BIS Department for Business Innovation & Skills

UK TRADE PERFORMANCE OVER THE PAST YEARS

Trade and Investment Analytical Papers
Topic 3 of 18

DFID Department for International Development

Contents

Summary

Over the decade 1998-2008, the UK's exports of goods and services increased 99.8% while imports grew by 111.5%. In the same decade between 1998 and 2008, UK services exports increased 156%, to 288 billion USD and goods exports increased by 72%, to 468 billion USD. Although the value of services exports was below that of goods, its growth rate has been more than twice as high over the last 10 years. UK manufacturing exports have been shifting over time towards high and medium high technology manufactures: in 1990 there were around 100 billion USD, rising to over 250 billion USD in 2008.

Introduction

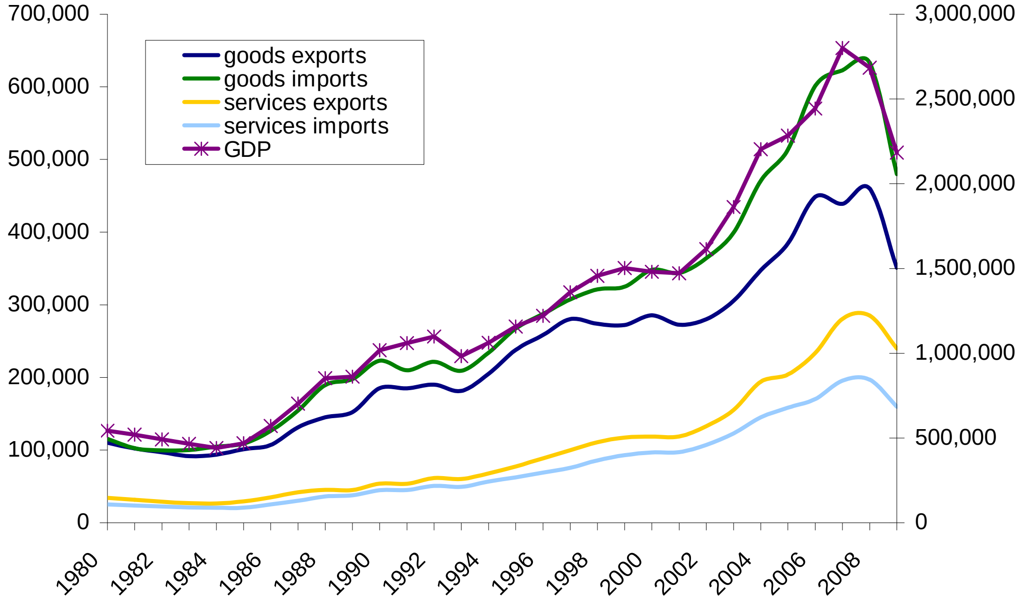
This paper provides an overview of UK Trade Performance over the past years. It begins by looking at total trade by the UK over time with a brief overview of trends in world trade and how the sterling exchange rate has impacted on trade. It then goes on to examine exports of goods and services in more detail, followed by a similar section on imports. Finally the paper concludes with a short discussion of factors which may influence trade performance.

1. UK Total Trade: Exports and Imports

UK imports and exports of goods and services totalled 1,256 billion USD in 2009, equivalent to 4.3% of world trade. Over the decade of 1998-2008, UK's exports of goods and services increased 99.8% while imports grew by 111.5%. The financial crisis led to a large slump in trade flows across the world. Figure 1 shows the development over time for the UK. From 2008 to 2009, world exports of goods and services fell by 21.5% (OECD 21.6%) and imports by 22.6% (OECD 24.0%). In comparison, UK's trade performed similarly: exports dropped by 22.1% in USD and imports by 22.5% in USD[1].

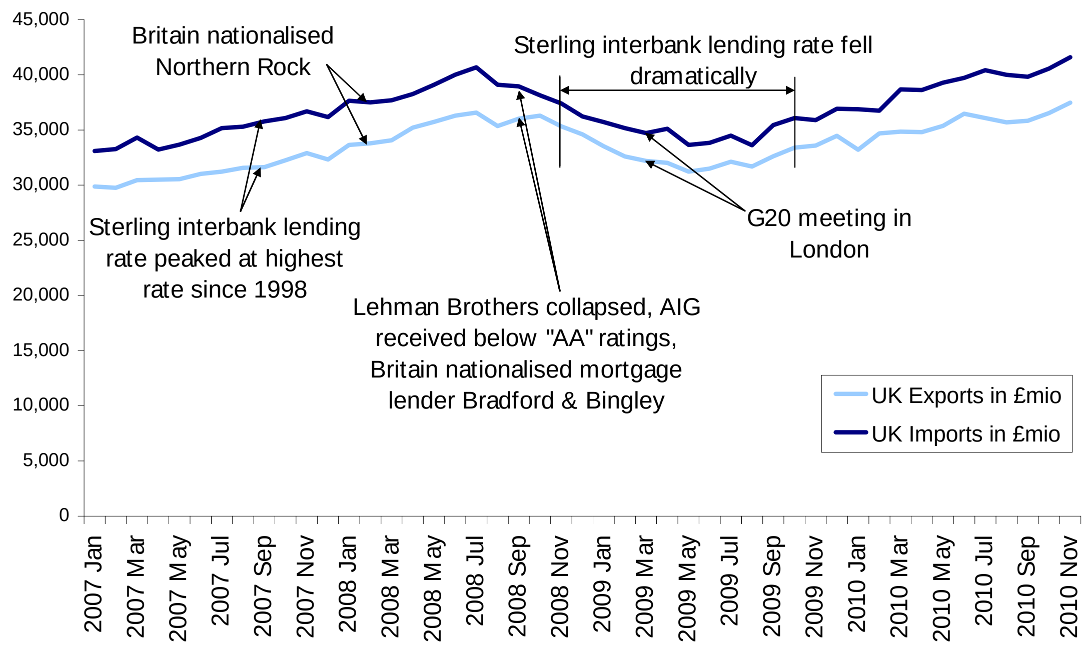
[1] Due to exchange rates, exports decreased 8.6% and imports fell 9.1% in sterling.

Figure 1: Total UK Exports, Imports and GDP, 1980-2009, Million USD



Source: IMF and WTO GDP figures shown on right-hand axis, all in current prices.

Figure 2: Monthly UK Trade Data on Services and Goods, £ Million



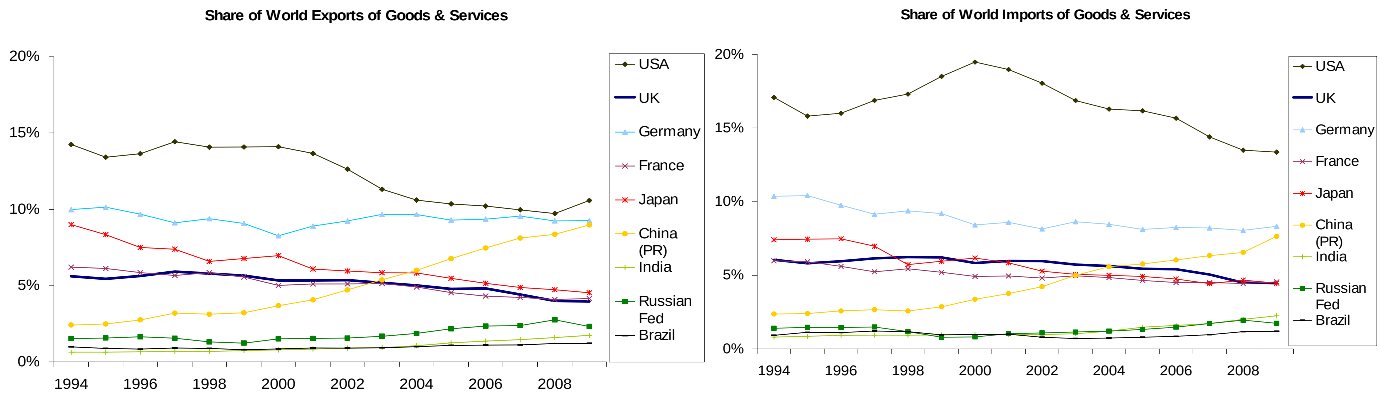
Source: ONS Monthly Review of External Trade Statistics

Events in the financial sector do not immediately link to international trade flows but they do affect business sentiments and investment decisions. Figure 2 shows UK's monthly export and import data over the course of the financial crisis. It can be seen that trade was rising while the first signs of the financial crisis became apparent. This may be due to businesses exporting orders they had received before the crisis. Trade peaked in July 2008, fell dramatically until summer 2009 (the drop started before the actual collapse of Lehman

Brothers) and then gradually picked up again. The latest UK trade figure (November 2010) shows that trade has exceeded pre-crisis levels again. Yearly trade data showing up until 2009 should therefore not be interpreted as showing a continuous downward trend. We have therefore decided to exclude 2009 figures for most of our analysis and to focus on the decade 1998-2008.

During 1998 and 2008, world trade increased at a faster rate than UK's trade flow. Exports grew by 185.2% and world imports, by 196.0%. This means that the UK's relative share of world trade has declined over this period: the UK accounted for 4% of the world's export market of goods and services in 2008 compared to 5.8% 10 years earlier, despite higher absolute export levels. Similarly, its share of world imports went from 6.2% in 1998 to 4.5% in 2008. However, Figure 3 demonstrates that other developed countries have had similar experiences.

Figure 3: Share of World Exports and Imports (selected countries)

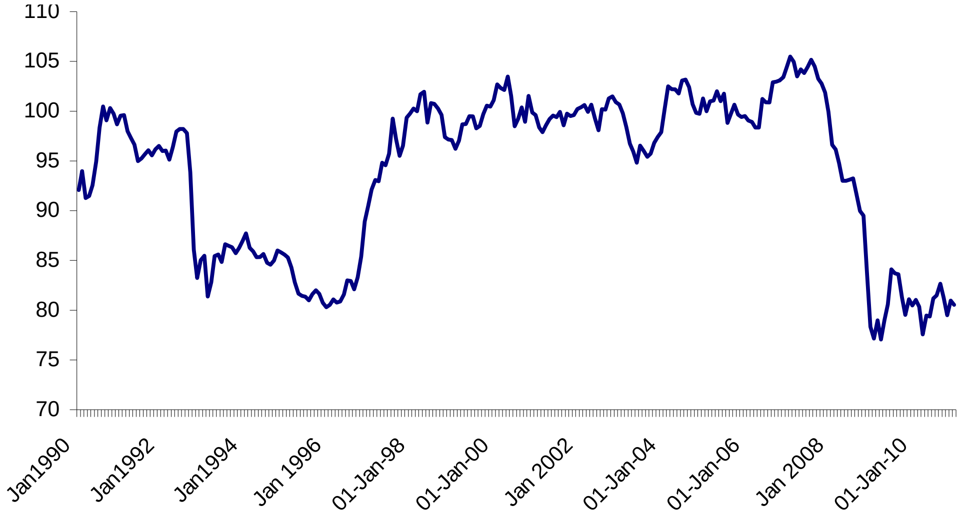


Source: International Balance of Payments, IMF, current prices.

World trade has experienced a faster growth rate (730%) than world GDP (417%) over the last three decades (BIS Economics Paper No.8, 2010). A major driver of this phenomenon has been the rise in intermediate goods trade. Each time goods cross a border, an international transaction is recorded. When production processes are divided up between different countries, unfinished products can cross the border multiple times. In 2008, the share of intermediate manufactured products in non-fuel world trade grew to around 40% (BIS Economics Paper No.8, 2010).

1.1 Sterling – impact of exchange rates on trade

Figure 4: GBR Average Monthly Effective Exchange Rate Index over the last 10 Years;



Source: Bank of England

Sterling experienced a strong depreciation during 2007 and 2008. Aggregate data suggests that the response of exports to the weakening of the pound has been limited. Recent indicative estimates by the Bank of England (2010) suggest that exports of goods and services have responded differently to the weakening of sterling. The estimates suggest that relative to previous trends, exports of goods have been supported by the weakening. This indicates that export performance with respect to goods is influenced by price. However, for services, export performance seems to be influenced by global demand, with services exports underperforming, mostly due to a fall in financial service exports. Other analysis published by the World Bank[2] found that trade in a range of business, professional and technical services has been more resilient than goods trade during the financial crisis.

Most studies of the impact of exchange rates on exports have tended to look at appreciations rather than depreciations. A study by the University of Nottingham[3] found that exchange rate fluctuations have little impact on the decision to start or stop exporting. However, appreciations have had a negative impact on the amount firms export: a one point increase the real effective exchange rate (REER) is associated with a decrease in exports as a proportion of output of 1.28%. If this relationship were linear, one might expect that depreciation would lead exporters to increase the amount of output which they export.

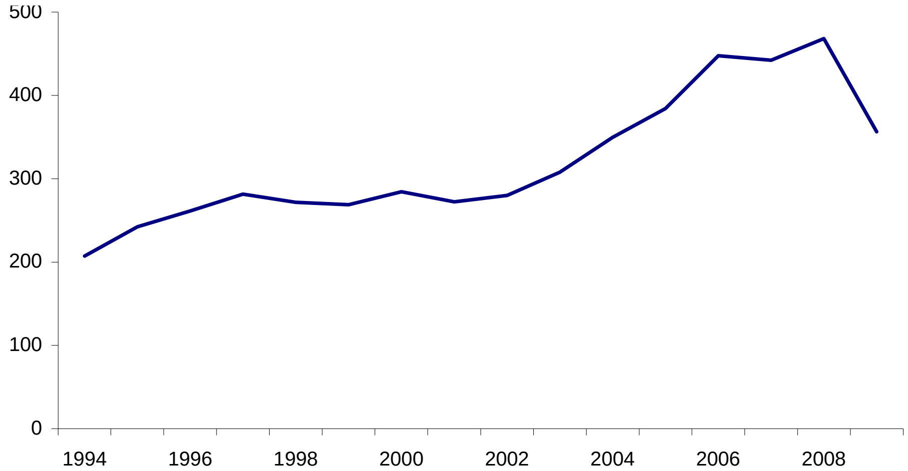
[2] Borchert and Matto (2009)
[3] Greenaway, Kneller and Zhang (2007)

Surveys of internationalising firms give some insight into what occurs at firm level. In a 2010 UKTI survey[4] of firms which sold goods or services overseas only 40% of respondents indicated that they would try to increase the share of business accounted for by overseas sales if sterling stayed at the same level or fell further. Similarly, just under one third (27%) of surveyed firms indicated that the decline in the value of sterling had been a benefit to their business. The survey findings suggest that the majority of firms did not seek to increase their exports in response to the decline in the value of sterling. A recent survey by the British Chambers of Commerce[5] suggests that the high value of sterling during most of the 2000s led exporters to cut back on their profit margins in export markets in order to maintain market share, while the subsequent fall in sterling has provided them with an opportunity to increase their profit margins and shore up their balance sheets. Consequently, the depreciation of Sterling has not fed through to the export prices of firms which have pursued this strategy,

2. UK Exports of Goods[6]

2.1 Performance over time

Figure 5: UK Export of Goods in Billion USD

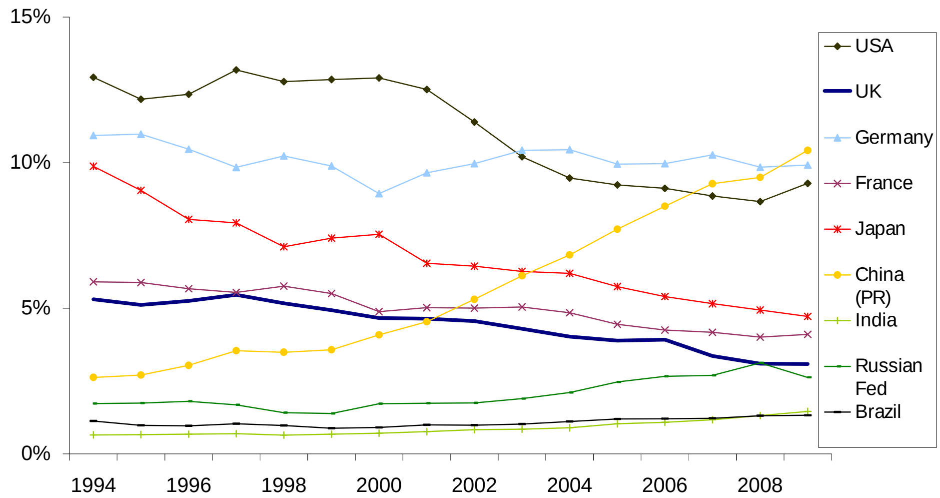


Source: International Balance of Payments data, IMF, current prices.

In the decade from 1998-2008, the UK increased its exports of goods by 72%, to 468 billion USD. The rates of increase have been stronger in other developed countries like USA (95%), Germany (176%), France (100%) or Japan (100%). However all these developed economies have lost market share in goods exports to emerging and developing countries (Figure 6). A main contribution to this trend has been China whose goods exports have increased 682% since 1998, to 9.5% of world exports in 2009.

[4] OMB (2010)
[5] BCC (2011)
[6] Analysis of sectoral strengths will be carried out in the “Comparative advantage of the UK” analytical paper.

Figure 6: Share of World Exports of Goods (selected countries)



Source: International Balance of Payments, IMF, current prices.

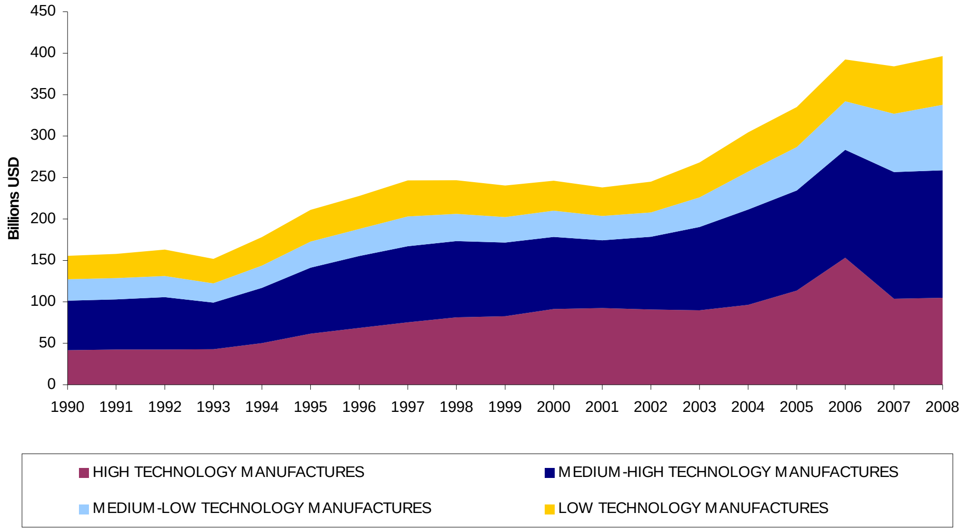
The UK share of world goods exports has declined from 5.3% to 3.1% between 1994 and 2009 as shown in Figure 6. Other major developed countries, with the exception of Germany, have experienced a similar trend. However, the majority of the emerging markets increase in world goods exports has been in low value goods according to Curran and Zignago[7]. They show that the EU continues to enjoy a good position in high-value goods with a 31% world share compared to 20% in all non-energy goods.

2.2 Technological export structure

UK manufacturing exports have changed in composition with a shift towards higher technology manufactured goods. In 1990, exports of high and medium high technology manufacturers were around 100 billion USD but by 2008 they were valued at over 250 billion USD[8]. According to Curran and Zignago (2009), the share of high technology exports in UK goods exports is higher than that of the EU25 average and for the world average, above Germany, Netherlands, and Sweden, but just below Finland and France.[9]

[7] Curran and Zignago (2009)
[8] Values for 1990 and 2008 are in current prices
[9] For further information see BIS Economics Paper 10B Manufacturing in the UK: Supplementary Analysis available URL http://www.bis.gov.uk/assets/biscore/business-sectors/docs/m/10-1334-manufacturing-in-the-uk-supplementary-analysis.pdf

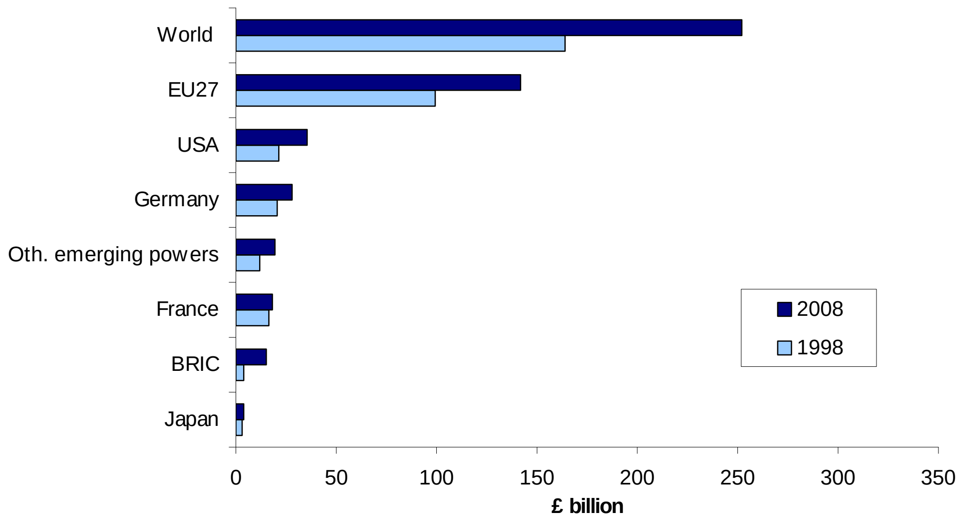
Figure 7: UK Manufacturing Exports, by Technology, 1990-2008



Source: OECD Bilateral Trade Database.

2.3 Trends in UK Trade across Markets

Figure 8: UK Exports of Goods to Selected Partner Countries in £ billion[10]



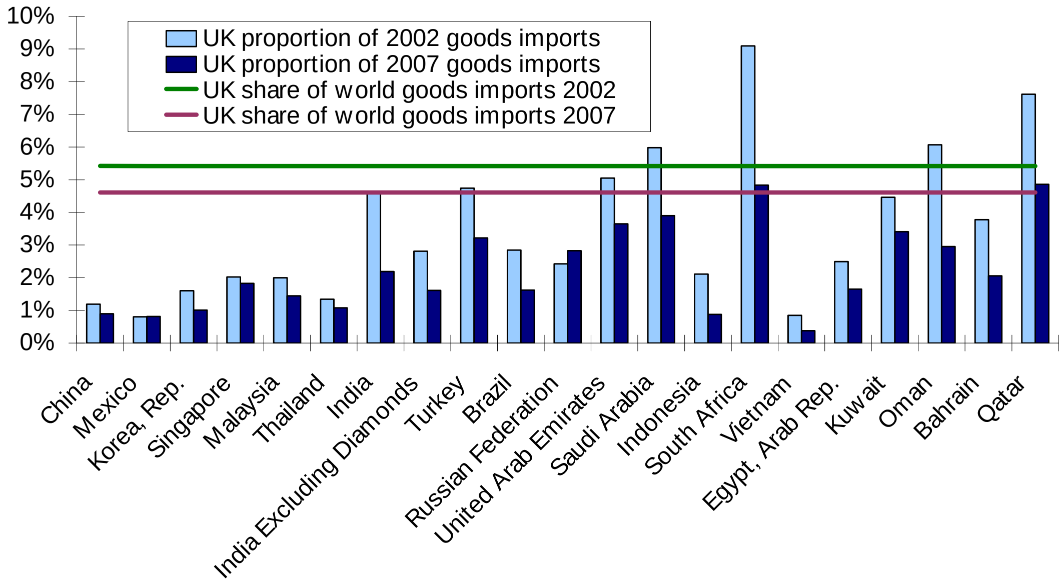
Source: ONS Pink Book, current prices.

The EU27 is the UK's most important export destination for goods with 56% of all UK goods being exported to the 27 European Member States in 2008. While exports to all major destinations have increased over the previous

[10]Other emerging powers include: Indonesia, Malaysia, Mexico, Saudi Arabia, Singapore, South Africa, Thailand, United Arab Emirates, Bahrain, Iraq, Kuwait, Oman, Qatar, and Yemen.

decade, exports to BRIC[11] countries grew the strongest at a rate of 286%. BRIC countries bought 6% of all UK goods exports in 2008.

Figure 9: UK Share of Goods Imports by Emerging Powers in 2002 and 2007



Source: UN COMTRADE sorted by size of import market in 2002.

Although the UK's share in China's and India's goods imports has fallen, the absolute value has trebled over the last decade (Figure 9). Despite its low value in the graph, UK exports to China are the highest among the Emerging Powers at 7.6 billion USD in 2007 followed by India at 5.9 billion USD. One complicating factor is the importance of precious stones and metals to India's imports from the UK. As this trade tends to be quite erratic and is rather unrelated to the UK's underlying competitiveness, Figure 9 shows the UK's share both including and excluding precious stones (HS(2002)71).

Other European countries and the USA and Japan have also experienced a decline, with the exception of Germany. This is mainly due to Germany's strength in capital equipment exports for which demand has been strong in China. Two factors have influenced the UK's decline in share in Chinese imports; these are:

- China's increased demand for raw materials, combined with a rise in commodity prices. This has meant that suppliers of raw materials, such as Australia, Brazil, Chile and Saudi Arabia, have increased their share of imports;
- Sectoral specific factors e.g. China's imports of telecoms equipment have fallen as domestic production has been growing in China. This shift has affected UK exports in this sector. Growth in intra-Asian trade,

[11] Brazil, Russia, India and China

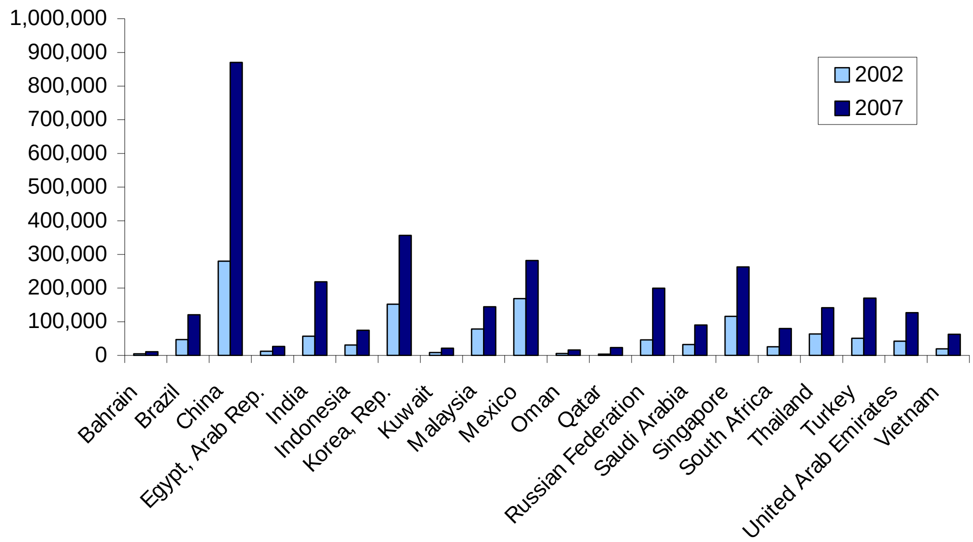
particularly within complex supply chains means that countries in the region such as Korea and Indonesia have maintained their share of China's imports.

Analysis of UK trade across a range of sectors and markets by Eaton et al (2007) indicates that although the UK exports almost as wide a range of products as Germany, Japan and the USA in emerging markets, it exports less of them. At the time at which the analysis was done (2007) it seemed that loss of market share in these markets could be due to higher prices charged for UK goods, which could be related to the strong Sterling at that time (it has since depreciated) and may also have been that UK firms were exporting higher quality goods than their competitors. The analysis suggested that at least some UK firms were successful at selling products in these markets at higher prices than their overseas competitors, albeit in lower quantities.

Analysis based on exports alone may underestimate UK performance in overseas markets. This is because the UK has relatively high levels of outward FDI and surveys of UK based internationalising firms suggest that the majority of overseas sites set up by firms have a sales related function.

Future opportunities will increase for UK businesses as emerging markets are predicted to experience growth rates up to seven times higher than established markets over the next five years (BIS Economics Paper No. 8, 2010). According to long term forecasts by PWC (PWC, 2008), the combined size of the seven largest developing economies will grow from 85% of the G7 (in purchasing power parity terms (PPP)) in 2007 to 150% by 2050. . Figure 10 shows how the total value of imports has increased strongly for all emerging powers over the period 2002 to 2007 showing increased demand for foreign goods in these countries. China, for example, bought nearly 900 billion USD worth of goods from abroad as shown in Figure 10.

Figure 10: Total Value of Goods Imports in Million USD

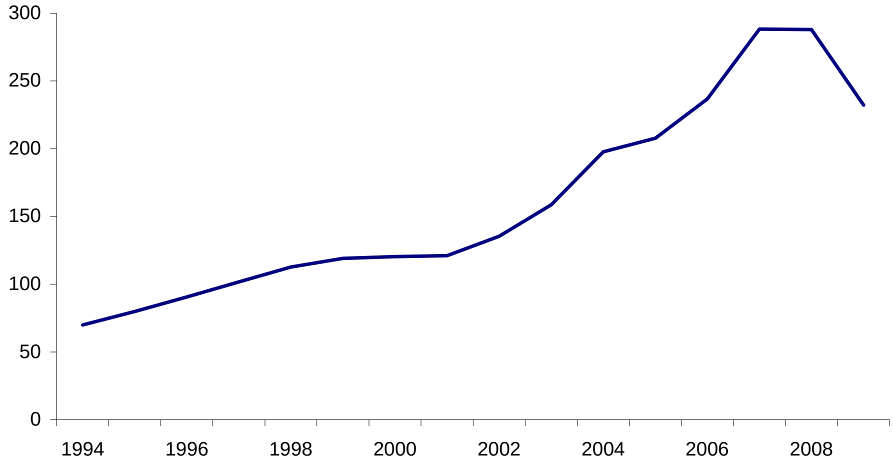


Source: UN COMTRADE, current prices.

3. UK Exports of Services

3.1 Performance over time

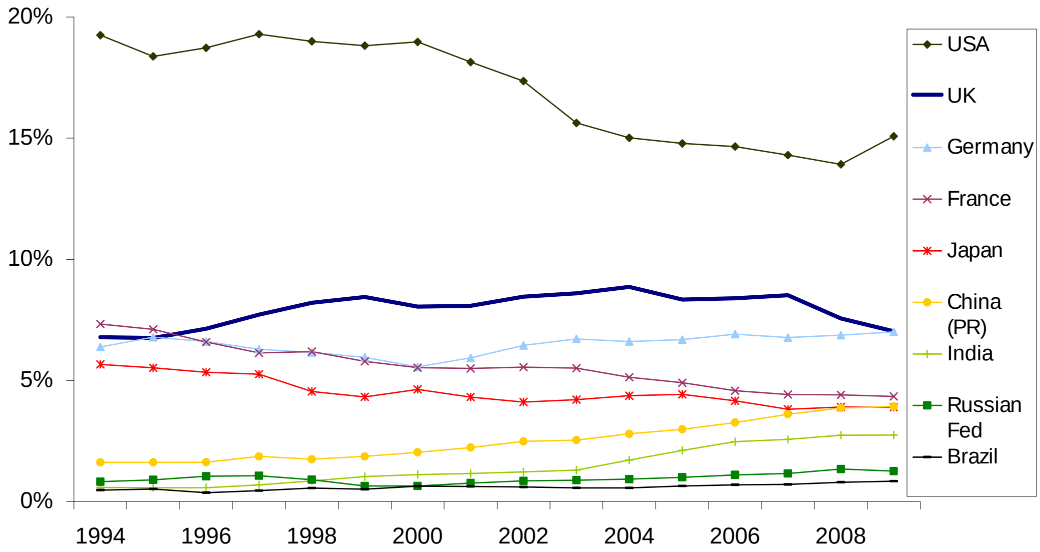
Figure 11: UK Export of Services in Billion USD



Source: International Balance of Payment data, IMF, current prices.

In the decade between 1998 and 2008, UK services exports increased 156%, to 288 billion USD. The value of services exports is lower than goods exports but its growth rate has been more than twice as high over the last 10 years. The UK compares well globally being the second biggest exporter of services after the USA.

Figure 12: Share of World Exports of Services (selected countries)



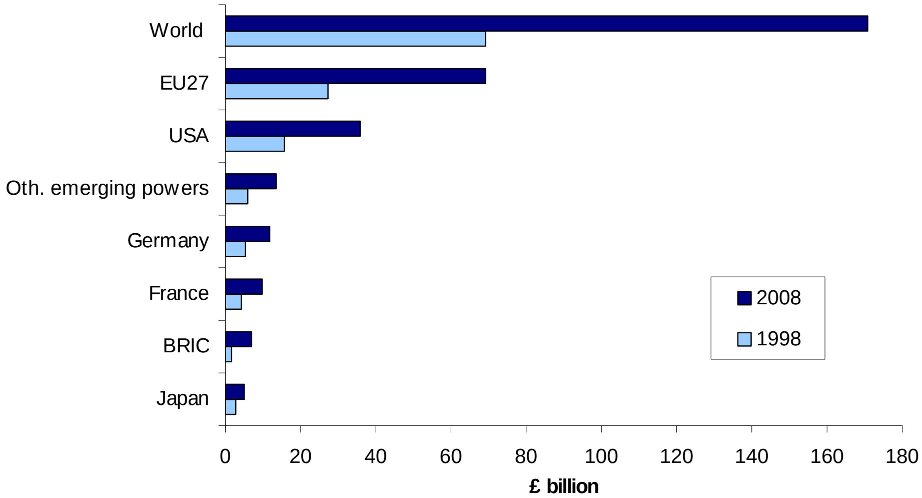
Source: International Balance of Payments, IMF, current prices.

During 1998-2008, the UK retained its global position (losing only 0.6% world market share) despite the emerging powers' rise as illustrated in Figure 11.

The USA (-5.1%), France (-1.8%) and Japan (-0.6%) all lost more. Germany was the only major industrialized country to increase its world stake by 0.7% over the decade. All BRIC economies saw a strong increase ranging from 0.2% (Brazil) to 2.1% (China).

3.2 Trends in UK Trade across Markets

Figure 13: UK Exports of services to selected partner countries



Source: ONS Pink Book, current prices.

The EU27 is UK's most important export destination for services with 41% of all UK services being exported to it in 2008. Over the previous decade, exports to EU27 grew 154% compared to 319% to BRIC countries. In 2008, BRIC countries bought 4% of all UK services exports.

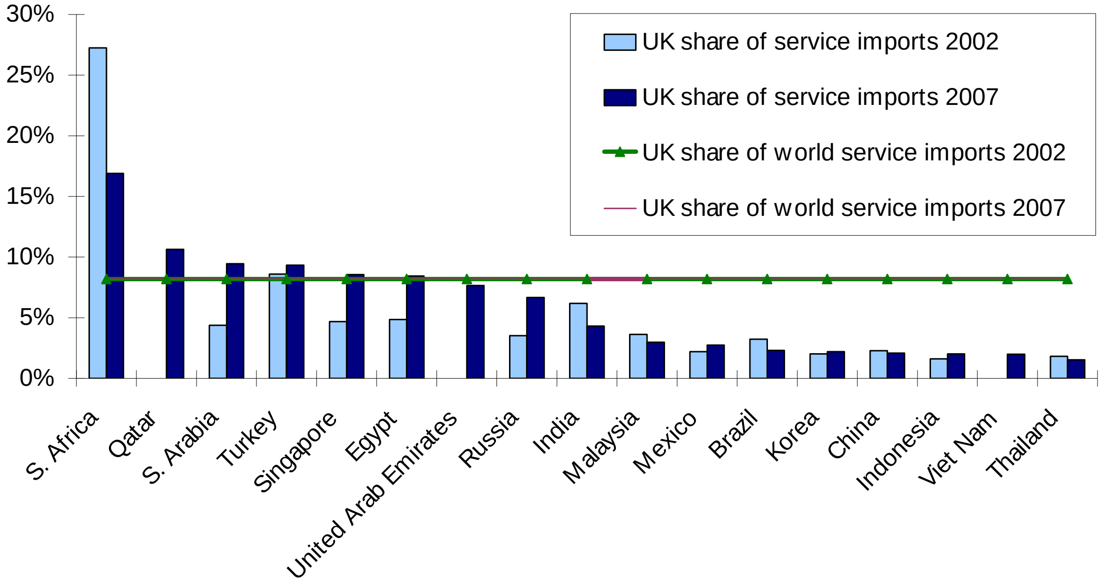
The UK has a stronger position in emerging Asian markets in business and financial services and consultancy and is relatively weak in road and rail services, construction services and agricultural and mining services. Services providers from Europe have been facing increasing competition from Asian economies. However, the services in which the UK is strong are knowledge intensive and are likely to be in increasing demand as incomes increase in emerging economies.

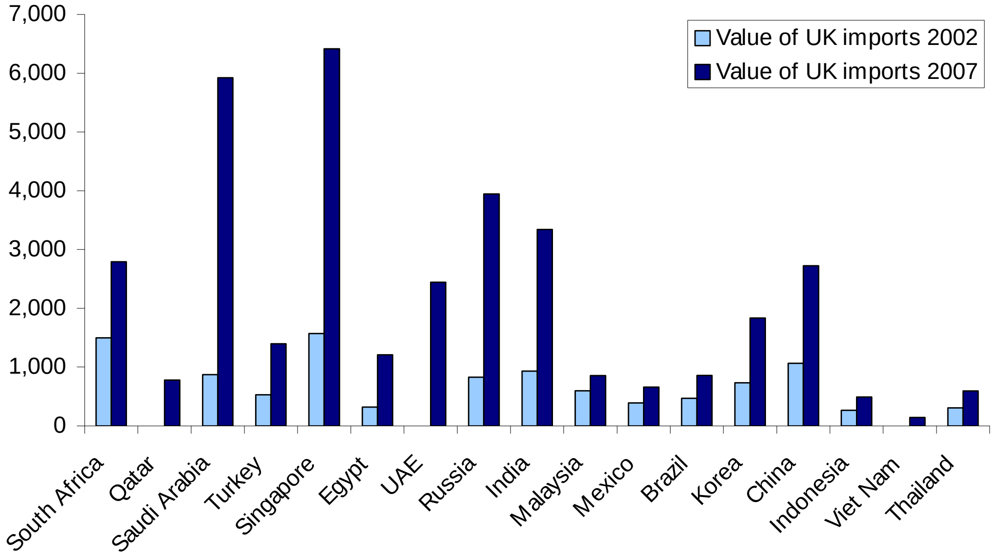
Casson[12] found that the UK seems to be a hub for US businesses seeking to export services to some Asian markets. The precise reasons for this are not clear but it may be that this route is preferred due to greater expertise in the UK for accessing markets such as India with which it has historical ties.

Figure 14 shows UK's services import share and value in Emerging Powers markets in 2002 and 2007. It shows that in 2007 the UK enjoyed more services market access to 6 Emerging Powers than it did to the world, i.e. its import share in these specific markets was higher than to the world overall. This represents an increase of four countries from 2002 to 2007.

[12] Casson (2007)

Figure 14: Share & Value of Imports of Services by Emerging Powers in 2002 and 2007



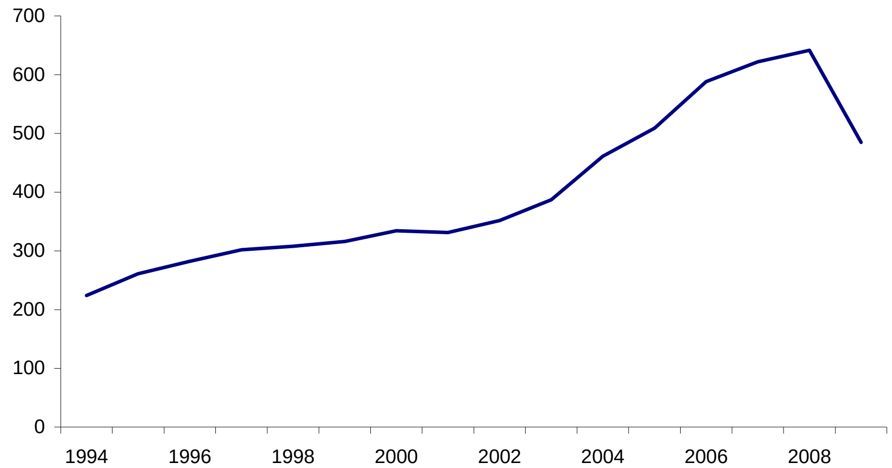


Both sources: UN COMTRADE sorted by import share in 2007. Import values are in Mio. USD.

4. UK Imports of Goods

4.1 Performance over time

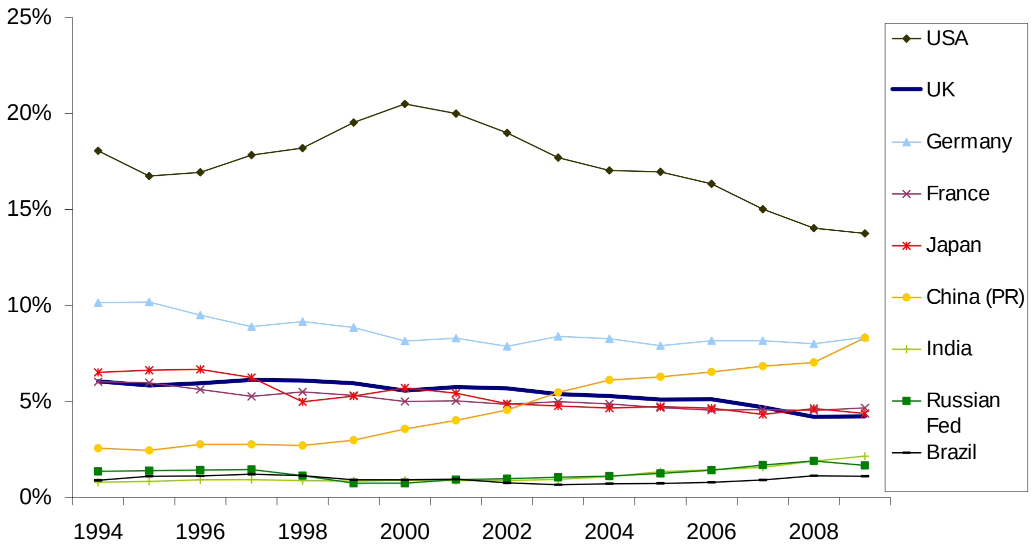
Figure 15: UK Imports of Goods in Billion USD



Source: International Balance of Payment data, IMF, current prices.

UK imported 642 billion USD worth of goods in 2008. Over the previous decade, UK imports have increased by 108% compared to a 202% increase in world imports. Emerging economies have taken up an increasing share in world imports over time. In 1998, China imported goods worth 137 billion USD from the world and in 2008 this number rose to 1.1 trillion USD (684% increase). UK's share in world imports of goods decreased from 6.1% to 4.2% over the decade 1998-2008 (Figure 16).

Figure 16: Share of World Imports of Goods (selected countries)

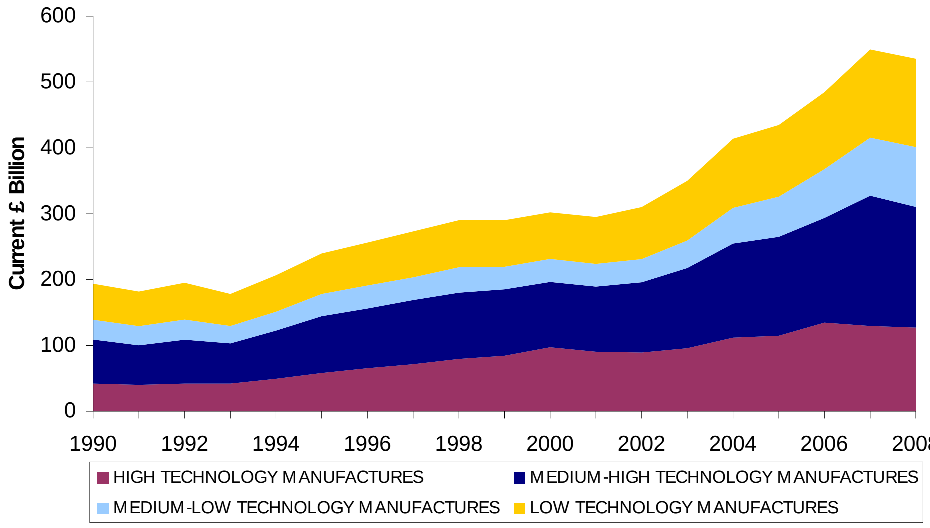


Source: International Balance of Payments, IMF, current prices.

4.2 Technological import structure

Over the period 1990 to 2008, manufacturing imports more than doubled, rising from 194 billion USD to 535 billion USD in 2008. In terms of composition, the proportion of imports classified as medium-low manufactures and high technology manufactures increased. In 2008, around a quarter of imports were classified as high technology, a third classified as medium high technology, with around a quarter consisting of low technology and the remainder attributed to medium low technology goods.

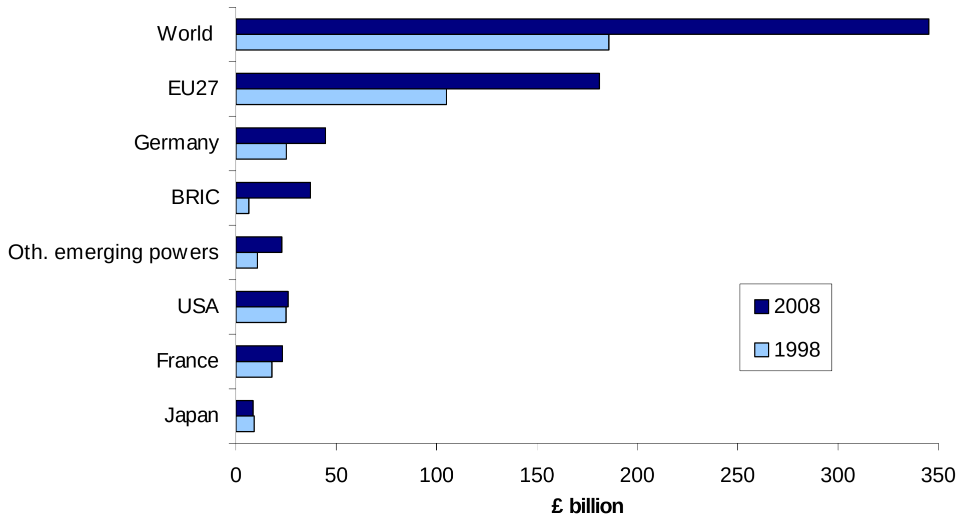
Figure 17: UK Manufacturing Imports, by technology, 1990-2008



Source: OECD Bilateral Trade Database.

4.3 Trends in UK Trade across Markets

Figure 18: UK Imports of Goods from Selected Partner Countries



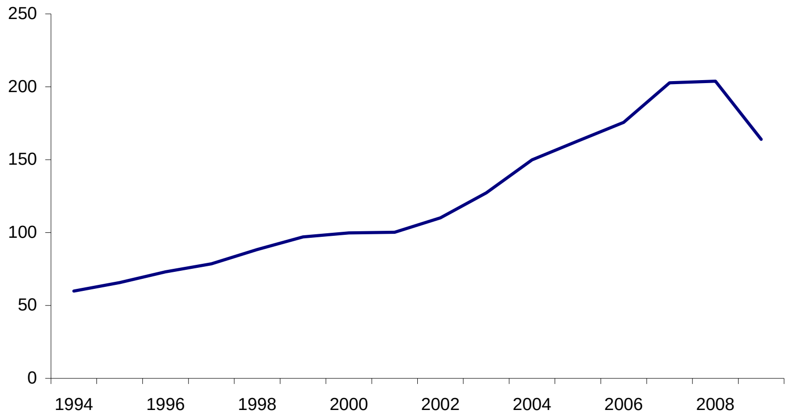
Source: ONS Pink Book, current prices.

The UK sources most of its goods from the EU27 (52% in 2008). Imports grew from each major destination (apart from Japan) over the decade 1998-2008. BRIC countries provided 4.7 times more imports to the UK in 2008 than they did in 1998 while imports from EU27 and USA grew only 27% and 4% in the time period, respectively.

5. UK Imports of Services

5.1 Performance over time

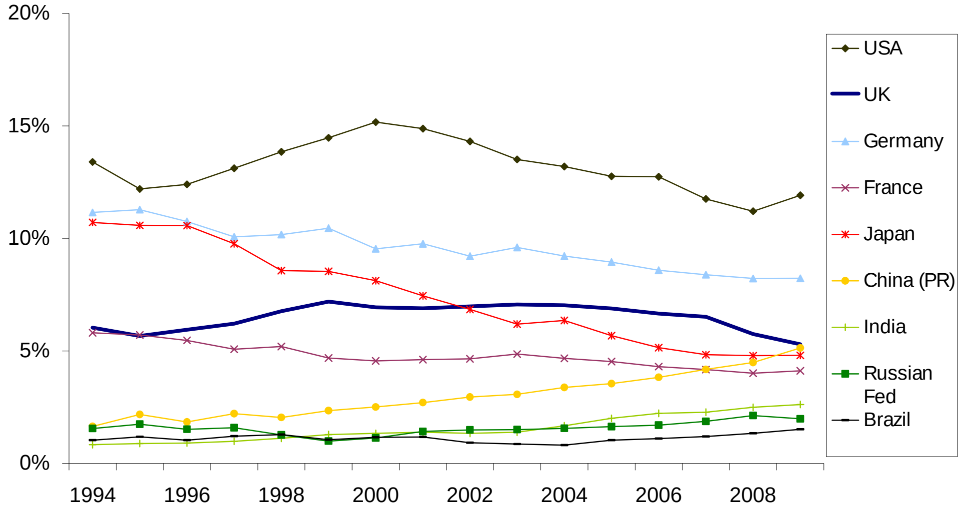
Figure 19: UK Imports of Services in Billion USD



Source: International Balance of Payments, IMF, current prices.

The UK imported 204 billion USD worth of services in 2008, 80 billion USD less than it exports to the world. Over the previous decade, UK imports of services have increased by 131% compared to the 172% increase in world imports of services. Emerging economies have taken up an increasing share in global service imports over time. In 1998, the value of services imported by India was 16 billion USD and in 2008 this number rose to 88 billion USD (a 507% increase). The UK's share in world imports of goods decreased from 6.8% to 5.8% over the decade 1998-2008.

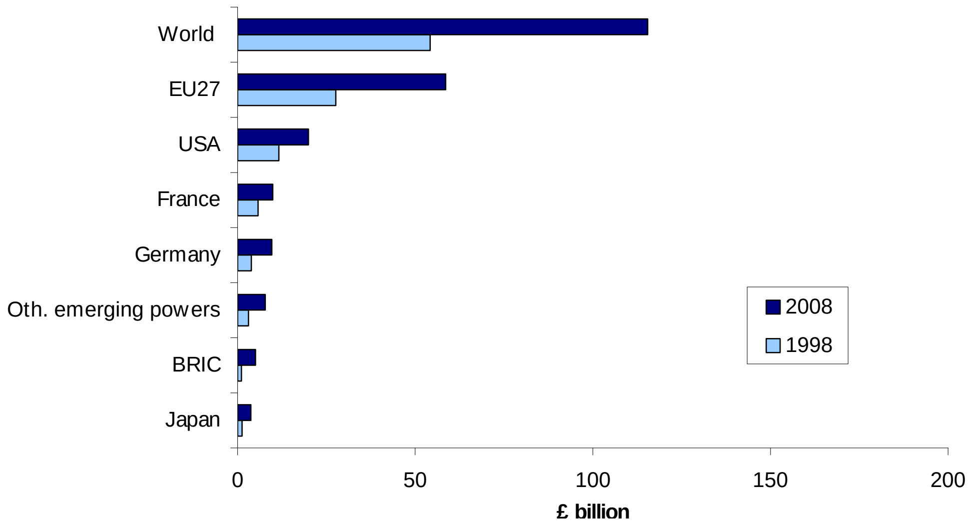
Figure 20: Share of World Imports of Services (selected countries)



Source: International Balance of Payments, IMF, current prices.

5.2 Trends in UK Trade across Markets

Figure 21: UK Imports of Services from Selected Partner Countries



Source: ONS Pink Book, current prices.

The UK sources most of its £115 billion services imports from the EU27 (51% in 2008). Imports grew from each major destination over the decade 1998-2008. BRIC countries provide 360% more imports to the UK than they did in 1998 while imports from the EU27 and the USA grew only 112% and 72% respectively in the time period.

6. Underlying factors influencing trade performance

Trade data show the aggregate activity of firms which sell their goods or services into overseas markets. Factors influencing the choice of overseas market by a firm therefore underly trade performance. Many firms start exporting by entering markets which they perceive to be easier to enter. Typically these are closer to their home country in terms of geography, culture and language and they may have historical ties with the home country. Such markets tend to be easier to enter because they present fewer language problems or cultural differences, may have similar institutions and are less costly to ship to when geographically close. Consequently, EU countries and the USA are popular markets for UK firms[13]. However, some firms often referred to as Born Globals, internationalise rapidly and in geographically widespread markets after inception and do not follow this model of gradual market entry,

Surveys indicate that serendipity and networks influence firms' choice of market. Firms may be approached by someone in an overseas market to sell their product or service, somone in the firm may have experience or knowledge of a particular market or a market may be suggested to them by someone outside the company. Migration may be an underlying factor behind the first two, in that a) knowledge of a product or service in an overseas market may arise through migrant networks and b) a firm may have employees from overseas who therefore have experience of their home country. Similarly, UK-born employees may have lived or studied overseas. The internet may increasingly be influencing market choice as overseas customers order goods and services through websites[14].

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Trade and Investment Analytical Papers

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