BREXIT and International Trade - Challenges and opportunities for the South West

Wednesday, 08 November, 2017
Some introductory remarks

- Some recovery in the global economy GDP increased by 2.5%, in 2014 and 2015; projections for 2016 are positive.

- Global merchandise trade by volume weakening since 2014 with growth rate below GDP’s for the first time (1.4% in 2015, down from 2.3% in 2014). 2016 prediction a modest 1.7%.

- This follows decades of nearly uninterrupted, rapid trade growth.

- National trade policies are becoming more complex at a time when new threats of protectionism are emerging mainly from the top trading nations and trading blocs.

- Continuous periods of uncertainties.
Declining trade openness and rising protectionism
(World Bank, 2016; IMF, 2016)
Enabling Trade Index

The Enabling Trade Index assesses the extent to which economies have in place institutions, policies, infrastructures and services to facilitate the free flow of goods over borders and to their destination. It supports trade facilitation as any measure that contributes to lowering trade transaction costs and creating standard efficiencies. Supply chain integration is therefore where competition between businesses, particularly SMEs is taking place.
UK Enabling Trade Index, WEF, 2016

- 8th best performer, down from 6th in 2014, but remains the best performer among large European economies.
- Access to other markets (90th), improved more slowly than elsewhere with a drop of two positions.
- The United Kingdom continues to rely on one of the most efficient and transparent border administration systems (6th).
- Best in the world at providing online services with ICT adoption (1st).
- Transport infrastructure and services widely available, with British businesses and citizens enjoying the second best international air connectivity in the world, after the United States (2nd).
- Finally, the country’s operating environment remains solid (16th, down four), especially when it comes to protection of property rights (7th) and efficiency of public institutions (13th).
# UK Key Performance Indicators (WEF, 2016)

**Population**
- millions: 65.1

**GDP US$ billions**
- 2840.3

**GDP per capita US$**
- 43770.7

**Trade openness % GDP**
- 38.0

**Share of world trade % world total**
- 3.27

**Merchandise trade balance US$ billions**
- -165.36

### Most problematic factors for importing

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic technical requirements and standards</td>
<td>21.7</td>
</tr>
<tr>
<td>High cost or delays caused by international transportation</td>
<td>20.8</td>
</tr>
<tr>
<td>Burdensome import procedures</td>
<td>18.2</td>
</tr>
<tr>
<td>Tariff and non-tariff barriers</td>
<td>17.0</td>
</tr>
<tr>
<td>High cost or delays caused by domestic transportation</td>
<td>10.9</td>
</tr>
<tr>
<td>Inappropriate telecommunications infrastructure</td>
<td>7.7</td>
</tr>
<tr>
<td>Crime and theft</td>
<td>2.0</td>
</tr>
<tr>
<td>Corruption at the border</td>
<td>0.8</td>
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</tbody>
</table>


### Most problematic factors for exporting

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying potential markets and buyers</td>
<td>20.7</td>
</tr>
<tr>
<td>Access to trade finance</td>
<td>11.6</td>
</tr>
<tr>
<td>Inappropriate production technology and skills</td>
<td>9.9</td>
</tr>
<tr>
<td>Burdensome procedures at foreign borders</td>
<td>0.6</td>
</tr>
<tr>
<td>Tariff barriers abroad</td>
<td>9.4</td>
</tr>
<tr>
<td>Technical requirements and standards abroad</td>
<td>8.7</td>
</tr>
<tr>
<td>Difficulties in meeting quality/quantity requirements of buyers</td>
<td>6.4</td>
</tr>
<tr>
<td>High cost or delays caused by international transportation</td>
<td>6.2</td>
</tr>
<tr>
<td>Rules of origin requirements abroad</td>
<td>6.3</td>
</tr>
<tr>
<td>Access to imported inputs at competitive prices</td>
<td>4.8</td>
</tr>
<tr>
<td>High cost or delays caused by domestic transportation</td>
<td>3.9</td>
</tr>
<tr>
<td>Corruption at foreign borders</td>
<td>3.7</td>
</tr>
</tbody>
</table>

UK and SW merchandise trade  (HMRC Overseas Trade Statistics, June, 2017)

Very similar trade patterns
Modest increase in exports but large trade deficit remains

**UK**
- Mechanical appliances
- Motor vehicles
- Pharmaceuticals
- Minerals
- electronics

**South West**
- Machinery and transport
- Manufacturing
- Chemicals
- Food and live animals
- Crude materials and minerals
Total value of merchandise exports and main destinations (The Pink Book, October, 2017)

- Others Non-EU (£10.2 bn) - 36%
- USA (£3.6 bn) - 13%
- Germany (£3.2 bn) - 11%
- France (£2.4 bn) - 9%
- Netherlands (£1.8 bn) - 7%
- Ireland (£1.7 bn) - 6%

Source: HM Revenue & Customs Overseas Trade Statistics
Note: 2017 data is provisional
Total value of services exports by region 2011-15 (The Pink Book, 2016)
Challenges for the South West

1) Identifying potential markets and buyers
   • **International trade culture is no longer a luxury**
     • Markets and products development to drive productivity

2) Inappropriate production technology and skills
   • address the technological gaps in meeting international standards (Knowledge transfer, collaborative research, innovation)
   • skills gaps accentuated by foreign workers departure in some key sectors

3) Access to imported goods at competitive prices, delays and costs for international transportation
   • **Trade infrastructure**
     • Prohibitive transport costs and lead times
Opportunities for the South West

• Fastest growth in international trade comes from developing economies, representing 42% of global trade with intra-trade accounting for 52% of total trade (WTO, 2017; UNCTAD, 2016)

EU share in global trade in decline from 35% in 1980 to approx. 22% today (WTO, 2017)

• Capitalise on the weak Pound to promote tourism and food exports where supply chain integration is not a great challenge

• Industrial strategy for innovative solutions and skills

• Digital trade transition – process digitisation for interconnected solutions, Fintech, optimal locational decisions for service industries, connectivity

• ‘Servitization’ – adding value NOT merely trade in gross terms, eg. environmental technologies and aeronautic engineering where the SW excels.
Concluding remarks Post-Brexit - Global Value Chains (GVCs)

• GVCs are at the economic heart of globalization in that they illustrate the symbiotic relationship between imports and exports, and the key role of foreign investment in internationalised production.

• Policies of governments are central to outcomes, influencing the establishment, configuration and operation of GVCs in numerous ways.

• Technological possibilities and firms’ behaviour are also crucial determinants of what happens in the supply chains world.

• BREXIT outcome will determine the future direction, but existing trade patterns and the fundamentals of trade competitiveness can provide some clues for a blueprint.
THANK YOU!