

# Global Britain Briefing Note

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## UK Trade in 2002

*British exports dipped in 2002 compared with 2001, reflecting the global economic slowdown. But imports, & the current account deficit, continued to grow.*

- 1 In 2002, for the first time since 1997, the value of all UK exports fell** (though imports continued to grow). The reduction in exports was particularly marked in Income:-

Total UK Exports of Visibles & Invisibles			
£ bn	2001	2002	Growth
Visibles*	190	186	(2%)
Invisibles*	238	221	(7%)
<b>Total</b>	<b>428</b>	<b>408</b>	<b>(5%)</b>

- 2 The make-up of UK exports, and the split between EU 14 and the rest of the world, barely changed in 2002.** EU 14 still takes half of recorded total UK exports, though, adjusted for the Rotterdam-Antwerp Effect and the separate Netherlands Distortion (see over) the real proportion of all UK exports going to EU 14 is more like 45%:-

2002 make-up of UK Exports by Category: World Versus EU					
£ bn	Goods	Services	Income	Transfers	Total
A Worldwide	186	86	123	12	408
B EU 14	110	32	54	8	204
<i>B/A</i>	<i>59%</i>	<i>37%</i>	<i>44%</i>	<i>67%</i>	<i>50%</i>

- 3 Income is still the biggest single component of UK exports;** accounts for almost a third of the total:-

2002: Total UK Exports (Visible & Invisibles) by Category		
	£ bn	%
Investment Income	123	30
Finished Mfred Goods	106	26
Services	86	21
Semi-mfred Goods	50	12
Oil	14	3
Food, drink, tobacco	10	2
Others	19	5
<b>Worldwide exports</b>	<b>408</b>	<b>100</b>

- 4 Investment Income diversified as to activity & investor;** "City" still predominant though income from Direct Investment relatively more important in 2002:-

2002: Analysis of UK Income from Overseas		
By Type of Activity	£ bn	%
Earnings on Direct Investment	50	41
Lending etc to non-residents by UK banks	40	33
Earnings on Portfolio Investment	32	26
Other	1	-
	<b>123</b>	<b>100</b>
By Type of UK Investor		
Non-bank private sector	67	54
Banks	55	45
Other	1	-
	<b>123</b>	<b>100</b>

- 5 The USA continues to be by far the biggest source of Income for the UK.** Note that the Netherlands figure is significantly over-stated (and the US figure under-stated) due to the Netherlands Distortion (see over):-

2002: Recorded Income Earned Overseas: UK's Top Five Providers		
Country	£ bn	%
1. USA	28	23
2. Netherlands	14	11
3. Germany	10	8
4. France	7	6
5. Japan	6	5
<b>UK's Top Five</b>	<b>65</b>	<b>53</b>
Other countries	58	47
<b>World</b>	<b>123</b>	<b>100</b>

- 6 No change in the top three rankings for UK exports of goods and services in 2002;** but Ireland moves up to fourth place, displacing the Netherlands:-

2002: Exports of Goods & Services: UK's Top Five Markets		
Country	£ bn	%
1. USA	49	18
2. Germany	29	11
3. France	24	9
4. Ireland	19	7
5. Netherlands	18	7
<b>UK's Top Five markets</b>	<b>139</b>	<b>51</b>
Other countries	134	49
<b>World</b>	<b>273</b>	<b>100</b>

- 7 The UK's overall deficit on trade in Goods increased in 2002;** the UK imports £125 worth of goods for every £100 worth exported:-

2002: UK Goods: Exports & Imports by Category			
£ bn	Exports	Imports	Balance
Finished manuf.	106	144	(38)
Semi-manuf.	50	53	(3)
Oil	14	9	5
Food, drink, tobacco	10	19	(9)
Miscellaneous	6	8	(2)
<b>World</b>	<b>186</b>	<b>233</b>	<b>(46)</b>
EU 14	110	130	(20)
<i>EU 14/World</i>	<i>59%</i>	<i>56%</i>	<i>43%</i>

**8 In trade in Services, in 2002, the UK surplus grew overall.** Travel (for tourism & business) remained in substantial deficit (mainly with the EU):-

£ bn	Exports	Imports	Balance
Business services	26	12	13
Financial services	14	3	10
Travel	14	28	(14)
Transportation	12	17	(7)
Insurance	7	1	6
Other	13	10	4
<b>World</b>	<b>86</b>	<b>71</b>	<b>15</b>
EU 14	32	36	(4)
EU 14/World	37%	51%	na

**9 The UK surplus on its receipts and payments of Income grew sharply in 2002:-**

£ bn	Exports (credits)	Imports (debits)	Balance
Earnings on Direct Inv.	50	20	30
Earnings on loans/deposits between UK & non-resident banks	40	50	(11)
Earnings on Portfolio Inv.	32	31	1
Other	1	1	-
<b>World</b>	<b>123</b>	<b>102</b>	<b>21</b>
EU 14	54	41	13
EU 14/World	44%	40%	62%

**10 The shares of UK exports absorbed by EU 14 & the USA** stagnated during the three years 2000-2002, though the US share rose sharply in the three previous years. The EU 14 share has barely changed over the last decade:-

	1997	1998	1999	2000	2001	2002
To EU 14	48.6	49.6	50.1	49.3	50.7	50.1
To USA	17.1	18.2	18.9	19.2	19.2	19.2

**11 The UK has been in deficit on its trade with the rest of the world every year since 1992** (and well before that). It is consistently in surplus with the USA, the rest of the Americas and Australasia, and consistently in deficit with Europe. With Asia, the UK was in small surplus in the mid-nineties, but the deficit has grown rapidly since:-

	£ bn
Surpluses	
With USA	52
With Americas excl. USA	29
With Australasia	26
Deficits	
With EU 14	(64)
With EFTA	(62)
With Asia	(60)
With Rest of World	(38)
<b>Net Deficit With Whole World</b>	<b>(117)</b>

**12 UK trade with Greater China (defined as China, Hong Kong & Taiwan) is in substantial deficit.** Chinese exports to the UK grew by over half between 1998 and 2000 but stagnated in 2001 and 2002, while UK exports to Greater China scarcely grew in the five years 1998-2002. In 2002, the value of UK imports from Greater China exceeded those from Japan, and was similar to that of UK imports from Ireland or from Spain:-

£ bn	1998	1999	2000	2001	2002
Exports	8.4	8.4	9.2	9.5	9.3
Imports	12.7	15.2	19.3	19.3	18.4
Balance	(4.3)	(6.8)	(10.1)	(9.8)	(9.1)

### Distortions to Recorded UK Trade Flows

#### The Rotterdam-Antwerp Effect

Europe's two biggest ports are Rotterdam, in Holland, and Antwerp, in Belgium. Around two-thirds of the British exports and imports of goods and services recorded in the trade statistics as going to and from those countries transit via Rotterdam and Antwerp on their way to or from somewhere else, some to and from end-destinations within other EU countries, the remainder to and from end-destinations outside Europe. Thus, recorded trade with the Netherlands & Belgium (and with the EU of which they are members) is overstated.

#### The (Quite Separate) Netherlands Distortion

For tax reasons, Foreign Direct Investment is often channelled through intermediate holding companies domiciled in the Netherlands. The initial investments are recorded as going to the Netherlands, rather than the country which is the end-destination; the income flowing from the investments is similarly recorded - erroneously - as originating in the Netherlands.

Thus, recorded income to and from the Netherlands (and the EU, of which the Netherlands is a member) is overstated. See Global Britain Briefing Notes No 20, *Foreign Direct Investment: The Netherlands Distortion* for a full exposition and No 21, *Ninety Per Cent of the British Economy is NOT involved in Exports to the EU*.

### Source and Interpretation of Data

The source of the statistical data is *United Kingdom Balance of Payments: The Pink Book 2003 Edition*, produced by the Office for National Statistics, published by The Stationery Office in October 2003 [ISSN 0950 7558, Crown Copyright] [www.statistics.gov.uk](http://www.statistics.gov.uk)

Global Britain follows standard ONS practice in treating Investment Income as a component of Exports, alongside Goods, Services and Transfers.

\* "Visibles" refer to physical goods or merchandise. "Invisibles" refer to services such as air transport, tourism or engineering consultancy; to royalties on intellectual property such as patents or music; to investment income; and to transfers (i.e. payments) to or from supranational (e.g. the EU) or multinational (e.g. the UN) organisations.

The previous publication in this series was Global Britain Briefing Note No 23, *UK Export Growth Stalled in 2001*, 6th December 2002.

Due to rounding, columns and rows may not sum.