlands itself. An estimate ‘towards the top end of the range’ of assumptions about the extent of a Rotterdam effect might suggest that 50 per cent of the UK’s trade with the Netherlands eventually finds its way to destinations outside the EU (ibid).

The high volume of trade between the North East and two EU countries with major ports (the Netherlands and Belgium) may indicate the presence of a ‘Rotterdam effect’ (see above). In the case of the North East this would distort the apparent value of trade with specific markets, rather than having any effect on the overall importance of exporting, and of the exporting of particular kinds of goods, to the regional economy. There are several alternative factors that could contribute to a high figure for the value of goods exports from the North East to the Netherlands. For example, the country is highly accessible by sea and by air from the North East, with regular flights between Newcastle and Schipol and a daily ferry service between North Shields and IJmuiden.

The Netherlands appears to be a relatively important recipient of *services* exports from the North East (see below). These do not rely on shipping, although it is possible that some of them may relate directly to the presence of major ports. Thus it is not implausible that goods export flows are also substantial, given that the relevant business connections are likely to be established and maintained through similar links. Even if we were to *halve* the value of goods exports to the Netherlands from the North East, the country would still have received the fourth-largest percentage of goods exports by value from the North East to any EU nation in the first three quarters of 2015; it would also have received the second- or third-largest percentage in each of the five previous years.

However, the sharp rise in goods export value to Belgium in 2014 (which remained at a similar level throughout the first three quarters of 2015) may reflect some degree of an ‘Antwerp effect’. Findings from the European Ports Survey (reported by Coia 2015) indicate that Belgian ports, such as Zeebrugge, increased their *handling* of automotive exports in 2014, which might account for some of the increase in reported exports from the North East. Coia also notes a particular prevalence of North East manufacturers among users of this port (ibid). This analysis is supported by the increase in the value of road vehicle exports from the North East to Belgium, from around £51 million in 2013 to £868 million in 2014. For this reason it may be advisable to treat the figures presented here for exports to Belgium in 2014 with some caution; the ‘spike’ in their value could be largely attributable to a very substantial increase in Belgian ports’ handling of road vehicles.

Elsewhere, however, there is little evidence of automotive exports having a similar impact on recorded trade values. Although German ports such as Bremerhaven, Emden and Cuxhaven continued to handle more road vehicles in total than ports elsewhere in the EU (Coia 2015), the value of North East exports of road vehicles to Germany appears fairly modest (see below). Similarly, road vehicles account for a *comparatively* small proportion of the North East’s exports to the Netherlands. Thus it is difficult to draw any conclusion over the extent to which a ‘Rotterdam effect’ might, in general, impact upon the figures for the North East’s trade flows with any individual destination.

3.2 THE COMMODITY PROFILE OF EXPORTS TO MAJOR EU DESTINATIONS

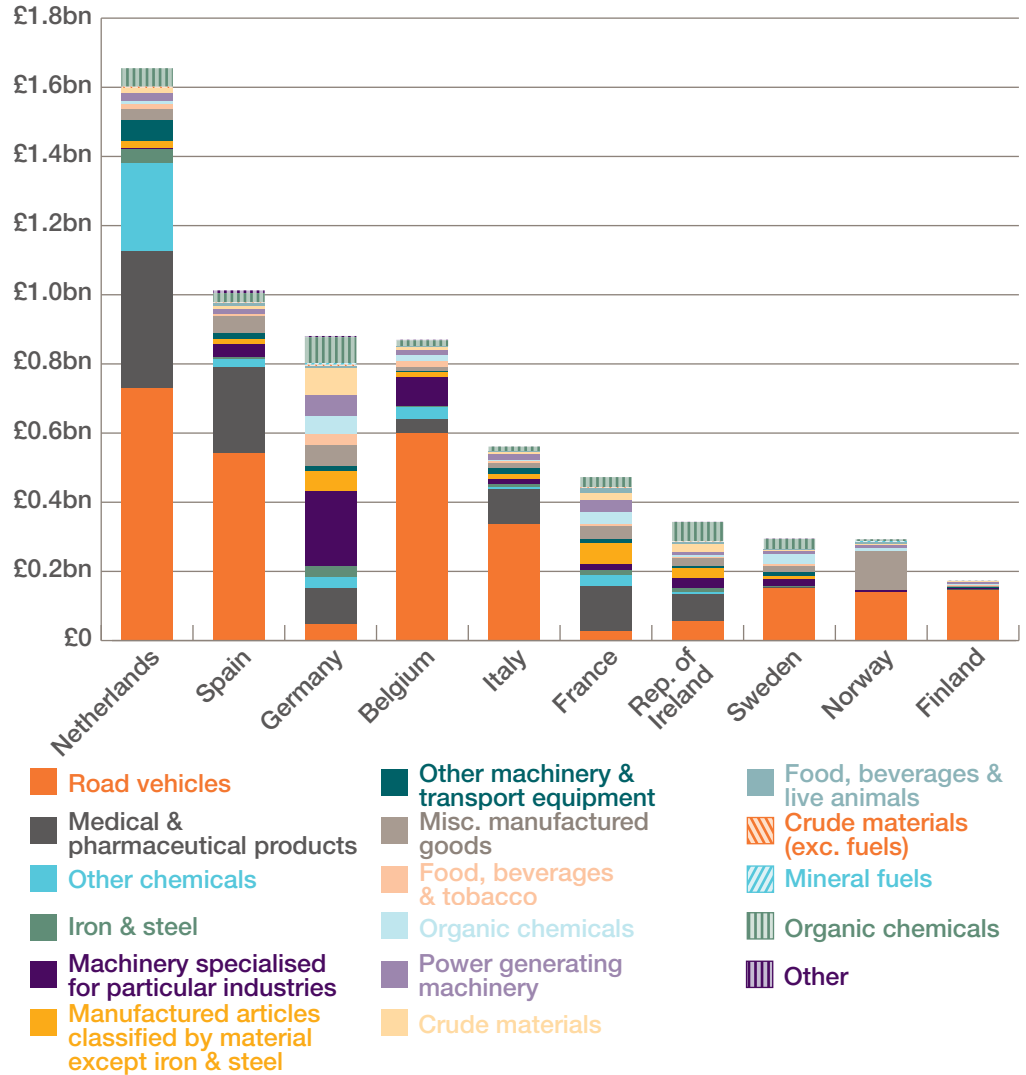
Unsurprisingly, road vehicles dominate exports from the North East to many EU destinations. For example, in 2015 they accounted for over 80 per cent of goods export value from the region to Finland, and 68 per cent of goods export value to Belgium. The percentages are smaller for Italy (60.3 per cent), Spain (53.7 per cent) and Sweden (51.9 per cent), and also for Norway and the Netherlands, where road vehicles represent between 40 and 50 per cent of total goods export value – a figure that fairly closely reflects their contribution to the value of the North East’s goods exports to the EU as a whole. Road vehicles account for a considerably smaller proportion of goods exports to France and Germany, although this follows a sharp fall in the value of road vehicle exports to France in 2014.

However, the profile of the North East’s exports to most of its major destinations is fairly diverse. Figure 3.2 illustrates the value of goods exports to those major EU destinations where road vehicles account for 60 per cent or less of goods export value from the north east of England. While trade with Spain, Italy and Sweden remains somewhat dominated by road vehicles, medical and pharmaceutical products also play a fairly major part; the same is true of exports to the Netherlands, of which ‘other chemicals’ also constitutes a major share.

FIGURE 3.2

The profile of exports from the North East to many European countries is more diverse than road vehicles alone

Total value of goods export flows to major EU destinations from the north east of England (for European destinations where road vehicles account for less than 50 per cent of total goods export value), 2015



Source: HMRC 2016

The destinations with the most diverse export flows from the North East, on the basis of these figures, are Germany, France and the Republic of Ireland. Chemicals other than medicinal and pharmaceutical products were important exports, accounting for around 12 per cent of the value of goods exports from the North East to the latter two, and almost 30 per cent of the value of goods exports to Germany, which is a particularly important market for essential oils, perfumes and toiletries. The value of iron and steel exports from the North East to Germany and to France was considerably greater, as a proportion of total export value, than the value of the region's iron and steel exports to the EU as a whole. In 2015 Norway became an important market for machinery and transport equipment other than road vehicles,

possibly reflecting the success of the North East's subsea manufacturers. Machinery of various kinds also made up a relatively high proportion of the value of exports to Germany, France and Sweden.

The total value of the North East's exports to France fell in 2014 largely because of a fall in the value of road vehicle exports. However, the export value of every *other* category of machinery rose, as did the value of other export categories such as plastics and miscellaneous manufactured goods. Similarly, the increase in export value to Germany that occurred in 2014 and 2015 had little to do with the value of road vehicle exports, which in fact fell as a percentage of goods export value to Germany between 2012 and 2015. Figures for the value of goods exports to Italy and Spain also show an overall increase, one that is only partially accounted for by a rise in the value of vehicle exports. The value of exports of chemicals and machinery to these destinations grew particularly strongly.

These observations suggest that the North East has the capacity to diversify its export portfolio, especially in relation to certain established markets. What diversification there has been in recent years has been strongest in areas that are closely related to its dominant strengths in motor manufacture and chemical production. The figures discussed above for high growth in areas of machinery and chemical manufacturing, which still account for a relatively low proportion of total North East trade with the EU, may support this position.

4. TRADE BETWEEN THE NORTH EAST AND OTHER UK REGIONS

This section draws on data from the Netherlands Environmental Assessment Agency (PBL) (Thissen and Gianelle 2014) which, as noted above, are not directly comparable with those taken from the HMRC releases. The figures quoted apply to 2010 and earlier, and only include trade flows worth €1 million or more. This 2010 cut-off date means that the picture of inter-regional trade that these figures give us is essentially a mid-recession one; 2015 data would almost certainly tell a very different story. Figures 2.4 and 3.1 above show an increase in the North East's goods exports in the major SITC categories and to its key EU destinations respectively; it is therefore reasonable to expect that the region's domestic trade with other UK regions will have prospered similarly.

Figure 4.1 below illustrates approximate figures⁵ for the value of trade in goods and financial and business services from the North East region to the rest of northern England (the North West and Yorkshire and the Humber), Scotland, and London and the South East, based on PBL figures.

Overall, on the basis of this data, exports to the North West were worth approximately €1,405 million in 2010, which represents a fall from a value of €1,977 million in 2005. Similar falls occurred in the domestic trade of all UK regions, reflecting the impact of the 2008 crash. For the Northumberland, Tyne and Wear NUTS-2 region, for example, domestic intra-regional exports were worth around 4.7 per cent of total regional production in 2005 and rather less – 3.7 per cent – in 2010. These figures are broadly comparable to those for the 'Greater Manchester' NUTS-2 region, where intra-regional exports were worth 5 per cent of total regional production in 2005, but fell to 3.4 per cent in 2010.

The use of different levels of aggregation in this dataset makes it difficult to draw comparisons between the composition of trade flows from the North East to EU countries and to UK regions. Nevertheless, the value of the region's trade with other UK regions appears, in 2010, to have been considerably *greater* in some categories than the value of trade with other members of the EU within those categories. This is the case, for example, with 'high tech' and 'mid tech' manufacturing. By contrast, the figures suggest that the bulk of chemicals produced but not consumed within the region itself is exported internationally rather than domestically.

⁵ These figures are approximate because they have been arrived at by adding data for the NUTS-2 regions 'Northumberland, Tyne and Wear' and 'Tees Valley and Durham' to create figures for the North East region; similar combinations of other NUTS-2-level data were made to obtain figures for the other UK regions. Furthermore, because only flows worth €1 million and above are shown in the visualisation, it is likely that the *overall* added figures would be slightly lower than the actual totals.

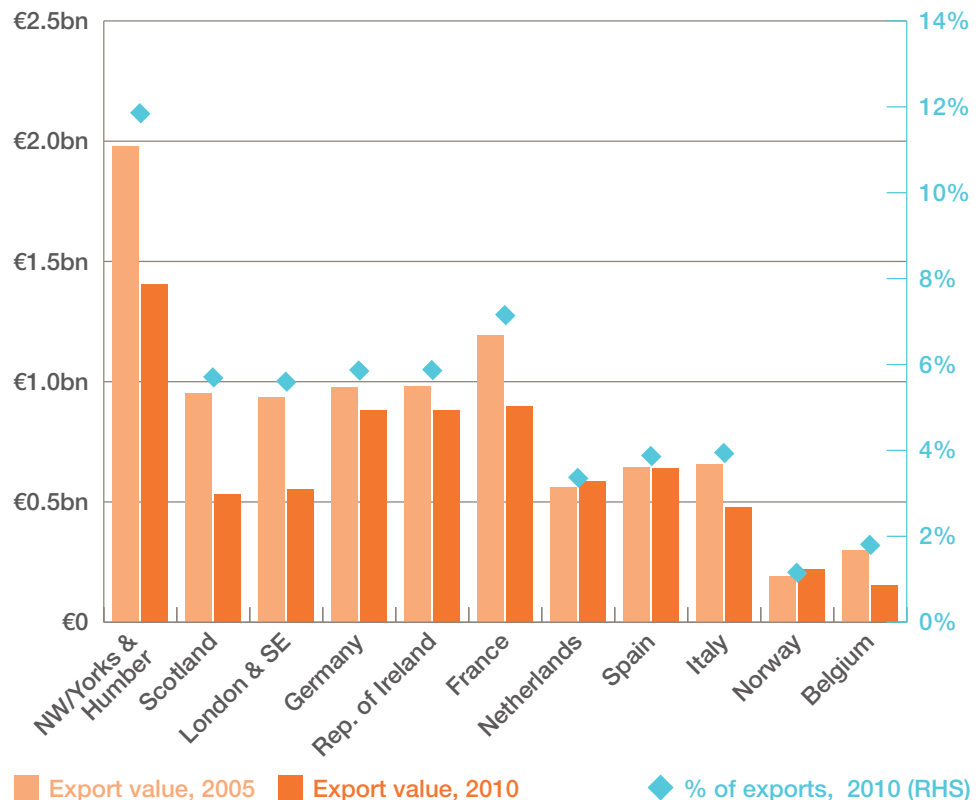
Exports of the products of low-tech manufacturing to the North West and Yorkshire and the Humber were worth around €60 million in 2010, and exports of the same to Scotland were worth €34 million.

If we consider the rest of the north of England as a whole (that is, the NUTS-1 regions ‘North West’ and ‘Yorkshire and the Humber’), it emerges as a recipient of ‘exports’ from the North East that have a total value *higher* than that of those sent to any single EU destination outside the UK; similarly, the values of the North East’s ‘exports’ to Scotland, and to London and the South East, were higher than those of exports to all but three EU trading partners. Comparing UK regions and EU countries as trading partners with the North East in this way demonstrates how key domestic markets are to supporting the region’s economy, and the importance of both domestic *and* international trade. Geographical proximity appears to be an important factor in terms of how strong and established trade links are. Within the North East, the NUTS-2 region ‘Tees Valley and Durham’ accounts for a greater share of the North East’s trade with Yorkshire and the Humber and the North West, while the NUTS-2 region ‘Northumberland, Tyne and Wear’ accounts for a greater proportion of the wider region’s trade with Scotland.

FIGURE 4.1

The North East ‘exports’ more to the rest of the North of England than to any other trading partner, domestic or European

Value of exports (€ billion) to key UK and EU destinations from the north east of England, 2005 and 2010 (2010 prices) (LHS), and percentage of total export value accounted for by each destination in 2010 (RHS)

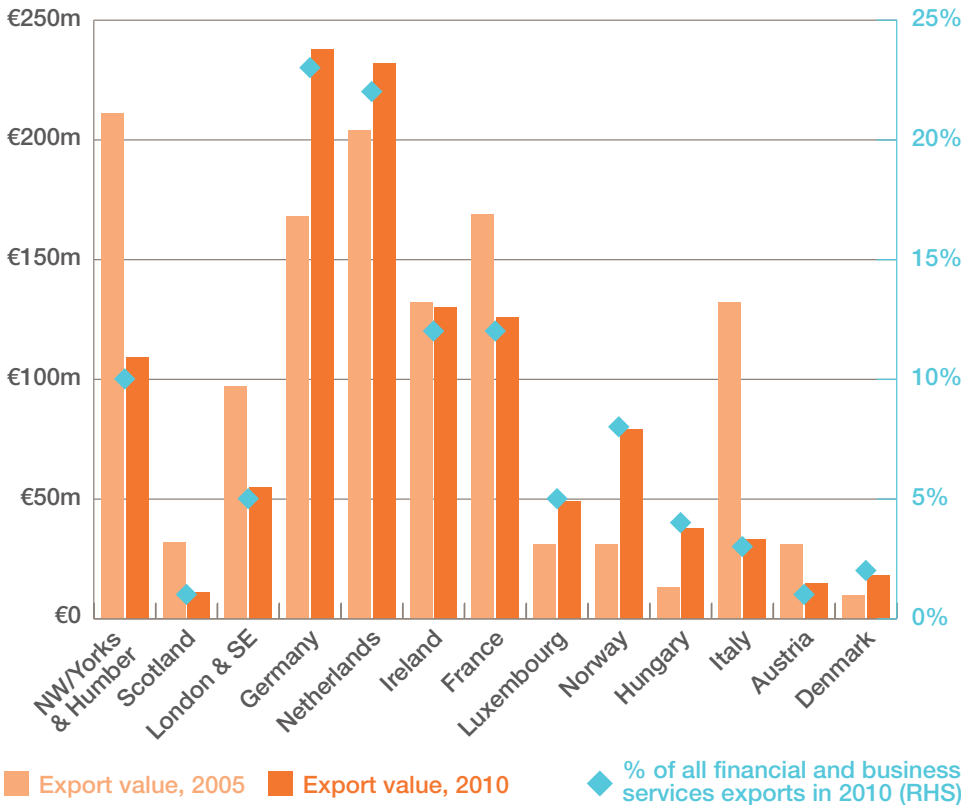


Source: derived from Thissen and Gianelle 2014

The North East’s ‘balance of payments’ with the wider North was negative in 2010, although by only a fairly modest margin. By contrast, imports to the region from Scotland were worth around €375 million, while trade from the North East to its northern neighbour was worth over €500 million.

The PBL data also include figures for domestic and international exports of ‘financial and business services’. The values of exports in these categories from the North East to the wider North, Scotland, London and the South East, and major EU destinations are shown in figure 4.2 below. Financial and business services produced in the North East tend *either* to be consumed ‘at home’, or to be exported internationally: less than 10 per cent of the overall value of these services were accounted for by exports outside the region in 2010, and the bulk of this ‘export’ value went to European trading partners rather than UK ones (Germany, the Netherlands, Ireland and France were the major recipients). However, the recent strong performance of Newcastle in this sector (see chapter 5) may suggest that exports of this type have the potential to grow in importance.

FIGURE 4.2
The North East exports more financial and business services internationally than it does domestically
Value of financial and business services exports (€m) to key UK and EU destinations from the north east of England, 2010 and 2005, and percentage of total financial and business services export value accounted for by each destination in 2010 (RHS)



Source: derived from Thissen and Gianelle 2014

5. RISKS AND OPPORTUNITIES FOR THE NORTH EAST AS AN EXPORTING REGION

5.1 NORTH EAST EXPORTS IN CONTEXT

The data presented here supports the case for, and demonstrates the further potential of, the north east of England as a ‘hub’ for international exports, as evidenced by its consistently positive balance of trade and the high value of its exports relative to the size of its population and business base. The region can rightly celebrate its strong history of engaging with a range of EU markets, and the high international demand for its exports of road vehicles. The diversity of its export ‘portfolios’ to certain key destinations suggests that it is in a position to build on this track record by extending the range of manufactured goods on which its international trade depends, thereby reducing its vulnerability to ‘shocks’ in the global economy which may lie largely or wholly outside the control of regional stakeholders.

There is also evidence that the North East ‘exports’ extensively to other parts of the UK – particularly to the rest of the north of England. The importance of establishing a strong regional voice for the North East within the ‘northern powerhouse’ project is clear, given that markets elsewhere in the North are of such great importance to the region’s firms, and that other parts of the North export large volumes of goods from the North East. Trade with Scotland is also substantial. However, access to these domestic markets may be limited to some extent by poor connectivity within the wider North, particularly east–west links, and also by the lack of a strategic overview of domestic trade. The latter would be greatly facilitated by the availability of up-to-date, comprehensive and reliable statistics on ‘imports’ and ‘exports’ between UK regions, to at least the NUTS-1 level if not NUTS-2.

The North East’s strength as an exporter has played an important part in supporting the region’s recovery from the 2008 financial crash and the subsequent recession. Even so, its economy continues to lag behind the national average on several key indicators such as productivity, GVA and disposable household income. However, there have recently been some other more positive indications, besides its strong export performance, that the region is beginning to realise more of its economic potential. GVA growth in the North East has been strong in recent years (NELEP 2014; Prothero 2015), albeit having starting from a low base, and the region’s business ‘birth rate’ in 2013 was the joint-highest outside London (ONS 2014). A 2015 report found that Newcastle’s economy experienced the third-highest growth among the UK’s 13 major cities between 2009 and 2014 – behind only London and Bristol, and ahead of Manchester,

Glasgow, Edinburgh and Leeds. This growth was led by the private sector, including the construction (11.9 per cent) finance (11.3 per cent) and professional and business support services (8.5 per cent) sectors (ONS 2015).

Furthermore, the North East's productivity growth has consistently been the highest of any English region since 2009 (NELEP 2014), although its productivity levels remain low relative to the national average (ibid) and its GVA continues to depend fairly heavily on public services (Prothero 2015). Strong private sector growth may be particularly important to the North East because it is among the English regions in which cuts to public services under the Coalition government's programme of austerity were most severely felt (SPERI 2014). The impact of these cuts may be partially offset by higher employment and wage levels if growth in the private sector is achieved.

The North East's economy has long been heavily reliant on the production and export of goods that are consumed outside the region. In the 19th and 20th centuries it enjoyed a deserved reputation for coal mining and exports, and for shipbuilding. More recently, external links have also grown in importance as a continuation of its long history of foreign direct investment (FDI), with overseas firms establishing bases in the region. Wren and Jones (2008) note that the North East, 'relative to its size... has attracted more FDI than any other English region', although the resultant industrial plants have not always prospered in the long term. Jones and Wren (2006) found that FDI in the North East has led to continuing concentration in particular industries, and even particular firms. This was reflected in a small number of high-value projects, relatively limited spatial distribution, and focus on a narrow range of industrial activities dominated by the manufacture of chemicals, machinery, communications equipment and transport. More recently, the region has also built a reputation in service industries, most notably call centres (Hudson 2009).

However, the region has sometimes been described as having many of the characteristics of a 'branch plant economy' (Elcock 2014; Pike 2004; Pike et al 2010). These characteristics include:

- a high number of '... business operations shorn of many of the activities and wider benefits we take to be the signatures of "enterprise"', including 'high-value-added and entrepreneurial segments of the division of labour (management, research and development, sales and marketing)'
- concerns over innovation and employment quality
- a 'lack of local linkages'
- 'concerns over the stability of employment associated with mobile investment' (Phelps 2009: 584–585).

Other issues include limited local decision-making, and a pattern of 'industrialisation without growth', in which existing regional strengths are not developed or exploited; innovation, technology transfer and staff training and skills development may also be minimal (Dawley 2011: 397–398). A history of these issues could impact on the sustainability of individual companies, as well as on the regional economy that they operate in.

A high concentration of jobs in a small number of industries has also characterised the history of the North East's economy. Byrne and Benneworth (2006: 110) quote a 1963 white paper that includes the observation that in the North East, 'one third of all male jobs were in four industries, compared with one eighth in the country as a whole'. While coal mining, iron and steel working and ship-building may no longer be the dominant industries in the region as they were at that time (ibid:110), the North East's export value continues to be concentrated in a small number of commodity categories, which could potentially present a risk. The region's economy might be vulnerable to downturns or shocks in those dominant sectors, including from developments in the global economy or international markets that are largely outside the control of regional businesses or organisations. Trends such as the outsourcing of labour in particular sectors could also have an impact on the region.

5.2 SMART SPECIALISATION AND NORTH EAST EXPORTS

The North East needs a strategy that builds on its strengths in exporting and in specific industries, while future-proofing it against those economic shocks that will damage any region that is over-reliant on narrow sectors. The strategic economic plan for the region drawn up by the North East Local Enterprise Partnership (NELEP 2014) advocates a 'smart specialisation' approach, following the recommendations of the 2013 North East Independent Economic Review (the 'Adonis review') (NELEP 2013a) and the extensive analysis reported in the commissioned report that explored this approach (NELEP 2013b).

Smart specialisation

'Smart specialisation' focusses on the role that innovation can play in driving regional economic development. As a process, it begins with preliminary analysis that identifies the ways in which a region can build on its established systems and strengths *across* different types of activity and production, rather than within conventionally-recognised sectors (Ortega-Argilés 2012). The 'specialisation' involves creating concentrations of 'certain classes of players' to facilitate their use of resources for creating and acquiring knowledge and identifying local and market opportunities, thereby enabling them to function as 'catalysts' for economic transformation (McCann and Ortega-Argilés 2011). Instead of 'offering a method for determining if a hypothetical region has a strength in a particular set of activities... the crucial question' under a smart specialisation approach is 'whether that region would benefit from and should specialise in certain R&D and innovation activities' (Foray and Goenaga 2013).

Successful smart specialisation depends on a 'robust and transparent' means of identifying technologies, fields of activity and industrial populations that can be 'favoured' within a region in order to boost growth by 'constructing regional competitive advantages (Foray et al 2011)'. This approach is now a 'key element' of the EU 2020 innovation plan (Foray et al 2011). Although its formal application is relatively new, evidence is emerging that regions in which initiatives have followed the principles of smart specialisation have benefitted

from them; as a principle it encourages the more structured and strategic application of effective practices (Baier et al 2013; Wintjes and Hollanders 2011).

In the north east of England, the strengths on which economic growth can be built include ‘the region’s positioning as England’s “trading” region in global markets’ (NELEP 2013b: 4). This finding, from NELEP’s *Smart Specialisation Report*, develops upon the earlier Adonis review’s identification of ‘making, trading, exporting’ as the most important sources of potential economic growth within the region (NELEP 2013a). Alongside this focus, business innovation can draw on the foundation for knowledge creation and transfer offered by public investment in universities and research and development infrastructure (NELEP 2013b). Progress on these two fronts would go some way towards overcoming the gaps in innovation capacity that are associated with historic ‘branch plant economies’. Smart specialisation will help to develop greater entrepreneurial capacity within the region (ibid), and this, in time, should lead to the creation and growth of local companies that will establish headquarters and offer ‘high value’ employment and services within the region.

Smart specialisation is also proposed as a means of overcoming the potential risks of a lack of diversity in the range of goods that a region or country exports, or of heavy reliance on whether ‘a small number of large global firms [decide] to base significant amounts of activity in the UK’ (Dolphin 2014). Focussing on a narrow range of export goods makes economies fragile and vulnerable to external shocks, and limits options for increasing growth through exports. By contrast, smart specialisation involves identifying areas of economic activity in which there is potential for investment to promote innovation, and policy interventions that build on existing strengths. An area in which smart specialisation is operating effectively may still see a high concentration of its exports in particular categories. However, this would reflect high levels of expertise, quality and being consistently ‘ahead of the game’ in relation to these categories, rather than a lack of diversity.

Key areas for smart specialisation in the North East identified by NELEP (2013b) include passenger vehicle manufacturing, sub-sea and offshore technologies, the life sciences and healthcare, and creative, digital, software and technology services. All have large-scale and growing production bases, strong cross-sectoral representation, and growing bases of research and innovation in the North East. Another emerging ‘niche’ specialism is ‘surface science’ – that is, the development of chemical coatings and related products.

A further opportunity that draws together several of these strengths is the exploitation of the growing need for low-carbon transport and energy generation options. For example, the highly successful Nissan plant in Sunderland is also part of a low-carbon vehicle ‘cluster’ that is associated with substantial research and development activities, innovations in encouraging the use of electric vehicles, and the growing presence of smaller manufacturers of low-carbon cars and their components (NELEP 2013b: 33). Rail manufacture also has a growing presence in the North East, particularly in County Durham where major initiatives associated

with companies such as Hitachi are in place.⁶ The region also has a number of important centres for research, innovation and training in relation to subsea industries and – in particular – renewable energy generation. Links with Scotland are important in terms of developing relevant markets, as well as other areas of engineering that are relevant to these industries. The east coast of Scotland is home to a large offshore oil and gas industry, and the Scottish government is strongly committed to developing a low-carbon economy, using natural resources to generate renewable energy.

Current developments in the North East, including the devolution of some economic development functions to the North East Combined Authority, provide a framework in which to continue to develop the network of links *within* the North East region discussed in NELEP's *Smart Specialisation* report (NELEP 2013b). The strong focus on innovation in the current structure of the LEP, and its ongoing initiatives, offers opportunities for companies based in the North East with established exporting strengths to add value and build their sustainability. In the heavily dominant passenger vehicle manufacturing sector, a particular priority will be made of 'the development and diversification of supply chains' (ibid: 48), alongside continued commitment to innovation, particularly in low-carbon, electric and hydrogen fuel cell technologies. This provides an element of 'future proofing', both of this manufacturing capacity itself and of the North East's role within the industry. The success of this sector could also provide a model for other industries in which innovation is strong but the North East's exports may 'lag' behind their potential. A prime example is subsea technology, a 'niche and rapidly expanding sector', the export capacity of which must be expanded (ibid: 48) in order to establish the North East as a major player. Again, emphasis on the potential for manufacturing to support renewable energy generation may be particularly important, particularly as increasingly ambitious targets for carbon reduction are being adopted around the world.

Given the importance of evidence in developing and sustaining a smart specialisation strategy, those concerned with economic growth in the North East must make the improvement of data on trade between UK regions a priority. Partial or out of date figures are of limited use. The North East should follow the example of London and work with other regions and the ONS to establish regular statistical updates on regional trade. Such an initiative should also provide guidance for statutory bodies such as combined authorities and LEPs on how to use these statistics in regional economic strategies, and for business organisations and other bodies that could benefit from this resource.

⁶ Specific initiatives in which these companies are involved will be discussed in further detail in the second report in this series, which will deal with innovation and skills development.

6. RECOMMENDATIONS

RECOMMENDATION 1: SPECIALISATION AND NORTH EAST EXPORTS

To address the possible risks that could arise from relatively high dependence on a narrow range of export sectors, NELEP and its partners should continue to pursue the strategy of ‘smart specialisation’ advocated in NELEP’s 2014 strategic economic plan. This would involve NELEP taking the lead in the following ways.

- Continually monitoring the performance of, and opportunities for, the manufacturing and development areas identified in that strategic economic plan, including trade flows and opportunities to increase rates of export.
- Planning for innovation ‘hubs’ and centres in the region (including those supported by innovation through the ‘catapult’ network of sector-specific innovation bases; those associated with higher education institutions, including university enterprise zones; research institutes working with industry; and other innovation hubs and assets), should include an exploration of opportunities for ‘spillover’ innovation and expansion in key areas of manufacturing and services.
- Seeking diversification opportunities that relate to the region’s established strengths in automotive manufacture and engineering, including automotive manufacture that has the potential to increase the region’s profile in the manufacturing of low-carbon transport.
- Actively identifying and pursuing opportunities to market export and investment opportunities in the North East based on this ‘overarching’ specialisation.

RECOMMENDATION 2: INTER-REGIONAL TRADE WITHIN THE UK

The importance of trade with other UK markets should be better recognised by NELEP and other business bodies, and opportunities to exploit and develop that trade sought.

- Specific opportunities for expanding domestic trade outside the North East region should be monitored and exploited. These include developments associated with the ‘northern powerhouse’ initiative in the wider north of England; business and governmental initiatives in Scotland, including those associated with the devolution of greater powers to Scotland (see below); and the ongoing economic growth of London and the South East.
- Transport links that support inter-regional trade in the UK should be made targets for investment and improvement. Specific examples include the TransPennine rail link, and its electrification beyond York; the East Coast mainline both north and south of Newcastle; and freight links by road and rail that link the region’s ports with its manufacturing and business centres.

- The North East must be strongly represented by the North East Combined Authority and NELEP in pan-northern projects on economic, transport and social integration, such as the development of a ‘Great North Plan’ and engagement with the newly-formed Transport for the North body.
- Mistaken and out-of-date perceptions of the North East elsewhere in the UK should be proactively challenged and countered with evidence of the region’s successes and potential.

RECOMMENDATION 3: BUSINESS SUPPORT

NELEP should galvanise and extend specific support for North East businesses to enter into and increase domestic and international trade.

- Current initiatives, such as UKTI’s programmes for first-time exporters and medium-sized businesses seeking to become exporters,⁷ should be supported and promoted through sector organisations. Devolved responsibility for economic development in the North East should adopt the promotion and extension of such programmes as a priority.
- Business support in the North East, and initiatives undertaken by the devolved authorities using their new responsibilities for skills and economic development, should promote skills necessary for the development of exporting. In particular, organisations such as TechNorth and Dynamo NorthEast should take a lead in promoting digital skills⁸ to support e-business and the effective use of digital and social media to promote the region’s businesses. Bodies such as the North East Chamber of Commerce and the Confederation of British Industry North East should continue and enhance their efforts to build greater awareness of the international business climate and the appropriate language skills and cultural awareness for conducting business abroad.
- The North East Combined Authority should also work with the Scottish government to develop a body to support business links between the North East and Scotland, in order to co-ordinate opportunities and representation, provide advice, and liaise with regional and devolved government.

RECOMMENDATION 4: DATA AND INFORMATION

Comprehensive data for trade in the broadest possible range of goods and services between regions of the UK should be produced and made generally available. This will be particularly valuable to local businesses in terms of influencing transport plans for the region and planning their use of logistics.

- North East stakeholders should support initiatives by the ONS and GLA Economics to develop estimates for trade flows between NUTS-1 regions of the UK, and input-output calculations for trade in goods and services.

7 <https://www.gov.uk/government/publications/ukti-teams-in-the-english-regions/ukti-north-east-helping-companies-export-and-grow-overseas>

8 <https://www.gov.uk/guidance/e-exporting>

- Publications presenting this data should specify the value of flows at as detailed a level as is reasonably practical, and at the very least for NUTS-1 regions and SITC-1 categories.
- This data should be made available at the most timely format which is economically feasible, so that they are available as soon as possible after the timeframe to which they pertain.
- The data should be made available in a format that is easily accessible, and be accompanied by guidance on their use and information on the methods used in their calculation.
- The business support proposed within 'recommendation 3' above should include guidance based on this information and analysis of it by organisations responsible for economic growth in the regions, such as relevant bodies managed by the North East Combined Authority.

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