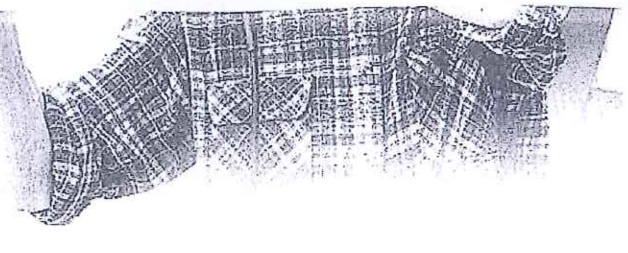
TIMES



When the bottom fell out of Britain's construction market in 2008, Martin Fitch-Roy, managing director of Dando Drilling, feared the 140-year-old company would go bust.

The West Sussex firm supplies giant drills that were used in the construction of the new Wembley stadium, the Olympic stadium and the Crossrail project in London. But when the recession hit, business dried up and Dando had to enter an arrangement with its creditors.

Four years later, its future is secure after being taken over by Energold, a Canadian rival, and it expects to more than double turnover to £19m this year. Yet there's still a drought of orders in Britain, and on the Continent. "We decided Britain and Europe had nothing more for us and we would focus almost exclusively on developing markets, where, frankly, the market is red-hot," said Fitch-Roy. "We are exporting machinery into Borneo in Indonesia for coal exploration, Nigeria and Ethiopia for water drilling, and Namibia for uranium mines."

As Britain and her trading partners in the European Union remain mired in recession, more firms are having to follow Dando into unfamiliar territories to survive.

The eurozone economy is expected to shrink by 0.3% this year, according to the International Monetary Fund, and faces several more years of stagnation as it grapples with the painful process of recapitalising its banks. Britain, meanwhile, is expected to grind out growth of 0.8% at best and flatline at worst.

China, by contrast, is still forecast to grow by 8.2% in 2012 despite widespread fears of a slowdown. Beyond the fast-growing Bric economies (Brazil, Russia, India and China), countries such as Indonesia and Nigeria are expected to expand their economies by 6% or more this year.

Up to now, many British companies have been slow to wake up to the opportunities in developing markets. About 70% of our exports still go to North America, the EU, Japan and Switzerland, while fewer than 10% are destined for the 10 largest emerging economies, including the Brics, according to the Foreign and Commonwealth Office.

Yet the dial has started to move. Last year, exports to India rose by 37%, while those to Indonesia jumped 44% and trade with Thailand increased 22%, the Foreign Office reports.

The ailing economies of old Europe are already becoming less important. In March, for the first time in decades, exports to the 27 member nations of the EU were smaller, in cash terms, than those to the rest of the world.

Is it too little too late? The Ernst & Young Item Club has calculated that if the UK had reorientated its trade towards high-growth economies to the same extent as Germany over the past decade, it would have lifted GDP by about 1%, or £15 billion.

George Osborne has set an ambition of doubling exports to £1 trillion a year by 2020. UK Trade & Investment (UKTI), the commercial wing of the Foreign Office, has been tasked with making that seemingly lofty target a reality.

The fear among economists is that if UK plc was not able to boost its exports in the immediate aftermath of the credit crunch, when sterling was weak, it has little hope of doing so now that the pound is strengthening relative to other currencies. With Europe on its knees the only option for growth is for business to look towards less familiar — and less troubled — economies.

AS DAVID CAMERON visited Belgium and Germany last week to urge leaders to tackle the growing crisis in Spain, Paul Walsh, chief executive of Diageo and a member of the government's business advisory group, was in Edinburgh announcing a £1 billion investment in Scotch whisky. The project will increase production over the next five years and is largely in response to rising demand in emerging markets such as China.

Diageo has cashed in on the growing thirst for its branded spirits, such as Smirnoff vodka, Captain Morgan rum and dozens of famous whiskies, in developing markets. It aims to make China the largest global market for Johnnie Walker, the top-selling whisky in the world, over the next five years.

A new malt distillery is to be built by Diageo in one of three potential Scottish locations — Glendullan, Inchgower or Teaninich. If global demand remains at expected levels, it will build a second. The proposals will create hundreds of jobs, including an average of 250 construction jobs for each year of the investment as well as 100 apprentices and graduate trainees.

"Don't write Europe off," said Walsh. "It is a very big market and it will return to growth — but not in the short term. For the moment the best we are hoping for is a flat performance from our European business — up 1% in a good year, and maybe down 1% in a bad year. Our opportunities are elsewhere."

He added: "Our southern European business has been shrinking for the past three years. The only good thing is that it's a much less important part of our business than it was three years ago — and we're seeing fantastic growth in places like Brazil, Latin America, Asia, Africa."

> **"WE'RE SEEING FANTASTIC GROWTH IN PLACES LIKE BRAZIL, ASIA, LATIN AMERICA AND AFRICA**

Multinationals have been targeting developing markets for years. Many of Britain's biggest companies operate almost exclusively in fast-growing emerging markets. Our two biggest banks by market capitalisation are HSBC and Standard Chartered, both of which make most of their money in Asia. Prudential, Britain's biggest insurer, has a near-monopoly position in some of the fastest-growing economies of southeast Asia. Vodafone, Glaxo Smith Kline, BAE Systems, Rolls-Royce — all are truly international mega-corporates exposed to almost every booming economy in the world.

Yet the small and medium-sized enterprises that make up most of the UK economy are still clinging to opportunities closer to home. Only one in five SMEs currently exports, compared with the EU average of one in four, according to the CBI.

Green Fuels, a Gloucestershire company that sells community-scale biodiesel processors in markets such as Brazil, Mexico and Paraguay, is one of the exceptions. Colin Hygate, the chairman, says government help is there if businesses are willing to take it. "Managers in the UK — those people who are really to be held accountable — are not adventurous enough and are terrified of foreign markets. They think that if they don't speak Portuguese, they can't work in Brazil. But UKTI can overcome those problems for you."

His company was one of a handful of British businesses invited to the launch of the "Great" campaign by Prince Harry on his official visit to Brazil earlier this year. The campaign aimed to bring together business, culture and sport to encourage links between the two countries.

Britain does more trade with Denmark than it does with Brazil. Only 5.5m people live in Denmark, 200m in Brazil.

UKTI is becoming more pro-active, and trying to drape British firms in a Union Jack before pushing them out into the unknown. If it hears that a Chinese city wants to build a hospital, it will try to piece together a consortium of firms that could design, build, equip, operate and maintain that hospital — and provide additional training for the doctors and nurses, if need be.

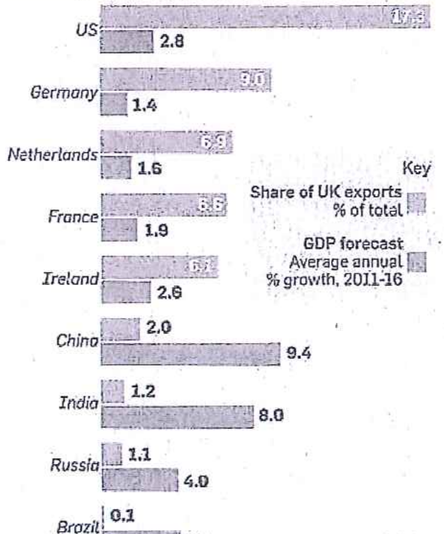
Germany has been creating these types of consortiums for years, to good effect. They can allow smaller firms to get a slice of a much bigger pie.

That's not the only barrier, of course. "The first step is for the UK to build the right foundations for exporting; our skills level, infrastructure and foreign language capability are not sufficiently world class to support a world-class export vision," said John Cridland, director general of the CBI, the employers' organisation.

The government should also focus on boosting infrastructure and transport links, added Cridland. In the northeast, for example, the Emirates airline service from Newcastle to its international hub in Dubai has significantly boosted the region's competitiveness. Trade between the northeast and Australasia has almost tripled from just over £100m in 2007, when the service started, to just under £300m a year.

"Britain has the potential to be a great exporting nation," said John Longworth, director-general of the British Chambers of Commerce. "The government must work together with business to unlock the potential of

Britain's top export markets are countries with low growth



Sources: ONS, IMF

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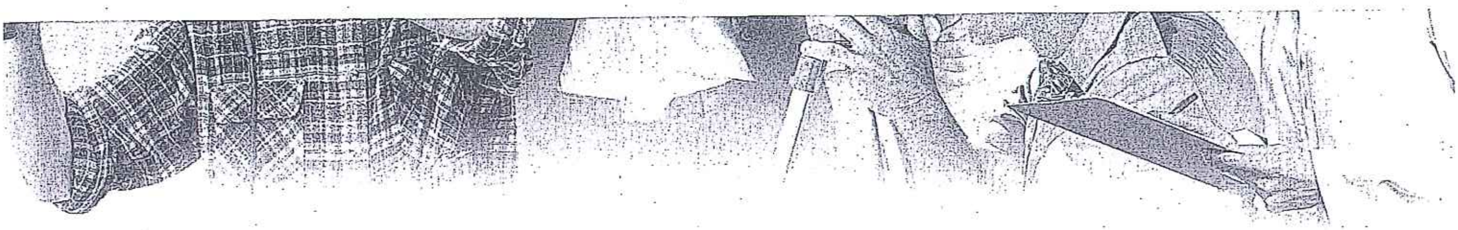

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EUROPE is not the only part of the world with problems. Last week China cut interest rates for the first time since 2008. It was not a big cut, but it took the markets by surprise. Brazil has also had to trim rates following signs that its growth is a little more sluggish than expected.

Yet there is a big difference between slowing growth and no growth. That's especially true now, given the scale these developing economies have reached. There are still millions of consumers being created in the new economic superpowers, and they want to eat better, drive cars, go out and do everything else one would expect.

Alasdair Maclachlan, general manager of Viezu, an automotive technology firm in Bromsgrove, Worcestershire, recognised several years ago that the future lay east — and he hasn't looked back. Demand for the firm's vehicle-tuning software is soaring in Asia as rich consumers look to customise their high-performance cars. If a young Chinese man wants to soup up his new BMW, it could be Viezu's software he uses. "Our strategy for the past two years has been growth from the rest of the world because you can't rely on the European Union and Britain any more," said Maclachlan.

"It was India last year, China has started to blossom for us this year, and South America will be our focus next year."

's top export markets are countries with low growth