

**British Government long-term Measures
for Exporters in the Manufacturing
Sector in Times of COVID-19**

Lena-Louise Jachwitz, David Schäfer and Simon Schmutz

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Abstract and Policy Implications

The authors of this paper have addressed the question of what measures have been taken by the British government to support exporters in the manufacturing sector in the era of COVID-19. A classification of the manufacturing export industry in the British economy as a whole and the impending economic impact of COVID-19 were also examined. It should be noted that the United Kingdom is facing major structural changes as a result of the Corona pandemic and its withdrawal from the European Union, which are examined more in detail in this paper. The UKEF, in cooperation with other institutions, provides a number of finance facilities for exporters already before Corona crisis. The access to get this support has been facilitated for the COVID-19 affected exporters, but no additional measures were made available.

1. Introduction

As many other European countries, the United Kingdom (UK) is affected hard by COVID-19. With 306.210 infected and 42.927 dead people (status 23.06.2020, Department of Health and Social Care, 2020), the UK has the highest death rate in Europe (Wilson et al., 2020). To prevent the further spread of the virus, daily life was completely shut down. Due to this lockdown and the massive restrictions (e.g. social distancing) in the daily routines not only the social impacts are significant, but also the economic ones. The impact of the crisis on the economy are experienced worldwide, resulting in companies operative, financial and liquidity problems. The global restrictions and their effects also severely constrain the global trade (PwC, 2020a:p.3.) which is one of the most important economic sectors in the UK (Make UK, 2019). As the analysis of the Office for National Statistics (2020a) shows, more than 20% of manufacturers have to stop their capital expenditure while over 30% have to reduce their capital expenditure due to the Corona virus pandemic. At the same time, 72% of the British companies export less than usual and only 3% export more than normal. Furthermore, less than 2% of the British companies have to stop their export business completely (Office of National Statistics, 2020b).

In this context, the following research questions arise:

- What are the impacts of COVID-19 on the UK economy?
- Which measures are provided by the British government to support exporters from the manufacturing sector according to COVID-19 effects?

Beyond the research questions, it is to mention that the UK is not only hit by COVID-19, but also has to deal with the effects of multilateral conflicts e.g. trade conflicts as well as Brexit (De Lyon, Dhingra, 2020) that have an impact on the gross domestic product (GDP), inflation as

well as unemployment rate (KPMG, 2020:p.4). The aspects of multilateral conflicts and Brexit should also be considered when answering the research question of the impacts.

2. Analytical Framework

For the results of this essay primary and secondary data (Doering & Bortz, 2016:p.370) were examined. On the one hand, a number of individual, qualitative and semi-structured interviews as well as written questionnaires (Berger-Grabner, 2016:p.162) with different UK export experts are conducted in the field of primary data. In addition, an attempt was made to obtain qualitative data from the manufacturing industry based on an online questionnaire (Berger-Grabner, 2016:p.166). However, the feedback was very limited, which is why this data cannot be used. Furthermore, secondary data such as latest journals, publications of institutions (Doering & Bortz, 2016:p.158), among others, the British government, UK Export Finance (UKEF, UK's Export Credit Agency) or Organization for Economic Cooperation and Development (OECD) were investigated with the aim to identify the impact of COVID-19 in the UK as well as governmental measures to support the exporters, especially in the manufacturing sector. It has been shown that many measures cannot be specifically attributed to the manufacturing industry, but to all sectors and all company sizes. Therefore, the investigation also focuses on general financial measures for exporters regarding to COVID-19.

3. Impact of COVID-19 on the British Economy

This section will begin by focusing on the importance of both, the UK export economy and manufacturing industry, before moving on to the economic impacts of COVID-19, trade conflict and Brexit.

As indicated in the introduction, the crisis has a significant impact not only on GDP, but also on the labour market and inflation rate. Table 1 provides a snapshot of these current figures and forecasts.

Table 1: Snapshot of the UK economy

Year	GDP	Unemployment rate	Inflation rate
2019	1.4%	3.8%	1.8%
2020	-7.2%	8.6%	1.0%
2021	2.8%	11.0%	0.8%

Source: Own representation based on KPMG, 2020:p5.

Importance of Export for the United Kingdom

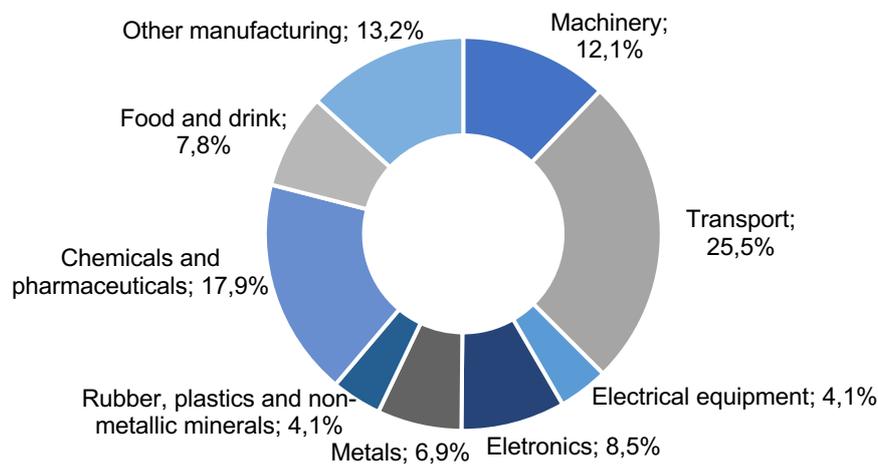
In 2019, the European Union exported on average 47.1% of its GDP (World Bank, 2020b). The United Kingdom exported goods and services in the amount of 689.0 billion pounds in the same year (Department for International Trade, 2020a). This equals 31.5% of the GDP which is far less than the EU export average (OECD, 2020a). However, the UK is ranked 9th in the international export ranking and the export economy is nevertheless essential for economic

growth and the wealth of the UK (OEC, 2020). The UK's top three trading partners are the United States (U.S.), Germany, and the Netherlands (Department for International Trade, 2020b:p.6).

The already mentioned export volumes of 689.0 billion pounds are divided into 317.0 billion pounds exports of services and 372.0 billion pounds exports of goods. This clearly illustrates the importance of both types of export for the British economy (Department for International Trade, 2020b:p.9). This present study focuses on the manufacturing industry, wherefore this industry is broken down in figure 1 more in detail.

As this graph shows, the export economy in the manufacturing industry is dominated by Transport (25,5%), Pharmaceuticals & Chemicals (17.9%) and Machinery (12,1%), which underlines the importance of these high value-added sectors for the success of British industry in general (Make UK, 2019b:p.3).

Figure 1: UK Manufacturing Goods Export by Sector



Source: Own representation based on Make UK, 2019a:p.3.

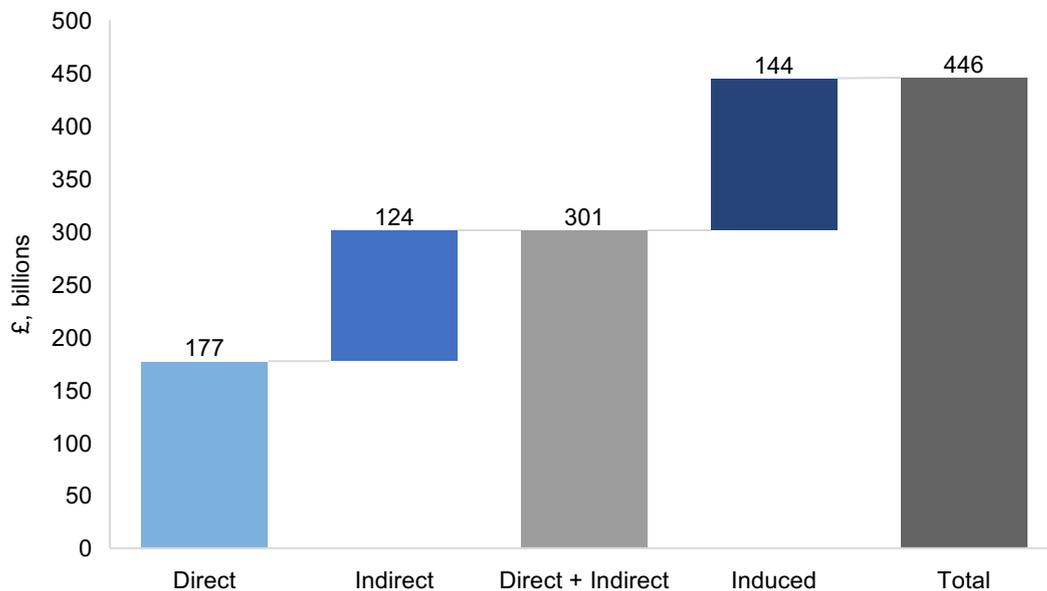
Importance of the Manufacturing Sector for the United Kingdom

Since 1970, when the manufacturing industry still contributed 25% to the GDP, the share of the manufacturing GDP has been declining almost consistently (The Manufacturer, 2020). Nowadays, the manufacturing sector is less present in city centres and there are fewer employees in the sector than it was previously the case. Therefore, the tendency to believe that this sector is becoming unimportant has been growing (Oxford Economics, 2018, p.1). But there are research approaches that claim that measures such as the direct GDP share of a sector are not sufficient to fully reflect the importance of this sector to the UK economy (Kitson & Michie, 2014:p.12).

Commonly, the direct influence of the manufacturing industry on the GDP is considered (Kitson & Michie, 2014:p.12). Besides that, indirect impacts like economic activities and employment across the entire supply chain of the sector is added. Furthermore, the induces impacts, which are the consumption expenditure of employees within the industry and its supply chain due to the economic benefits it generates are investigated. Combined all three impacts (figure 2) leads to the final results: the manufacturing industry contributes 446.0 billion (23%) to the GDP with over 7 million jobs. However, economists should consider more than just direct effects of

a sector. This clarifies that the manufacturing industry still represents a much more significant share in the United Kingdom as shown in the conventional statistics (Oxford Economics, 2018:p.24).

Figure 2: Total GDP contribution of UK Manufacturing Sector, 2016



Source: Own representation based on Oxford Economics, 2018:p.24.

Impacts of COVID-19 on the UK Economy

Basically, the Corona pandemic is a public health crisis. But it has caused an unprecedented shock to Britain and the world economy by imposing necessary social distancing restrictions (Leslie et al., 2020). On 23 March 2020, the United Kingdom initiated a lockdown to control the COVID-19 pandemic. While this has helped to slow down the health crisis, it has had significant economic consequences (McKinsey, 2020). The lockdown restrictions and social distancing measures were valid the entire April, wherefore most affected in the short-term are the food service, hotels, retail and transport sectors (PwC, 2020b). The manufacturing sector mostly operates under normal factory conditions, but there are disruptions in the supply chain (UK and overseas) and declining consumer demand (Office of National Statistics, 2020a). The less labour-intensive, the less the production sector is affected by the lockdown measures. Nevertheless, complete shutdowns of productions occur, often due to complications in sourcing necessary parts from other countries (OECD, 2020b). In the manufacturing sector, this could represent a significant, but relatively small downturn in the production output compared to other sectors and the national economy. The exception is the transport sector, which is facing a sharp decline in demand (KPMG, 2020:p.18).

The OECD has predicted that the UK will be worse affected than other developed nations, and the combined effects of COVID-19 and Brexit cannot be understated. Furthermore, the UK economy is more market-oriented than for example Germany, therefore the effects of the pandemic are more noticeable for the individual. The further economic development depends on the shape and speed of the recovery. However, it is very likely that the effects will be profound and long-term. At present, only the short-term economic effects of the pandemic are

assessable. With monthly economic activity dropping by more than 20% in April 2020, the largest decline in GDP in history was recorded, which according to the interviewees represents 15-20 years of growth in the British economy. As in all countries, the sectors that had zero sales revenues due to the pandemic were particularly hard hit. But most of the sectors have to deal with liquidity and solvency challenges as well as an order collapse. The level of joblessness is currently masked by the employment support scheme (Furloughing). But UK banks estimate that there will be around a 50% default rate on the support loans to small businesses by April/ May 2021 and this debt will need to be restructured by the UK government as the loans have been given without the usual guarantees that would be required by banks.

Additional Impacts of Trade Conflict and Brexit

However, the United Kingdom has to deal not only with the economic consequences of the Corona crisis, rather also with the uncertainties of the trade conflict and Brexit. The protectionist trade policy of the U.S. created special tariffs on steel and aluminium imports and numerous other imports from China, thus violating current WTO law. The countries affected reacted accordingly with counter-tariffs. The tariff spiral between the USA and China has been escalating since the second half of 2018. The longer this trade conflict continues, the more export-oriented economies around the world will feel the effects of it. The trade conflicts create a new uncertainty, which is detrimental to global investment and thus to tomorrow's growth (BDI, 2019).

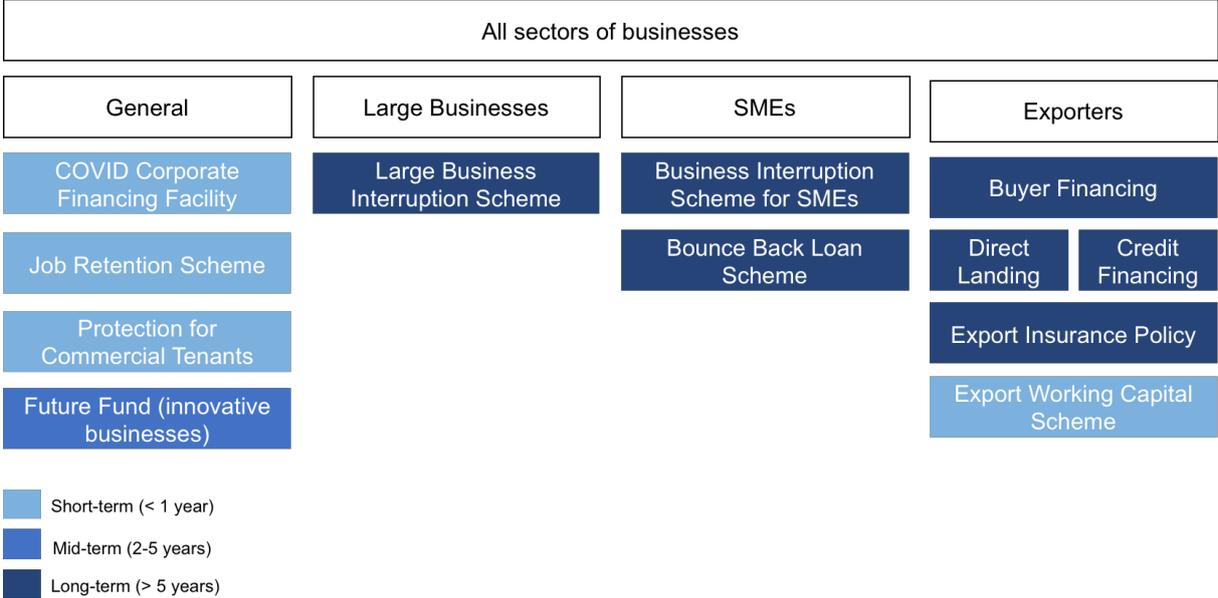
The economic impact of the Corona pandemic and of Brexit is difficult to differentiate. Certainly, there were multiplier effects that started even before the pandemic. The main problem is that still no one knows exactly how the negotiations will end. However, as soon as the time frame is considered realistically, a "no trade deal" becomes very likely. On the one hand, the negotiations should not be prolonged, on the other hand, it is already July 2020 and there is insufficient time to sign a trade agreement. Although that is the general opinion of the interviewees, it also increases the probability that Prime Minister Boris Johnson will have to extend the transition period, even if he does not want to (Euler Hermes, 2020). This leads to uncertainties about the British exporters' future income and therefore an investment decline. Businesses have already begun to build up stocks of important raw materials and components from abroad. Many companies safeguarded cash reserves due to uncertainty about the future payment for their goods and the delivery times of the primary products.

In summary, the effect will be more significant for British exporters. They are facing the same challenges from the Corona crisis as other European countries. In addition, companies are confronted with the problem that their products will become less attractive, on the one side due to the fact that they become more expensive. On the other side, they become more complicated to import for other countries due to the loss of the European single market. The planned growth in demand in the Commonwealth of Nations will not occur at this point simply because they are very strongly affected by the pandemic. The EU is still the most important trading partner of the UK and their import volume will be very difficult to replace.

4. Measures

As only a few measures relate specifically to the manufacturing sector, the following section will present measures for exporters in general such as all types of businesses as presented in figure 3.

Figure 3: Overview of Finance Facilities



Source: Own representation.

It is assumed that the reason for the lack of supporting measures in the manufacturing sector attributed to the fact that this sector is not particularly badly affected as already described in the part of impacts. This statement can be strengthened by information that the sectors that are particularly hard hit, including hospital, retail and leisure, have to develop further specific measures (British Chambers of Commerce, 2020). Therefore, it is possible that the general respectively export measures are sufficient. Measures by UKEF and the British Business Bank (BBB) are considered. All measures are only available to British companies suffering negative consequences from COVID-19.

Finance for UK Business Brading Internationally

The UKEF (2020a) published different measures to “Corona virus (COVID-19): finance for UK business trading internationally” which are:

- Buyer Finance
- Export Insurance Policy
- Export Working Capital Scheme.

The part of **buyer financing** includes direct landing facility and supplier credit financing facility. The direct landing facility is the most relevant point and “supports finance for overseas buyers of UK through guarantees to lending banks” and reduce risks. Direct landing contains contract terms of many years (long-term) and provides loans for each transaction up to 200 million pounds, overall the UKEF provides 8 billion pounds (UK Export Finance 2018b; UK Export Finance 2020b). In addition, the supplier credit financing facility ensures that British exporters

are paid in advanced while the buyer has longer terms of payments. The contract term is many years and is used typically for contracts less than five million pounds (UK Export Finance 2017a).

The aim of the **export insurance policy** is to make a long-term insurance available, which supports an exporter in financial way to fulfil an order that is interrupted due to external factors (e.g. failures in the supply chain due to COVID-19). This applies to uncertain markets where no insurance is offered. The insurance covers risks and losses up to 95%. The policy is extended, among others, to the EU and USA. Due to Corona crisis, a short-term period of less than 24 months can be insured, but in general it is a long-term facility (UK Export Finance, 2020b).

The scheme of **export working capital**, which is a medium-term measure (Lloyds Bank PLC & Bank of Scotland PLC, 2013), is intended to provide loans to British exporters facing liquidity problems. Therefore, the UKEF helps companies to get working capital finance with no minimum or maximum value, but only for export contracts. This type is often used, if an exporter gets a contract which is overseas and has a higher volume as usual (UK Export Finance, 2017b).

Coronavirus Business Interruption Loan Scheme for SMEs

For supporting small and larger businesses, the British government and the Bank of England (BoE) have published two types of business interruption loan schemes (CBILS). This measure applies not only to exporters but to all businesses.

The first scheme of small business that is characterised by a turnover of less than 45 million pounds includes finance facilities up to 5 million pounds through loans, overdrafts, invoice finance and asset finance facilities. The length of the financing possibilities depends on the respective type. Loans and overdrafts can be granted for up to 3 years (mid-term) and invoice finance as well as asset finance up to 6 years (long-term). These finance facilities made available by commercial lenders. In addition, the government guarantees 80% of the amounts lent to requiring companies as well as will provide a business interruption payment for the first year of interest payments and any fees by the lender. The loan scheme is managed by more than 40 accreditive lenders. The requesting companies must send their application directly to the lender (Bagshaw et al., 2020;pp.2-3; Department for Business, Energy & Industrial Strategy, 2020a).

Coronavirus Large Business Interruption Loan Scheme

The second type of CBILS relates to large companies (CLBLIS). In this scheme a distinction is made between a turnover of more than 45 million pounds and over 250 million pounds (without limit). A loan of 25 million is available for businesses with a revenue over 45 million pounds above, while a loan of 50 million pounds is provided in case of a turnover of more than 250 million pounds. Also, in this type the facilities are made available by commercial lenders and the government will guarantee individual loans up to 80%. In order to obtain the loans, large companies must demonstrate that these loans will help to counteract the consequences of the Corona crisis in short- to medium-term (Bagshaw et al., 2020:pp.2-3).

Future Fund

The Future Fund (FF) is related to innovative companies which are experiencing financial difficulties due to the pandemic. The FF includes convertible unsecured loans and governmental loans for British companies in the amount of 125,000 pounds up to 5 million pounds. The prerequisite is that the applicant company need to have 250,000 pounds or more in least equity investment (Department for Business, Energy & Industrial Strategy, 2020c; British Chambers of Commerce, 2020). The Finance tenor is maximum 3 years. In addition, it is possible that the loan is convert into shares, subject to certain conditions (PwC, 2020a:p.8).

Bounce Back Loan Scheme

The Bounce Back Loan Scheme (BBLs) is eligible for all sectors of businesses (except credit institution, insurance companies, public-sector organisation and state funded primary schools). The main focus of the scheme are small loans up to 50,000 pounds or 25% of the revenue (whichever is lower) for micro business and SMEs. At the same time, these loans are interest-free for 12 months and the government will 100% guarantee for the loan. After the first year the interest is 2.5%. Furthermore, no repayments have to be made in the first year. Overall, the credit period is limited to 6 years (British Chamber of Commerce, 2020; Department for Business, Energy & Industrial Strategy, 2020b).

Finally, the most important long-term measures including key facts for exporters are compared in table 2.

Table 2: Comparison of long-term Measures

Measure	Eligible Business	Financing type	Facility amounts	Finance tenor
CBILS	Small businesses (turnover < 45 million pounds)	Term loans, invoice/ asset finance, working capital	1,000 to 5 million pounds	Loans and asset finance: 3 months to six years, Working capital: 3 years
CLBLIS	Large businesses (turnover > 45 million pounds)	overdrafts, invoice/ asset finance	Loans up to 25% of the revenue in 2019 but max. 200 million pounds	3 months up to 6 years
FF	Innovative businesses (private)	Convertible unsecured loans	125,000 pounds up to 5 million pounds	Up to 3 years (medium-term)
BBLs	All business types, but small and micro businesses	Term loans	Loans up to 25% of the revenue in 2019 but max. 50,000 pounds	Up to 6 years

Source: Own representation based on PwC, 2020a:pp.6-8.

Further Measures aimed at Supporting Business Continuity

Other significant (short-term) measures are aimed at supporting business continuity which are, among others, briefly named below: COVID Corporate Financing Facility (CCFF, large

companies have access to short-term financing based on commercial papers (CP), it is managed by BoE) (PwC, 2020a:p.5), Coronavirus Job Retention Scheme (CJRS, it concerns the cover of 80% of the usual salary of an employee who is furlough due to COVID-19) (PwC, 2020a:p.10), as well as protection for commercial tenants (the objective of this measure is to prevent companies that cannot pay their rent due to COVID-19 from losing their facilities) (Bagshaw et al., 2020:pp.3-4) but these are not considered in detail for reasons of relevance.

Evaluation

In summary, it became clear that only a few governmental measures to support in time of Corona crisis were taken regarding to the exporters and none especially for the manufacturing sector. It seems that UKEF does not offer new measures for exporters affected by the consequences of Corona crisis, but rather the regular financing facilities in different ways. However, it must also be stressed that the UKEF already provides many finance facilities for exporters before the pandemic. The other measures generally apply to all types of businesses and are partly differentiated by size of business. This assessment is also shared by the interviewed experts. At this stage it is difficult to judge which measure is most sufficient because the pandemic has not ended yet. The interviewed experts agree that further measures must be implemented to support the exporting sector. These desired measures should focus primarily on long-term financing and taxation. The development of further measures in detail should not be the focus at this point. However, the experts stress that not only the government must support the companies, but also the companies must accept the new situation in times of COVID-19 and learn to deal with these circumstances (e.g. new ways of working, particularly in virtual form). This means that not only financial support but also innovation and creativity are central aspects for the continuity of a company in the Corona crisis. Nevertheless, it should be underlined that all governmental measures help to ensure that businesses can survive and are for this reason indispensable.

5. Summary and Conclusion

The United Kingdom has been hit harder by the COVID-19 pandemic than any other countries in Europe. The country faces great uncertainty due to the current Corona crisis, but also due to the Brexit. The UK is undergoing a major structural change that will take decades.

The export economy is fundamental to the United Kingdom, as it is to many other countries. Roughly one third (31.5%) of the GDP is generated by exports. About half of the exports are related to the manufacturing industry (46.0%) which shows the importance of this sector. Nationally considered, the manufacturing industry is not quite as strongly affected as other sectors. Internationally considered, the UK economy is nevertheless more concerned than other countries. The reasons for this are mainly the combined challenges of COVID-19, trade conflict and Brexit resulting in multiplier effects. The economic consequences of the Brexit are probably hidden by the government around Boris Johnson under the cover of the Corona pandemic.

The investigation of the financial long-term measures to support exporters in the manufacturing sector has indicated that no measures exist which are only available for this sector. This can be explained by the fact that this sector is not suffering from the extreme impacts of the Corona crisis as other sectors. However, the UK Government and the BBB provide a number of long-

term measures e.g. CBILS, FF and BLS which can apply from all types of businesses which means also the exporters in manufacturing sector. Moreover, UKEF has adapted its existing financing facilities to the situations of the pandemic that also support exporters significantly. Thus, the measures provided can be regarded as appropriate. Moreover, companies must accept the new situation in times of COVID-19 and learn to cope with these circumstances. This means that not only financial support, but also innovation and creativity are main aspects for the survival of a company in the Corona crisis.

The UK has been a deeply divided society since the Brexit referendum. With the now additional far-reaching effects of the Corona pandemic, it is difficult to take the positive out of this crisis. The way the government acts today will shape the post-COVID for years to come. In the short-term, however, there is a strong entrepreneurial spirit and a strong sense of community in society. Let's hope that this will dominate the future feeling of Britishness.

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Annex: Findings of the interviews

Research Questionnaire – Semi-structured Interview

Research Project: British Government long-term Measures for Exporters in the Manufacturing Sector in Times of COVID-19

Note: Information obtained in this study will be kept strictly confidential and anonymous. Aggregated data obtained through this research may be reproduced and published in a variety of forms and for a variety of audiences. Participation is entirely voluntary, and participants may withdraw at any time.

Interviewer:

Institution:

Interviewer: Schäfer/Jachwitz/Schmutz

Date:

1.) What overall impact do you think COVID-19 will have on the UK economy?

- Significant impact/ effect on economically, socially and politically situation
- Drop of 20% of the GDP
- Disruption of business activities (lock down, slumped global trade -30%)
- Affected sectors: Tourism, consumer sector, services, airlines, industrial sector
- Challenges to liquidity of companies (orders break down)
- Overall, it is difficult to qualify, especially according to long-term impact (nobody knows if there will be a second wave/ second lock down, cannot see the whole picture yet)

2.) British exporters are being hit particularly hard in these times, they are not only struggling with the uncertainties of Brexit, but now also with COVID-19. These are two enormously influential factors for the future of exports in the UK. Which export industry do you consider to be particularly at risk and therefore need special support?

- All industries are affected, especially: Airline industry, aviation, automotive (decreased by 40%), offshore wind parks, tourism, real estate (except health system), industrial (outside of London), UK is mainly driven by services (80%)
- Overall, global supply chains
- Self-employment affected
- Consequences of Brexit are hidden under COVID-19 (Assumption: Hard-Brexit → British products become expensive and unattractive)

3.) What government measures have been decided to support the manufacturing export sector responding to COVID-19 in the UK?

- A lot of general measures but not only for exporters (UKEF offers limited support)
- UKEF: temporary, service repayment

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- Future Fund
 - Bounce Back Loans for SMEs
 - Fellow scheme → Salary; short/ medium-term
 - International trading – insurance
 - Private insurers are called upon to support exporters
 - Simplification of tariff conditions
 - Short-term cover as risk insurance
 - 8 million jobs have been suspended, 12 million pounds are claimed

4.) From which of these measures do you expect the greatest success for the British manufacturing export sector?

- Basically, any financing instrument can help
- Very hard to analyze the impact/ damage of international business → Hard to say which measure is best
- Fellow scheme
- UKEF already offered financing facilities before COVID-19

5.) Are these measures sufficient or do you think more have to be implemented?

- Need for more longer measures (especially for exporters)
- Government can help in form of taxation and finance, e. g. reduce corporate taxes
- Companies have also to accept the reality and reflect their business model → New ways of working, new products, new method of working international (virtual), which means: Responsibility

6.) British exporters are being hit particularly hard in these times, they are not only struggling with the uncertainties of Brexit, but now also with COVID-19. These are two enormously influential factors for the future of exports in the UK.

What measures do you require from the government to support export business regarding to the Brexit? What uncertainties do you see?

- Treating Covid-19 (unexpected emergency) or Brexit (expected for 2-3 years, damage unknown) → Double uncertainties at the same time
- Lock down → Limited travel and work
- One of the most unexpected level of financial support
- Public debts
- Government will need to intervene in the economy
- Future tax haven? (and environmental regulation, etc.)
- Free movement of goods → Chance for continue best as possible, negotiation extended because of COVID
- Assumption: Hard Brexit will be difficult for UK and EU

7.) There is something positive out of every crisis. What do you think this will be for British economy when COVID-19 is over?

- Promotion of creativity and innovation/ technology

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- Businesses should think about: How can the business conduct?
 - Development of new businesses
 - New space for medical equipment
 - Remote business and create new business
 - Positive balance against negative aspects → "World need crisis to go forward"
 - Force company to do things in a different way (e. g. 6 months out of the office) → Lesson learned
 - Industrial world will find a way to do business simpler and more efficient
 - New philosophy/ policy
 - E-commerce much more significant