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## Nine-tenths of the British Economy is NOT involved in Exports to the EU

*Exposure of the British Economy to Exports to the EU*

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### Summary & Conclusions

- Exports of Goods & Services to the EU account for **9.6 per cent of UK economic activity** on the measure chosen by the Office for National Statistics to represent the weights of various sectors of the economy
- *This percentage is consistent with estimates of the proportion of all UK jobs involved in exports to the EU<sup>1</sup>*
- **Two other measures** of the weight of Exports of Goods & Services to the EU in UK economic activity **give, respectively, 5 per cent and 12 per cent.**
- Thus, the proportion of UK economic activity **not involved** in exporting Goods & Services to the EU **is in the range 88 per cent to 95 per cent<sup>2</sup>**
- **Well under half - 45 per cent - of total worldwide UK exports go to the EU.**

### All British Exports Analysed by Geographical Destination

In 1999<sup>3</sup>, adjusted (by Global Britain)<sup>4</sup> for two separate distortions, the Rotterdam-Antwerp Effect, relating to Goods & Services, and the Netherlands Distortion, relating to Income, the breakdown was as follows:-

**Table 1: UK Exports: 1999:  
Real (Post-Adjustment): £ bn**

Category	To EU	To Non-EU	To World	EU/World
Goods	86.4	79.8	166.2	52.0%
Services	24.5	46.0	70.5	34.8%
Goods + Services	110.9	125.8	236.7	46.9%
Income	38.3	62.0	100.3	38.2%
Transfers	8.4	4.9	13.3	63.2%
Income + Transfers	46.7	66.9	113.6	41.1%
<b>Total</b>	<b>157.6</b>	<b>192.7</b>	<b>350.3</b>	<b>45.0%</b>

### Three Measures of the Size of the British Economy

The difficulties - definitional, conceptual, mathematical, methodological, statistical - of measuring an economy's size are considerable.

One measure of an economy's size, widely-used internationally, is **Gross Domestic Product ("GDP")**. But, whatever its qualities, **GDP is not a comprehensive measure**. It does not "capture" receipts (i.e. exports) of "Income" or "Transfers", which in the UK's case (see Table 1) amounted to £113.6 bn, a third of worldwide UK exports. Nor does GDP include **imports** of goods & services, though it does include exports of goods & services.

The United Kingdom Input-Output Analyses <sup>3</sup>

provide data on which two other measures of an economy's size can be based: **Final Demand**, and **Total Consumption**. Both measures share with GDP the property of **not** capturing receipts of Income and Transfers. **Final Demand** (or Total Domestic Final Consumption Expenditure) is equivalent to **GDP** plus imports of Goods & Services. **Total Consumption** (or Total Supply of Products & Services at Purchasers' Prices) is equivalent to **Final Demand** plus Intermediate Consumption. The Input-Output Analyses contain comprehensive definitions and explanations of these measures.<sup>5</sup>

## Three Estimates of the Exposure in 1999 of the UK Economy to Exports to the EU

### 1 Export of Goods & Service to EU as a proportion of Final Demand

(The ONS selects this measure to show the relative weights of various sectors of the economy - see below)

<b>Numerator:</b>	<b>Exports of Goods &amp; Services to EU:</b>	<b>£110.9 bn</b>
<b>Denominator:</b>	<b>Final Demand:</b>	<b>£1153.8 bn</b>
	<b>Exports to EU/Final Demand:</b>	<b>9.6%</b>

### 2 Exports of Goods & Services to EU as a proportion of GDP

<b>Numerator:</b>	<b>Exports of Goods &amp; Services to EU:</b>	<b>£110.9 bn</b>
<b>Denominator:</b>	<b>GDP:</b>	<b>£901.3 bn</b>
	<b>Exports to EU/GDP:</b>	<b>12.3%</b>

### 3 Exports of Goods & Services to the EU as a proportion of Total Consumption

<b>Numerator:</b>	<b>Exports of Goods &amp; Services:</b>	<b>£110.9 bn</b>
<b>Denominator:</b>	<b>Total Consumption:</b>	<b>£2080.6 bn</b>
	<b>Exports to EU/Total Consumption:</b>	<b>5.3%</b>

The share of all UK exports worldwide going to the EU varies little from year to year. According to the recorded, unadjusted ONS data, the share going to the EU in 2000 was exactly the same as in 1993, having risen slightly in 1995 and dropped slightly in 1997. Evidently, UK exports to its Single Market partners are growing no faster on average than they are to the rest of the world. Thus, the estimates above, based on data for 1999 alone, can be taken to be valid for longer periods.

Each of the three measures used above - those based on **Final Demand**, **GDP** and **Total Consumption** - "looks at" the size of the economy from a different angle with a different field of view and a different focus. None is "right" or "correct". However, in illustrating its Input-Output Analyses, the ONS produces a chart of "Components of Final Demand" <sup>6</sup>, suggesting that **Final Demand** is the most appropriate measure of the relative weights of different sectors of the economy.

## References

- 1 **Proportion of all UK jobs involved in exporting to the EU:** see, for example, *Continent Cut Off? The Macroeconomic Impact of British Withdrawal from the EU*, NIESR, 23rd February 2000, (for *Britain in Europe*). This estimated that 2.7 million British jobs are directly linked to exports to the EU, 9.7 per cent of the then total number of jobs in the UK economy.
- 2 Exports of Goods and Services **outside the EU** account for between 6 per cent and 14 per cent of UK economic activity. Since Exports of Goods and Services **to the EU** account for between 5 and 12 per cent, total (EU plus non-EU) Exports of Goods and Services account for between 11 and 26 per cent. Thus, between 89 per cent and 74 per cent of UK economic activity is **not involved in exporting Goods and Services at all**.
- 3 1999 is the latest year for which data is given in the *United Kingdom Input-Output Analyses: ONS: November 2001: ISSN: 1475-7354*.
- 4 **Adjustment, for the Rotterdam-Antwerp Effect and the (separate) Netherlands Distortion, of the 1999 Recorded (by the ONS) Data**

Category	Recorded <sup>a</sup>	Recorded <sup>a</sup>	Recorded <sup>a</sup>	Adjusted	Adjusted
	To EU	To Non-EU	To World	To EU	To Non-EU
Goods	97.8	68.4	166.2	86.4 <sup>b</sup>	79.8 <sup>b</sup>
Services	27.5	43.0	70.5	24.5 <sup>b</sup>	46.0 <sup>b</sup>
Goods + Services	125.3	111.4	236.7	110.9	125.8
Income	42.4	57.9	100.3	38.3 <sup>c</sup>	62.0 <sup>c</sup>
Transfers	8.4	4.9	13.3	8.4	4.9
Income + Transfers	50.8	62.8	113.6	46.7	66.9
Totals	176.2	174.1	350.3	157.6	192.7

- Recorded data: Source: *United Kingdom Balance of Payments: The Pink Book: 2001 Edition: ONS: November 2001: ISSN 0950-7558*.
- Adjustment for the Rotterdam-Antwerp Effect (relating to Goods

- and Services). Recorded exports of both Goods and Services to Holland and Belgium are 3 times higher per capita of the Dutch and Belgian population than are recorded exports of Goods and Services to Germany and France per capita of the German and French population, because of the entrepot role of the ports of Rotterdam and Antwerp. It is assumed that half of recorded exports of Goods (£11.4 bn in 1999) and half of recorded exports of Services (£3.0 bn in 1999) to Holland and Belgium are going to those countries and to other EU states; half outside the EU.
- Adjustment for the (separate) Netherlands Distortion (relating to earnings on Foreign Direct Investment, a component of Income). After adjustment for the Netherlands Distortion (see Global Britain Briefing Note No 20, *Foreign Direct Investment: the Netherlands Distortion, 31st July 2002*) the EU accounts for 22 per cent of earnings on UK Outward Direct Investment. Worldwide, these were £32.8bn in 1999. The real EU share was 22 per cent of this, or £7.2bn. The corresponding recorded (unadjusted) figure (in *Foreign Direct Investment 2002: Business Monitor MA4: Feb 2002: ONS*) was £11.1bn, so the over-recording of Income arising in the EU in 1999 was £4.1bn.
- The Glossary, and the chapter on "Supplementary Information" of the Input-Output Analyses (see 3. above), define and explain statistical concepts. The publication's preface says that... "The presentation of the Input-Output Annual Supply and Use Tables is based on the European System of Accounts 1995 (ESA 95), which itself is based on the United Nations System of National Accounts 1993 (SNA 93). SNA 93 has been adopted worldwide and the ESA 95 based accounts are a legal requirement of the European Union member states and also allow for better international comparisons."
- Chart 1.5 on page 10 and chart in Table 1.19 on page 43 of the Input-Output Analyses referred to above.

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