

The United Kingdom: Main Economic Features and Trade Policies

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Abstract – The current paper applies classical and modern trade theories to the analysis and understanding of modern trade patterns of the UK, provides detailed information about the country's location, resource endowment, specialization. Moreover, the paper discusses the participation in regional integration arrangements, trading partners, membership in WTO and other international organizations dealing with trade. It also includes the analysis the effect of global COVID19 pandemic on the international economic relations of the United Kingdom.

Keywords – *International Trade, United Kingdom, BrExit, Covid-19, tariff, Trade Agreements.*

I. INTRODUCTION

The United Kingdom of Great Britain and Northern Ireland is considered to be a sovereign country which contains the island of Great Britain, island of Ireland and located on the north-western coast of Europe. On the east side of the UK there is the North Sea. The remaining parts of the UK have common borders with the Celtic Sea, the Atlantic Ocean, and the English Channel. The total area of the country is equal to 248532 square kilometres and the country is considered to be the world's 78th largest country. Having the population of more than 66 million, the UK is on the 22nd place of the world's countries with highest population. The United Kingdom is a country with resources including land, coal, petroleum and different minerals. Agricultural land of the UK totals to 69% of its total land. Sixty percent of food consumed by its population is produced within the UK. Although the economy possesses high technology and skilled workers in the farm gate, because of the low prices at the farm sector, earnings from this agricultural sector are comparatively lower than other advanced economies. Wheat production in the country is mainly centred in eastern part of the UK and total annual production amount varies significantly depending on the climate of country which is usually in the range from eleven to eighteen million tonnes annually. Mining in the UK has its long roots to the Bronze Age and is mainly specialized in producing tin and copper. Other minerals used in manufacturing are now being imported from other countries because of cheap production costs and comparative advantage of other countries in producing certain minerals. UK is considered to be one of the world's most developed economies being on the 5th place in the globe. The driving industries of the UK economy are textile, shipbuilding, coal mining and steel production. Moreover, the UK economy also largely depends on service sector which represents about 30% of the country's total GDP. Furthermore, tourism industry in country is also highly developed making the country world's top major touristic destination. According to Benjamin Elisha (2019), there were more than 27 million to London, capital of the UK, in 2004 itself. This indicator shows that tourism industry is one of the main drivers of the UK economy. Historically, top five

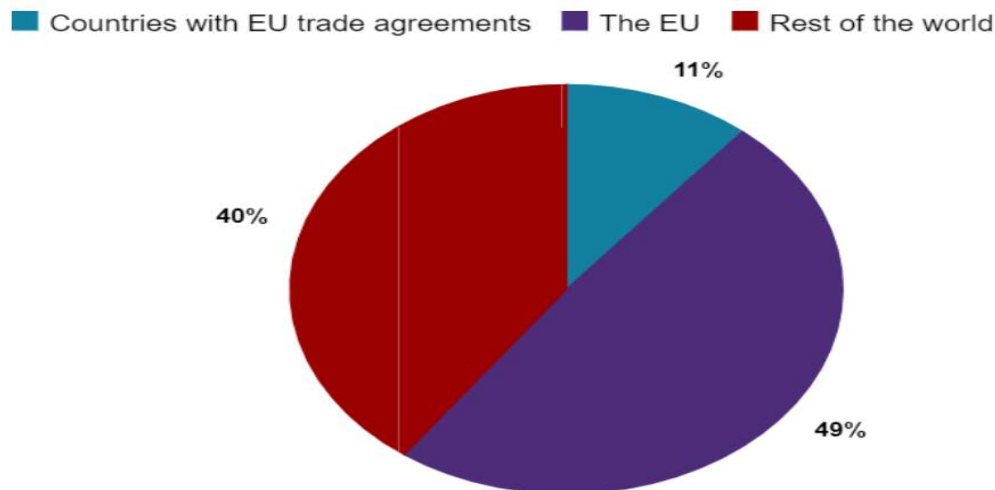
trading partners of the country has been the USA, France, the Netherlands, Ireland and Germany for many years. However, as the globalization is increasing, China and India markets are now playing crucial roles in UK exports. Since the UK is more specialized in exporting high-valued goods with high prices but in relatively smaller volumes, developed countries, particularly in European Union, still have an advantage in trading high-valued goods with the country. As the middle classes in countries including India and China are increasing their consumer expenditure, the UK is highly likely to increase its profit from exporting high quality goods and services. Moreover, enhancement in different sectors, such as infrastructure, communication, networking and etc., will allow the country increase its profit margin from markets which were previously considered to be too pricey to be engaged in.

II. ECONOMIC FEATURES.

Before the country exited the European Union in 2016, it was the world's top tenth goods exporting and 5th biggest goods importing country. The economy of the UK is heavily service oriented and it makes up to more than eighty percent of the country's total GDP. The United Kingdom has the 22nd highest GDP per capita in the world and it represents more than 3 percent of the world's total GDP. On June 23, 2016, the Brexit, the United Kingdom withdrawal from the European Union, began. The reason was that the country no longer considered that belonging to the united currency body outweighs the disadvantages of free movement of labour – immigration. According to Kimberley Amadeo (2020), the biggest drawback of Brexit was in that it decreased economic growth in the country from 2.4% in 2015 to 1.5% in 2018 which was mainly due to the uncertainty related to the final result of the agreement. Moreover, the value of the national currency, British pound sterling, dropped 0.12\$ a day after referendum. As a result of Brexit, the country lost its status of tariff-free trade with all other EU members. Now, the export costs have raised as tariffs are back there as well as the price of imports, one third of which was coming from EU member countries. According to traditional trade theory, Heckscher-Ohlin-Samuelson model, as the UK is capital abundant country, it has a comparative advantage in producing capital intensive goods and hence, exports mainly that kind of goods, and imports goods which are considered to be labour intensive. A research conducted by Robert Davies confirmed that in most cases, trade patterns of the United Kingdom were consistent with HOS model. Presently, the country's trade with other countries is equal to over 50% of its GDP. After exiting EU, the country has now adopted new trade policies such as, Trade Bill, The Taxation Cross-Border Act and lots of other trade related acts and documents. Moreover, The United Kingdom Trade Policy observatory was created in June 2016 to prepare the country for Brexit. It is partnership with Chatham House and the University of Sussex which aims to help in adoption of new trade policies for the country. The partnership is mainly engaged in 7 crucial areas: General trade strategy which contains inside impacts of trade agreements and trade instruments, auditing the UK export treatments by other countries as well as its imports, orienting the country's trade policies towards developing countries, negotiation aid, institutional design, administration, training highly skilled trading teams. Furthermore, newly developed trade policies by the government of the UK now allows third parties including stakeholders, businesses and other trade bodies take part in the process of signing new trade agreements. As the UK government (2020) states, now the Department for International Trade or often referred as DIT, is fully responsible for UK trade promotion internationally, as well as attracting FDI to the economy.

III. PARTICIPATION IN REGIONAL INTEGRATION AGREEMENTS.

The United Kingdom has been a member of World Trade Organization since 1995. Moreover, the UK signed General Agreement on Tariffs and Trade in 1948. Until the first month of the current year, it used to be a member of the economic union of EU. After Brexit, the country had to develop and sign new trade agreements with other countries of the world on new terms and conditions as a EU membership do not apply any longer. Free Trade Agreement is a document that all involved countries sign to encourage trade between members by lowering or eliminating tariffs and it is a first level of economic integration. Trade agreements that have been signed by the government include countries such as Chile, Georgia, Kosovo, Lebanon, Morocco, Liechtenstein, Jordan, Tunisia, Switzerland, South Korea, Iceland and Norway, Israel, CARIFORUM trade block, Central America and many others. Moreover, the United Kingdom has mutual recognition agreements with the United States of America, New Zealand and Australia. The mutual recognition agreement with Japan is under active review. Both countries signed an exchange of letters aiming to keep ongoing arrangements temporarily active. The attitude of the country to Aid for Trade is a small fraction of the efforts being put into more job creations, skill improvements as well as investment increases. The objective behind the programme is help developing and least developed economies, to maintain active participation in global trade and utilize advantages of international trade to stimulate economic growth by creating more jobs and reducing poverty in the country. The country has strong both economic and trade position in the world market. The following pie chart represents UK trade partners in 2018:



Japan and Singapore are included in the "rest of the world" as their EU trade deals had not come into force in 2018

Source: Department for International Trade

BBC

As one can see from the pie chart huge part of the UK trade is done with EU. It can be explained by the new theory of trade: gravity model. According to the theorem, the less distance between the two countries the more trade flows will countries have. Moreover, distance is not only measured in miles; same religion, similar culture and similar outlook and horizon of countries play vital roles in volumes of trade flows that occur between the countries. This view can be confirmed when one looks at the list of countries which the UK has trade agreements most of which are in Europe. When it comes to trade affairs with Japan and the US, it is also explained by their huge economic sizes which, in theory, also contributes to the bilateral trade flow between countries.

IV. COVID-19 EFFECT.

The outbreak of the COVID-19 pandemic has shattered the macroeconomic stability all over the world. Specifically, the United Kingdom is among those countries on whom pandemic effect is expected to be the worst. Due to the national lockdown announced on April, the overall amount of trade has fallen. World Trade Organization (2020) is forecasting 20% contraction in global trade in 2020. The following graph represents the export volumes in the UK for the last two years:



SOURCE: TRADEGEOMICS.COM | OFFICE FOR NATIONAL STATISTICS

As one could have noticed, export volumes started dropping from December 2019 and are still dropping dramatically. The reason for this sudden drop was the effect of COVID-19 on global supply chain. As the pandemic progressed and continued

spreading, the volumes of exports got smaller and smaller reaching to 37.71-billion-pound sterling in April 2020. The sectors which encountered the biggest damage include the manufacture of long term assets, such as automobiles and machinery, air transport and travel. Above mentioned sectors experienced demand side shock as well as minor supply disruptions. Moreover, storage and transportation industries were among those who got the main hit by the COVID-19 both experiencing more than 80% contraction in business activity. main challenge for the country is that the exogenous shock caused by the COVID-19 can compound on top of BREXIT shock, the withdrawal of the UK from European Union. According to Amar Breckenridge (2020), after BREXIT the country's goods exports are going to decrease by 15% and service sector by more than thirty percent. No-deal-BREXIT case could double the losses taking into consideration the COVID-19 shock. Ongoing trade agreement processes have been suspended including U.S-U.K. mutual recognition agreement due to the situation with the COVID-19 pandemic. Furthermore, the economic relations, that is free trade agreement, between the United Kingdom and China are going to remain uncertain for the same reason. If the situation gets worse bringing a second wave of infections and deaths to the country, economic activity including international trade, will contract even more. After the UK exited the European Union on January 2020, it has now adopted 2 kinds of transition periods that impact firms specializing in financial services. Any kind of negotiations with EU on transition periods have been delayed till the end of 2020 because of the virus. Even if the financial crisis brought by the COVID-19 pandemic will somehow unveil diminishes by 2021, the challenges related to BREXIT are going to be even more serious problem for the country in the long run.

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