

## Written submission from the UK Trade Policy Observatory (ELG0018)

The UK Trade Policy Observatory (UKTPO)<sup>1</sup> is an independent expert group at the University of Sussex Business School that initiates, comments on, and analyses trade policy proposals for the UK, and trains British policymakers, negotiators and other interested parties through tailored training packages. The University of Sussex has the largest collection of academic expertise on the world trading system in the UK, with experts in trade policy, trade law and trade politics, and European law and economy. The UKTPO is a member of the Centre for Inclusive Trade Policy.

Our submission focuses on addressing the following questions:

**What should be the government's ambition for the contribution from trade in helping deliver the fastest growing economy in the G7?**

**What are the most important foreign country and product markets for delivering the fastest possible trade growth?**

Key points:

1. Equal attention should be given to facilitating both exports and imports, as they are inevitably interlinked activities, and both contribute to increasing growth and welfare for firms and consumers. Exporting can lead to more sales and stimulate productivity and innovation through learning from competitors, whereas imports give access to cheaper and better inputs, provide consumers with cheaper and more varied products, and allow UK firms to specialise in the products / sectors in which they have a comparative advantage. Export-led growth should not necessarily imply the pursuit of current account trade surpluses.
2. Similarly, imports of services are as salient for growth and productivity as imports of goods, if not more so given the secular trend of using ever more services as inputs into production and exports. Producer input services, often imported, are a major factor behind export competitiveness of UK manufacturing exports. Thus, policies governing the import of services, and inward investment in services sectors, must be part and parcel of an export-led growth strategy.
3. We provide an indicative data-driven analysis which identifies products the UK is exporting successfully, and products that are becoming more important in the UK's export basket relative to that of the rest of the world. There is enormous sectoral variation in the successful products, as they range from agricultural products, raw materials, chemicals and pharmaceuticals to advanced manufacturing.
  - a. The positive message from this is that there is a wide range of growing opportunities for UK firms. The nuance to this message is that 'picking' winners, identifying new/growing opportunities for exports is also fraught with difficulties.
4. Although informative, a data driven analysis has its limits:
  - a. At best, it can identify products and markets where there might be *potential* export opportunities. Supplementary evidence is necessary, to understand the reasons for export success so far, or lack thereof. For instance, qualitative analysis (e.g., through surveys) on market conditions, market barriers, or difficulties experienced by specific sectors.
  - b. Analysis of past data cannot identify opportunities arising in products not yet exported, or markets not yet served. Creating the conditions that can facilitate exports, i.e. the right enabling environment, is more important than selecting specific products and sectors.

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<sup>1</sup> We thank **Ingo Borchert, Mattia Di Ubaldo, Michael Gasiorek, and Peter Holmes** for their work on this submission. Corresponding author: Mattia Di Ubaldo.

5. Services trade should be a central part of the UK's export-led growth strategy, given that the service sector accounts for 80% of GDP and total services exports stand at £468 billion in 2023, compared with £394 billion worth of goods exports. In 2023, the UK recorded a services trade surplus of £173 billion, reflecting its enormous comparative advantage in producing and exporting services. Thus services trade holds considerable potential for growth, in part because businesses that export services have been found to be more likely to exhibit higher productivity as businesses that export goods.
6. Whilst the UK is less dependent on the EU for its services exports (compared to goods exports) and could potentially reorient its growth efforts towards boosting trade with non-EU partners, the EU-27 still accounts for the largest single share of services exports. Hence, seeking better export conditions vis-à-vis the EU, possibly via the upcoming UK-EU Trade and Cooperation Agreement (TCA) review, is an obvious and potentially impactful strategic lever. Services exports would benefit particularly from enhanced mutual recognition for services professionals, improved mobility for business personnel, and access for financial services.
7. As many digitally delivered services entail or necessitate cross-border data flows, securing another 4-year extension to the EU's two adequacy decisions would facilitate domestic and foreign-owned firms' planning and investment decisions to underpin continued future growth of UK digital trade.
8. Traditional Free Trade Agreements (FTAs) do not appear to be the best policy tool to liberalise and grow services trade. Deals that apply to particular areas or sectors, such as on the movement of personnel via preferential visa regimes, or mutual recognition agreements of professional qualifications or regulatory regimes in general, can more quickly deliver flexible and more easily accomplishable gains compared to a full-fledged FTA. Digital Economy Agreements (DEAs) will primarily benefit digitally delivered services but have the potential to positively affect most economic activity as the digital economy now permeates almost all sectors, from agriculture and manufacturing to services.

#### Foreword on gains from trade:

International trade is an important driver of economic growth, and so-called 'gains from trade' materialize through a variety of channels. It is therefore crucial to stress that, while attempting to increase exports is often a priority for governments of both developed and developing countries, a substantial fraction of what countries gain from trade comes through higher imports. For example, on the one hand, increasing exports can lead to more sales and higher profits for firms (especially if foreign countries are growing faster), it allows the exploitation of economies of scale and to extend a product's life-cycle, it stimulates higher efficiency and technological upgrading through learning from foreign competitors and investments made from exports proceeds. On the other hand, imports give firms access to cheaper and/or higher quality (or high-tech) inputs, stimulate productivity through tougher competition, provide consumers with cheaper and more varied products. Furthermore, production along supply-chain activities is inherently bi-directional, i.e., necessitates several border crossings both in and out of a country. Export-led growth does not necessitate a trade surplus. This is not possible at a global level and there are often circumstances in which a trade or current account deficit is associated with a sustainable capital inflow.

The main body of the submission offers two separate pieces of analysis that provide recommendations separately for goods and services trade, respectively.

## Trade in goods

Success in export markets depends on:

- (a) competitiveness: may be driven by comparative advantage and its factors, such as availability of skilled labour, but will also be affected by trade barriers which may be simply geographic, e.g. distance, but is also driven by policy (tariffs, regulations).
- (b) demand for UK goods: this is driven by factors ranging from demand for different varieties, to niche specialisation in specific products or services as inputs into supply chains.
- (c) knowledge: information on foreign markets, and how to sell in those markets.

Predicting which goods and markets could represent favourable opportunities for the UK to grow its exports, and therefore spur economic growth, is challenging. This is due to several “unknowns” related to future trade and industrial policies, technical progress, political developments, changes in demand, as well as shocks such as the COVID-19 pandemic, the war in Ukraine, and trade wars. It is important, therefore, to signal that identifying opportunities for exports should, in the first instance, be concerned with identifying the conditions under which exports are more likely to be successful, as opposed to picking particular products.

Careful data-driven analysis, based on recent observable patterns, can shed some light on products and markets, and whether or not there are particular characteristics of these that UK firms might target to successfully stimulate exports. Here we present such an analysis for goods trade. This is not intended to be exhaustive, but indicative. Export growth can be achieved either by (i) increasing exports of existing products to existing or new markets, or (ii) by starting to export new products. A combination of both is clearly possible; here, we focus on the former mechanism.

Broadly, there are two possible drivers of increases in currently exported products. An increase in productive capacity by the exporter, or an increase in demand by the importer. Both channels can work simultaneously, and both should be taken into consideration.

To illustrate how data can be informative in this regard, we use trade data from UN Comtrade over the 2017-2022 period at the 6-digit (HS classification) level, and proceed in the following way:

1. We identify products with potential for future export growth on the basis of recent changes in trade flows.
2. We use the concept of “revealed comparative advantage” to:
  - first, identify the products where there may be *prima facie* evidence of export opportunities for the UK across all countries in the world.
  - second, consider what might be the opportunities for the products identified in step 1 in three selected markets: China, the USA, and Germany.

### **1. “Growth potential”: products with growth potential on the basis of their relevance in the UK export basket and their recent export performance**

We focus our attention on a small range of well performing products. With data for two years, 2017 and 2022, we identify, across all the 5,269 products exported by the UK, the 50 exported the most (by value) in each of the two years.

- The top 50 accounted for approximately 51% of UK exports in 2017 and 57% in 2022.

33 products are in the top 50 list of in both years: these are products which consistently perform well, and therefore might not necessarily present *new* opportunities. 17 products are in the top 50 in 2022, but not in 2017 – these could be successfully emerging products in terms of the amount exported.

Next, we identify the 50 products with the highest export growth over the 2017-2022 period, out of the top 100 products exported in 2022 (to narrow the search among products with sizeable trade).

Finally, we overlap the lists compiled in these two steps and find 17 6-digit products that are potentially emerging and are important in terms of both growth and level of exports (the list of products is provided in Table 1 in the Annex). These 17 narrowly defined products account for 7.32% of UK's exports in 2022 and cover a range of sectors, from precious and base metals, to chemical products, advanced machinery, portable computers, medical appliances, hybrid cars, as well as aircraft and vehicles.

## 2. Export opportunities identified on the basis of UK's 'revealed comparative advantage' (RCA).<sup>2</sup>

An alternative way to identify export opportunities is to look at the export performance of the UK *relative* to that of the rest of the World.

### Step 1: in which products is the UK doing well in world markets?

- We identify products that have increased (decreased) their share in UK exports over the 2017-2022 period. These are products that are becoming more (less) important in the UK's export bundle, and this represents possible changes in UK's productive/supply capacity.
- We also identify the products that have increased (decreased) their share in World imports.<sup>3</sup> These are the products for which relative world demand is growing (falling)
- Next, we cross-tabulate these four categories and identify 866 products whose shares have been growing both in terms of UK exports, and in terms of relative world demand (see Table 2 in the Annex). For 401 products, the change in the UK exports share is greater than the change in world demand: the UK has done particularly well in expanding these exports – call these the 'successful' products.

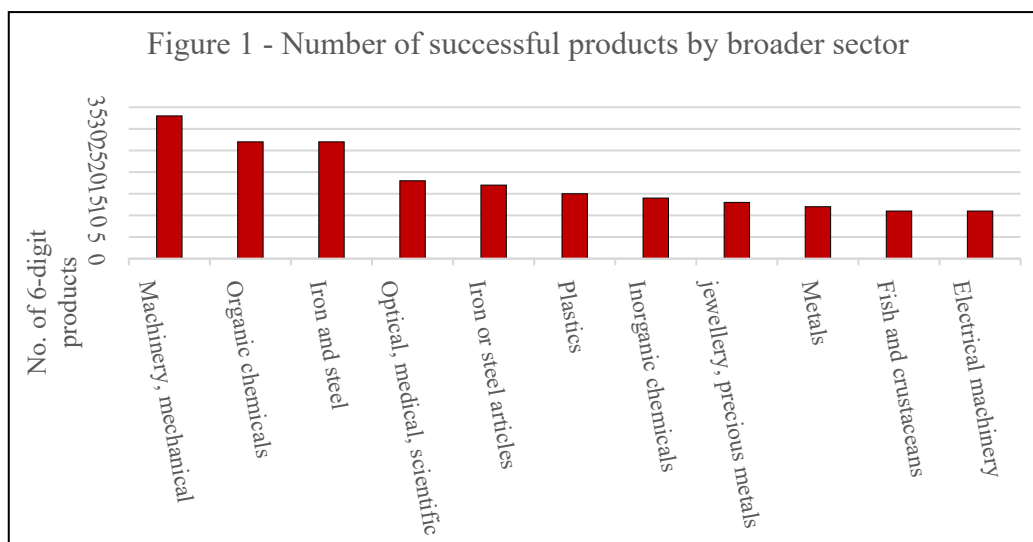
Finally, we count the number of 'successful' products in each of the broader 2-digit HS sectors. Figure 1 shows sectors with more than 10 successful products: these products account for more than 26% of UK exports in 2022.

The key sectors which overlap across the two analyses presented are organic and inorganic chemicals; machinery; optical, medical and scientific equipment; jewellery and precious metals. Interestingly too, the sectors which emerge are not necessarily the UK largest exports sectors: for instance, organic chemicals was the UK's 11<sup>th</sup> largest sector accounting for 2.3% of exports, and iron and steel was the UK's 15<sup>th</sup> largest export sector.

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<sup>2</sup> The Revealed Comparative Advantage (RCA) is a concept used to identify the relative advantage or disadvantage of a country in a certain product or service as revealed by its trade flows. Formally, the RCA is the ratio of the share of a product in a country's exports, over the share of that product in the exports of all countries. A ratio larger than one signals that the country has a comparative advantage in that product. In this response we use the concept of the RCA, but do not compute the ratio *per se*. We instead focus on changes in the nominator and the denominator of the index.

<sup>3</sup> The reporter 'World' is an artificially constructed group that considers the sum of all countries' exports for the years chosen. To ensure consistency, we constructed this group based on the availability of data, i.e., using the countries that reported exports in 2017 and 2022 at the HS 2017 nomenclature.



Source: authors' elaboration

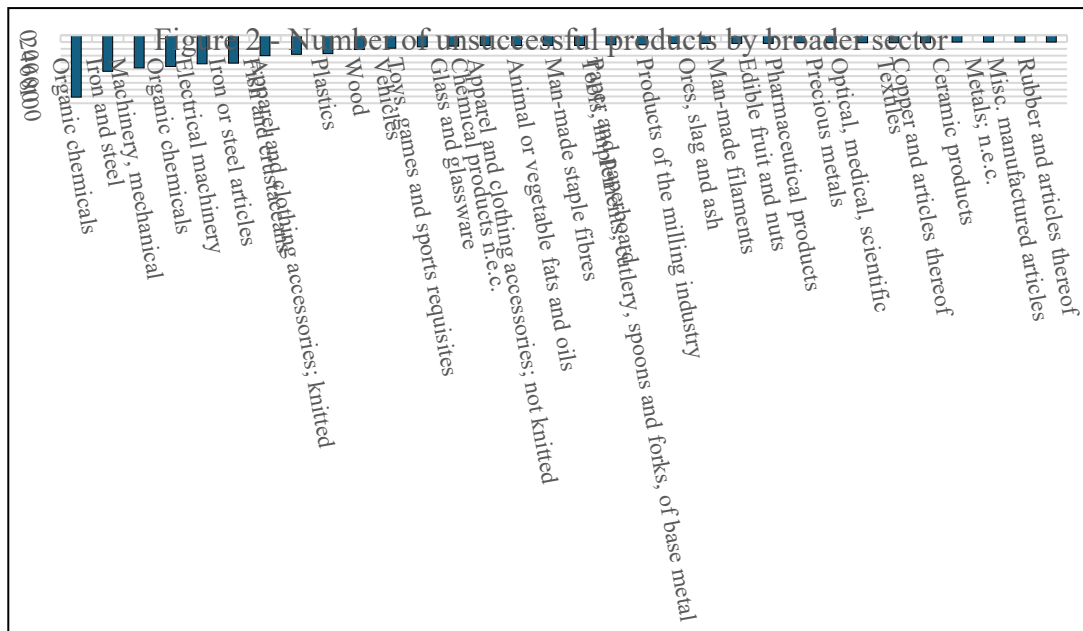
## **Step 2: which of the successful products perform well in specific markets?**

Next, we consider how well the UK is performing across these 401 products (the successful products) in specific export markets. We focus on the USA, Germany, and China, as they are all important export destinations for UK firms.

We identify for which of these 401 products is the share of imports by the partner country increasing, while the UK's share of those imports in those markets is decreasing (a more detailed discussion of the methodology can be found in the Annex). One can think of this as 'missed opportunities' because these are products which the data suggests the UK is competitive in (from Step 1) but, in turn, is not doing so well in those markets. The number of products which represent these 'missed opportunities' in the USA, China, and Germany respectively is 104, 63, and 97.<sup>4</sup> Not surprisingly there is considerable variation across the products and market. One manifestation of this is that there are only 6 products, which appear to be a missed opportunity in all three markets (coal, paper and paperboard, women's nightdresses and pyjamas, and various rare earths (palladium rhodium and iridium)). Another manifestation is that the products between them cover 59 of the 97 2-digit HS chapters.

Note that the analyses in Steps 1 and 2 focussed on products where there is already evidence of success. It is also instructive to look at those products where relative world demand is growing but where the share in UK exports is falling – suggesting that (relatively, at least) the UK is not doing so well. There are 948 such products (see Table 2 in the Annex), which accounted for 11.3% of UK exports in 2022. In a similar manner, we arrange these into their broader HS 2-digit sectors, and in Figure 2 we show those sectors where there are 10 or more products.

<sup>4</sup> See Tables 3.2, 4.2, and 5.2 in the Annex.



Source: authors' elaboration

## Recommendations

- Government should be extremely cautious in policy initiatives directly focussed on specific product or sectors. This does not mean that such policies are always to be avoided, but that there needs to be careful justification for government intervention, with sound reasons as to why the private sector needs support. Those reasons become the basis for the type of policy intervention that is needed.
- Policy should in the first instance focus on providing the right enabling environment to allow successful exports to develop, be this with regard to finance, lower market access barriers, or more broadly support for research and development, or ensuring the right skills base either through education and training and or through migration policy.
- We recommend that a more comprehensive analysis of both goods and services trade is undertaken on the basis of the methodologies outline above, in order to provide an evidence-base for product / sector identification. Another possible extension could consist in identifying, for specific products that the UK is exporting successfully, which markets the UK is currently not serving successfully.

## Trade in services

Trade policy in general, and export promotion in particular, has traditionally focused on goods trade. Yet services should be the UK's primary focus in a growth strategy. This conclusion derives partly from the size of service industries in domestic output (80% of GDP) and partly from the very strong position of the UK as an international exporter of services. Although services sectors are traditionally thought of as exhibiting lower productivity growth compared to manufacturing, services trade can contribute to export-led growth via productivity gains, for two reasons. Firstly, services sectors with low productivity growth are often not tradable whereas tradable services sectors are highly dynamic. Second, services can be exported not only by service sector firms but—increasingly—also by businesses from the manufacturing sector. Over the period 2003-2019, a business that exported services was likely to be more productive than a business engaging in goods trade. What's more, over

the 2011-19 period labour productivity has on average grown by 1.42% per year amongst non-financial services firms but has shrunk by -.77% per year in the manufacturing sector.<sup>5</sup>

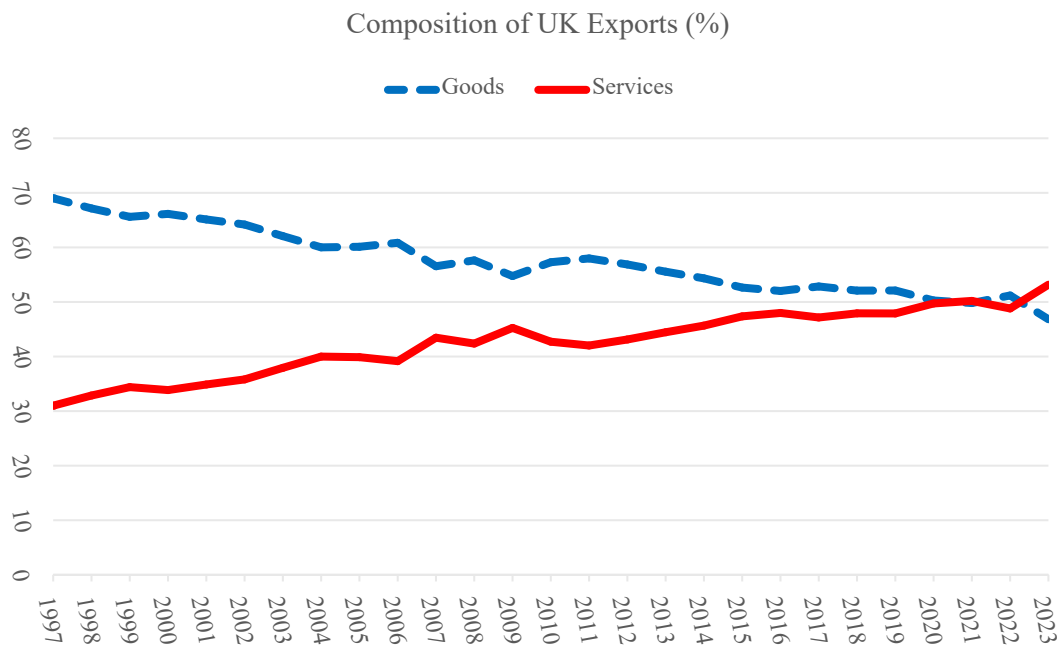
### 1. Direct exports of services

Ever since 2020, the UK’s value of services exports has exceeded the value of its goods exports. Total services exports worth £468 billion in 2023 compare with £394 billion worth of goods exports (ONS Pink Book 2024).<sup>6</sup> Figure 3 demonstrates that the value of services exports surpassing goods exports is the culmination of a decades-long trend during which services exports (red line) became ever more successful.

Moreover, the UK runs a sizable trade surplus in services whereas overall goods trade exhibits a trade deficit (Figure 4). Hence, services trade is poised to play an important role for export-led growth, even though trade policy in support of services exports is more complex compared to conventional export promotion strategies for manufacturing goods.

It is also worth keeping in mind that a substantial share of UK services exports, potentially more than half by value, is transacted out of foreign-owned businesses in the UK (Borchert and Magntorn Garrett 2020, based on experimental ONS statistics). This implies that the conditions for inward investment into the UK can have a bearing on future export growth in services. Put differently, maintaining and improving a conducive investment climate appears to be one crucial factor in nurturing future services export-led growth.

Figure 3: Evolution of relative composition of UK goods and services exports, 1997-2023

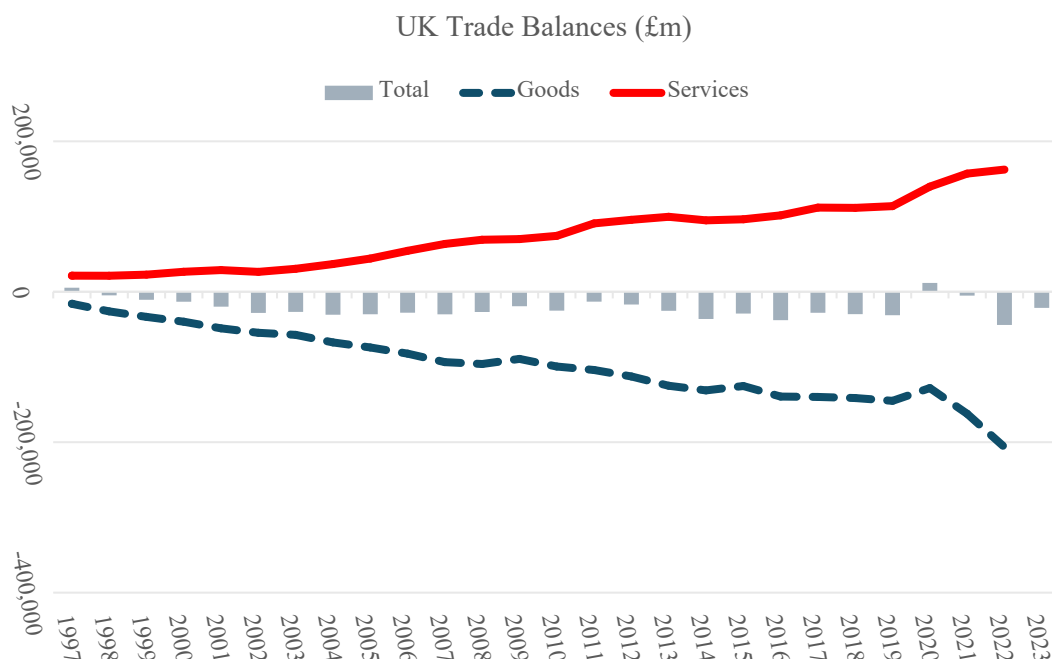


Source: ONS Balance of Payments statistics, Table 3A (release 16 Jan 2025), authors’ elaboration.

<sup>5</sup> Office for National Statistics: “Estimates of total factor productivity from the Annual Business Survey, Great Britain: 1998 to 2019” released 26 August 2022.

<sup>6</sup> As this export figure (£486B) derives from the Balance of Payments, it does not even include services delivered through commercial presence of UK businesses abroad, which is commonly called ‘Mode 3’ services trade and accounts for the largest share of services trade across the four conventional modes of services supply.

Figure 4: Trade balances for UK goods and services, 1997-2023



Source: ONS Balance of Payments statistics, Table 3A (release 16 Jan 2025), authors' elaboration.

The EU-27 as a bloc accounts for the largest single share of the UK's total services exports (36% in 2023), notwithstanding the sizable share of services that goes to the United States and other destinations. Therefore, it is not inconceivable that services exports to non-EU economies can contribute to growth; however, because one-third of services exports are destined for the EU, taking full advantage of the upcoming review of the UK-EU Trade and Cooperation Agreement (TCA) with a view to supporting UK services exports is a potentially impactful strategic lever.

Although the TCA is ambitious in a few selected services sectors such as telecommunications, international maritime transport and digital trade, there is a general sense that TCA provisions are a major setback for many services sectors that have hitherto relied on UK regulation being recognised in other EU economies (Borchert and Morita-Jaeger 2021). This is particularly the case for financial services with the loss of passporting rights, and for air and road transportation services, both of which will see their mode of operations severely curtailed, and generally the limited mobility business personnel affecting many services professions. Allowing more flexibility to workers' mobility (e.g. in terms of types of business activities allowed when travelling to the UK) would be a step in the right direction.

The absence of an agreement regarding mutual recognition of qualifications is also a major impediment to the movement of professionals. Market access conditions for UK professionals, compared to those from within the EU-27, have deteriorated especially in sectors such as 'legal and accounting' services but also 'computer services' (Winters 2019, Fig.1), all of which offer high-skilled, high paying jobs. Hence, seeking improvements such as mutual recognition (MR) for services professionals with the EU appears fundamental.

## 2. Indirect exports of services



In addition to the direct export of services as captured in Balance of Payments statistics, services inputs are an integral part of export competitiveness for UK manufacturing products. Some of these services such as transportation, finance or legal advice may be imported. In that case, UK policies that affect the import of services can have a direct impact on export competitiveness.

### 3. Policy and technological change

Digitisation offers as much potential for export growth in services as it does for goods, if not more. This is because a large share of the UK's exports of services (up to 75% in 2020-23) are believed to be 'potentially digitally enabled.' Yet policymaking for services trade is a complex area. In an increasingly digital economy, one ramification for services trade is that certain public policies have a cross-cutting effect on nearly every kind of digitally delivered services. The most obvious example may be rules governing cross-border data flows. Two relevant decisions that award EU data adequacy status to the UK, under the EU General Data Protection Regulation (GDPR) and Law Enforcement Directive (LED), are set to expire on 27 June 2025. Because of the wide-ranging and cross-cutting nature of data adequacy it is vitally important that the UK works towards maintaining its data-adequacy status with the EU.

Consistent with the overarching importance of cross-border data flows for almost any kind of (digitally enabled) services exports, [Bhalotia et al. \(2023\)](#) estimate that substantial long-run gains, ranging between 30-40% in specific service sectors, could be realised from removing barriers to UK services exports in the areas of data flows, visa requirements, professional qualifications, and financial services passporting (Figure 20). The beneficial impact on future UK services exports of (re-)aligning more with the EU is also echoed by the UK Trade and Business Commission, specifically for financial services (e.g. maintaining equivalence for clearing services), on maintaining EU data adequacy, and expanding the recognition of professional services (Recommendations 44-48).

In terms of the broader trade policy approach for facilitating services exports, traditional Free Trade Agreements are not always the best policy tool to liberalize and grow services trade. At least in the past, most free trade agreements with services chapters have at best locked-in pre-existing and already applied policies but have done little to provide actual incremental improvements. By contrast, deals that apply to particular areas or sectors, such as on the movement of personnel via preferential visa regimes, or mutual recognition agreements of professional qualifications or regulatory regimes in general, can more quickly deliver flexible and more easily accomplishable gains compared to a full-fledged FTA. Digital Economy Agreements (DEAs) will primarily benefit digitally delivered services but have the potential to positively affect most economic activity as the digital economy now permeates almost all sectors, from agriculture and manufacturing to services.

Concluding deals reasonably swiftly in narrowly defined areas, as opposed to negotiating an FTA for many years, will offer certainty and confidence in the UK's future regulatory environment in these areas, and will thereby attract foreign firms to invest in the UK and induce trading partners to commit to mutual recognition agreements.

#### **Recommendations:**

- Services trade should be a central part of the UK's export-led growth strategy. Businesses that export services, whether part of the manufacturing or services sector, are more likely to exhibit superior productivity than goods exporting businesses, let alone non-trading businesses.
- Seeking better export conditions vis-à-vis the EU, possibly via the upcoming TCA review, appears as an important strategy as the EU-27 as a bloc still accounts for the largest single share of UK services exports.

- Services exports would benefit particularly from enhanced mutual recognition for services professionals, improved mobility for business personnel, access for financial services, and maintaining the EU's adequacy decision for personal data flows.
- Producer input services, often imported, are a major factor behind the export competitiveness of UK manufacturing exports. Thus, policies governing the import of services, and inward investment in services sectors, must be part and parcel of an export-led growth strategy.
- As many digitally delivered services entail or necessitate cross-border data flows, securing a longer-term adequacy decision from the EU would facilitate domestic and foreign-owned firms' planning and investment decisions to underpin continued future growth of UK digital trade.

## Annex to submission:

**Table A1: export opportunities in goods trade**

| HS Code | Product Name   | Share 2017 (%) | Share 2022 (%) | Change, Value (%) |
|---------|--|----------------|----------------|-------------------|
| 710691  | Metals; silver, unwrought, (but not powder)  | 0.17           | 1.55           | 916               |
| 293379  | Heterocyclic compounds; lactams; other than 6-hexanelactam (epsilon caprolactam) and clobazam (INN) and methypylon (INN)   | 0.20           | 0.97           | 444               |
| 271600  | Electrical energy  | 0.05           | 0.87           | 1819              |
| 711031  | Metals; rhodium, unwrought or in powder form   | 0.07           | 0.44           | 632               |
| 740400  | Copper; waste and scrap  | 0.23           | 0.31           | 51.7              |
| 847150  | Units of automatic data processing machines; processing units other than those of item no. 8471.41 or 8471.49, whether or not containing in the same housing one or two of the following types of unit: storage units, input units or output units | 0.17           | 0.31           | 107               |
| 284390  | Inorganic or organic compounds of precious metals, n.e.c.; amalgams  | 0.06           | 0.29           | 414               |
| 847989  | Machines and mechanical appliances; having individual functions, n.e.c. or included in this chapter  | 0.21           | 0.28           | 55                |
| 901890  | Medical, surgical or dental instruments and appliances; n.e.c. in heading no. 9018   | 0.23           | 0.28           | 36.7              |
| 847130  | Automatic data processing machines; portable, weighing not more than 10kg, consisting of at least a central processing unit, a keyboard and a display  | 0.20           | 0.28           | 53.3              |
| 732690  | Iron or steel; articles n.e.c. in heading 7326   | 0.21           | 0.28           | 48.5              |
| 870350  | Vehicles; with both compression-ignition internal combustion piston engine (diesel or semi-diesel) and electric motor for propulsion, incapable of being charged by plugging to external source of electric power                                  | 0.01           | 0.27           | 4526              |
| 711292  | Waste and scrap of precious metals; of platinum, including metal clad with platinum but excluding sweepings containing other precious metals   | 0.01           | 0.24           | 2222              |
| 293722  | Steroidal hormones, their derivatives and structural analogues; halogenated derivatives of corticosteroidal hormones   | 0.04           | 0.24           | 565               |
| 270799  | Oils and other products of the distillation of high temperature coal tar; n.e.c. in heading no. 2707   | 0.01           | 0.24           | 1902              |
| 760200  | Aluminium; waste and scrap   | 0.13           | 0.24           | 104               |
| 880320  | Aircraft and spacecraft; under-carriages and parts thereof   | 0.19           | 0.23           | 39                |

*Source:* authors' elaboration on data from UN Comtrade

**Table A2: Sources of changes in comparative advantage**

|  |          | Change of product share in UK exports            |  |
|--|----------|--|--|
|  |          | Negative   | Positive   |
| Change of product share in World exports | Negative | Declining in declining market:<br>(-,-)<br>2,419 | Success in declining market:<br>(-,+)<br>1,036   |
|  | Positive | Declining in growing market:<br>(+,-)<br>948     | Success in growing market:<br>(+,+)<br>866 (401) |

*Note:* the first sign in parenthesis refers to the change in the product's share in World exports, the second sign in parenthesis refers to the change in the product's share in UK exports

*Source:* authors' elaboration on data from UN Comtrade

Note, also, that where the UK is exhibiting negative changes in a product's export share is not to say that the UK is exporting less of that product, but rather that the product has lost some importance in UK exports.

For each market, we first replicate the analysis presented in Table 2, as not every product is exported by the UK to every market. We begin with China.

China:

**Table 3.1: Sources of changes in comparative advantage – subset of products exported to China**

|  |          | Change of product share in UK exports |           |
|--|----------|---------------------------------------|-----------|
|  |          | Negative                              | Positive  |
| Change of product share in World exports | Negative | 1,795                                 | 733       |
|  | Positive | 693                                   | 647 (328) |

*Source:* authors' elaboration on data from UN Comtrade

Table 3.1 shows the products where the UK's supply capacity is growing, and where the world market is growing, out of the subset of products the UK exports to China: 647 products. In **328** products the UK's supply is growing more than the World's average.

Then, we use data on Chinese imports to identify, out of these 328 products, which products are growing in China's demand (columns of table 3.2) and in which products the UK's share of Chinese imports is growing (rows of Table 3.2). The cross tabulation reveals the following:

- In 63 products out of 328, relative demand in China has increased (over the 2017-22 period) but the share of the UK in the Chinese market has decreased. So, these are products where the UK has growing world competitiveness, in a growing world market, but where export performance to China is less successful. **We label these products 'missed opportunities', as that likely present the best targets for the UK to grow its exports to China.**
- In 45 products out of 328 relative demand in China has increased and the share of the UK in the Chinese market has increased. So, these are products where the UK has growing world competitiveness, in a growing world market, and where export performance to China has been successful.
- In 71 products out of 328 relative demand in China has decreased and the share of the UK in the Chinese market has decreased. So, these are products where the UK has growing world competitiveness, in a growing world market, but where relative demand in China is falling, and where UK's export performance is less successful.

- In 95 products out of 184 products relative demand in China has decreased and the share of UK in the Chinese market has increased. So, these are products where the UK has growing world competitiveness, in a growing world market, and while relative demand in China is falling, the UK's export performance has been successful.

To sum up, we believe that the best chances for the UK to grow its exports in China lie in the 63 products that we have labelled 'missed opportunities'.

**Table 3.2: Changes in Chinese import shares for the 328 products<sup>7</sup>**

|   |          | Change of product share in China's imports<br>(relative demand) |                                     |
|---|----------|---|-------------------------------------|
|   |          | Negative  | Positive                            |
| Change of share of UK<br>in China's imports<br>(market share) | Negative | 71<br>'Retreat'   | <b>63</b><br>'Missed opportunities' |
|   | Positive | 95<br>'Declining stars'   | 45<br>'rising stars'                |

Source: authors' elaboration on data from UN Comtrade

We repeat a similar analysis for two other key export destinations.

### USA:

Among the products the UK exports to the USA, there are 764 products where the UK's supply capacity is growing, in a growing world market. In 373 of these, the UK's supply is growing faster the World's supply.

**Table 4.1: Sources of changes in comparative advantage – subset of products exported to USA**

|   |          | Change of product share in UK exports |           |
|---|----------|---------------------------------------|-----------|
|   |          | Negative                              | Positive  |
| Change of product<br>share in World exports | Negative | 2,062                                 | 905       |
|   | Positive | 821                                   | 764 (373) |

Source: authors' elaboration on data from UN Comtrade

With data on USA imports, we find that the best opportunities for the UK to grow its imports in the USA are in **104** products. In these, relative demand in the USA has increased but the share of the UK in the USA market has decreased. So, these are products where the UK has growing world competitiveness, in a growing world market, but where export performance to USA is less successful.

**Table 4.2: Changes in USA import shares for the 373 products**

|  |          | Change of product share in USA's imports<br>(relative demand) |            |
|--|----------|---|------------|
|  |          | Negative  | Positive   |
| Change of share of<br>UK in USA's import<br>products (market<br>share) | Negative | 56  | <b>104</b> |
|  | Positive | 69  | 111        |

Source: authors' elaboration on data from UN Comtrade

### Germany:

<sup>7</sup> Note that the sum of the products in the four quadrants in table 3.2 is 274, and not 328. This is due to discrepancies in what the UK reports as exports to China; and what China reports as imports from the UK

Among the products the UK exports to Germany, there are 813 products where the UK's supply capacity is growing, in a growing world market. In 387 of these, the UK's supply is growing faster than the World's supply.

**Table 5.1: Sources of changes in comparative advantage – subset of products exported to Germany**

|  |          | Change of product share in UK exports |                    |
|--|----------|---------------------------------------|--------------------|
|  |          | Negative                              | Positive           |
| Change of product share in World exports | Negative | 2,200                                 | 924                |
|  | Positive | 885                                   | 813 ( <b>387</b> ) |

*Source:* authors' elaboration on data from UN Comtrade

With data on German imports, we find that the best opportunities for the UK to grow its imports in the Germany are in **97** products. In these, relative demand in Germany has increased but the share of the UK in the German market has decreased. So, these are products where the UK has growing world competitiveness, in a growing world market, but where export performance to Germany is less successful.

**Table 5.2: Changes in Germany import shares for the 387 products**

|   |          | Change of product share in Germany's imports (relative demand) |           |
|---|----------|--|-----------|
|   |          | Negative   | Positive  |
| Change of share of UK in Germany's imports (market share) | Negative | 87   | <b>97</b> |
|   | Positive | 87   | 100       |

*Source:* authors' elaboration on data from UN Comtrade

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