

TRADE IN VALUE ADDED: UNITED KINGDOM

The international fragmentation of production in global value chains (GVCs) challenges the way we look at the global economy. Today, “what you do” - the activities a firm or country is involved in - matters more for growth and employment than “what you sell” - the products that make up final sales or exports.

Understanding how GVCs work and how they affect economic performance is essential, as is determining which policies help derive the greatest benefits, and reduce the risks. The OECD-WTO Trade in Value Added (TiVA) database facilitates analysis of GVCs by measuring trade in value-added terms to generate new insights about the commercial relations among economies and the process of value creation. Drawing on the third version of the TiVA database, this note describes the United Kingdom’s trade patterns in value-added terms, with a view to informing policy debates in a range of areas, including trade, innovation, and investment.

Accompanying this note is a User Guide designed to assist interpretation and provide context to the indicators presented: http://www.oecd.org/sti/ind/TiVA_2015_Guide_to_Country_Notes.pdf

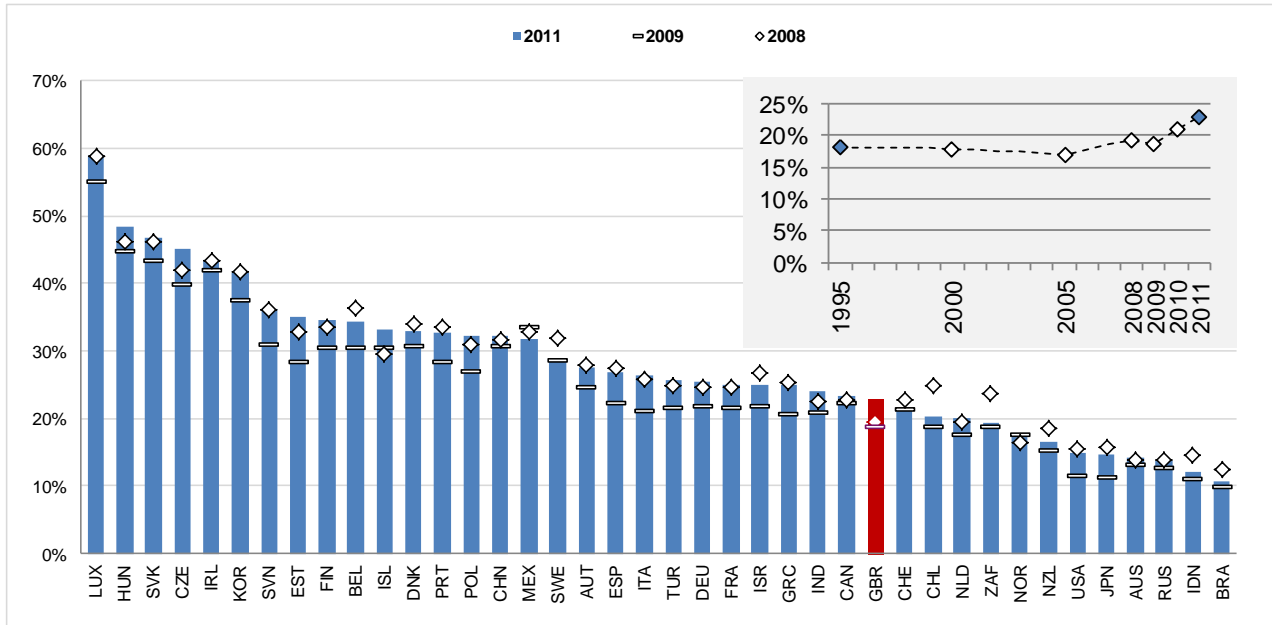
Key findings

- The foreign content of UK exports rebounded to 22.9% in 2011 from the crisis low of 18.8% in 2009, the UK’s highest rate for which TiVA data are available.
- The export orientation of UK manufacturers also reached a new high in 2011, with over half (52.5%) of manufacturing domestic value added driven by foreign final demand. Around three-quarters of the value-added in the Basic metals (78.9 %) and ICT & electronics (73.8%) industries was exported in 2011.
- Direct exports of business services generated the greatest source (both direct and upstream) of domestic value added in 2011, accounting for 13.9% of the total value added of exports, with finance & insurance coming in second at 11.1%.
- Nearly two-thirds (63.5%) of value added exports reflected services content in 2011
- Significant imports of Basic metals (60.6%), Machinery parts (48.8%) and Motor vehicle parts (45.6%) were used in exports.

The role of foreign and domestic value added in exports

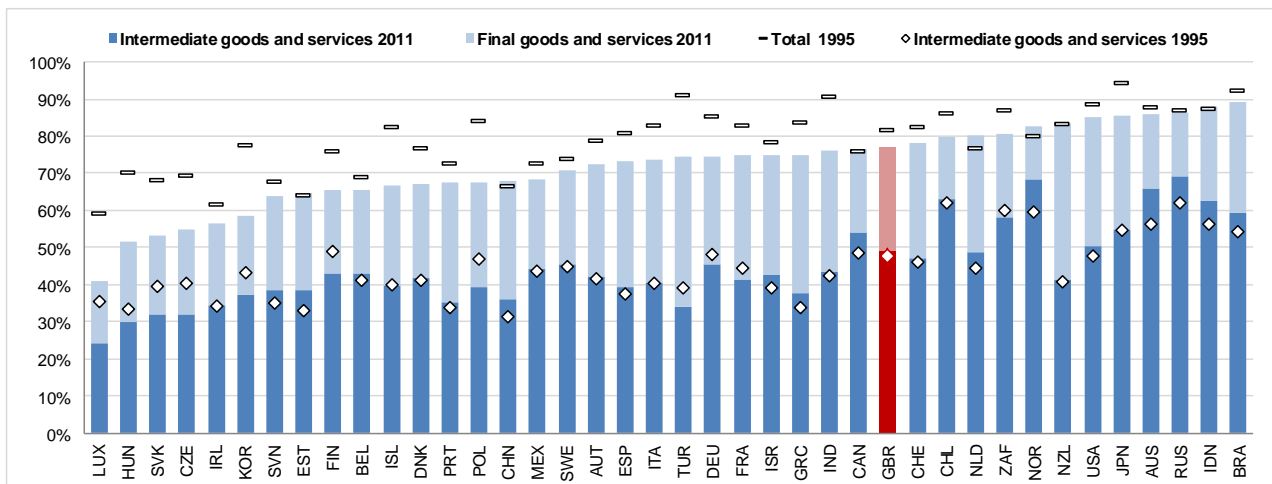
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Figure 1. Foreign value added content of gross exports by country
percent, 2008, 2009, and 2011 (right insert = time series for United Kingdom)



Of the UK's total exports of domestic value-added in 2011, 63.7% reflected exports of intermediates, higher than in 2009 (59.9%), in part reflecting the rebound in GVCs that were disproportionately affected by the crisis, and higher than in 1995 (58.3%), (Figure 2). The UK's total exports of domestic value added share in intermediates in 2011 was higher than the OECD average of 61.5%.

Figure 2. Domestic value added content of gross exports by end-use category by country
percent, 1995 and 2011



Direct exports by Business services generated the greatest source (both direct and upstream) of domestic value added in 2011, accounting for 13.9% of the total value added of exports. The next three most important industries were Finance & insurance at 11.1%, Wholesale, retail & hotels at 9.3% (partly reflecting tourism and upstream distribution services to exporters), and Chemicals at 6.2% (Figure 3a). The large foreign contributions were in the Chemicals and Motor vehicles industries, which together contributed 5.2% of UK total exports.

The foreign content of exports increased across nearly all sectors between 1995 and 2011. The three industries with the highest foreign value added shares in UK exports in 2011 were Coke & petroleum (56.1%), Basic metals (51.7%), and Motor vehicles (44.4%), compared to 24.7%, 27.0% and 30.3% in 1995 (Figure 3b).

Figure 3a. UK industry share of domestic and foreign value content of gross exports
percent of total gross exports, 2011

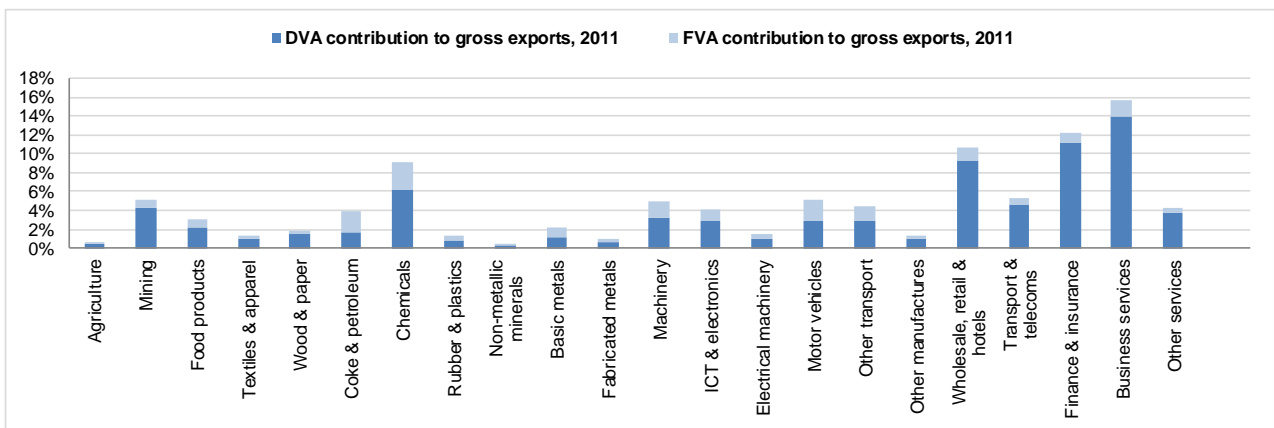
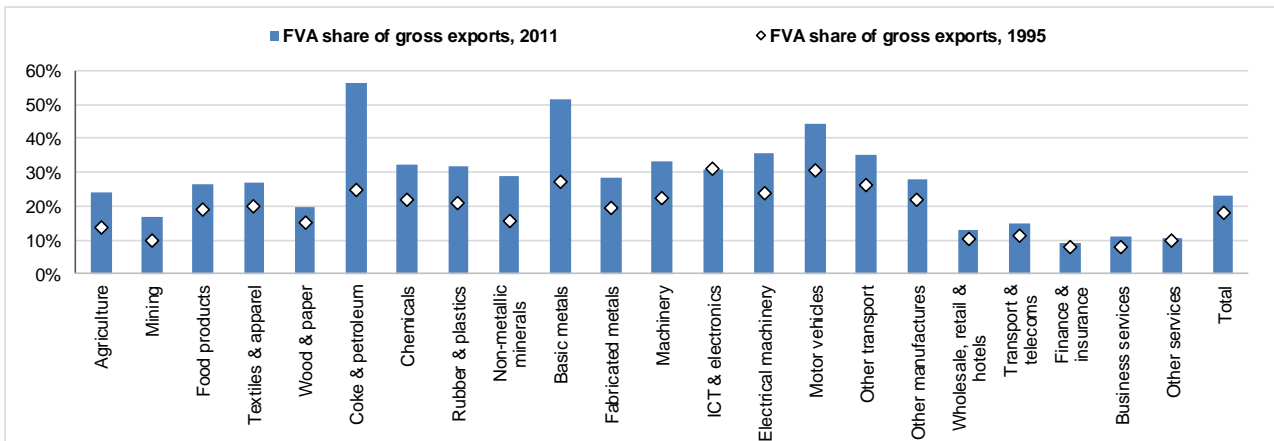
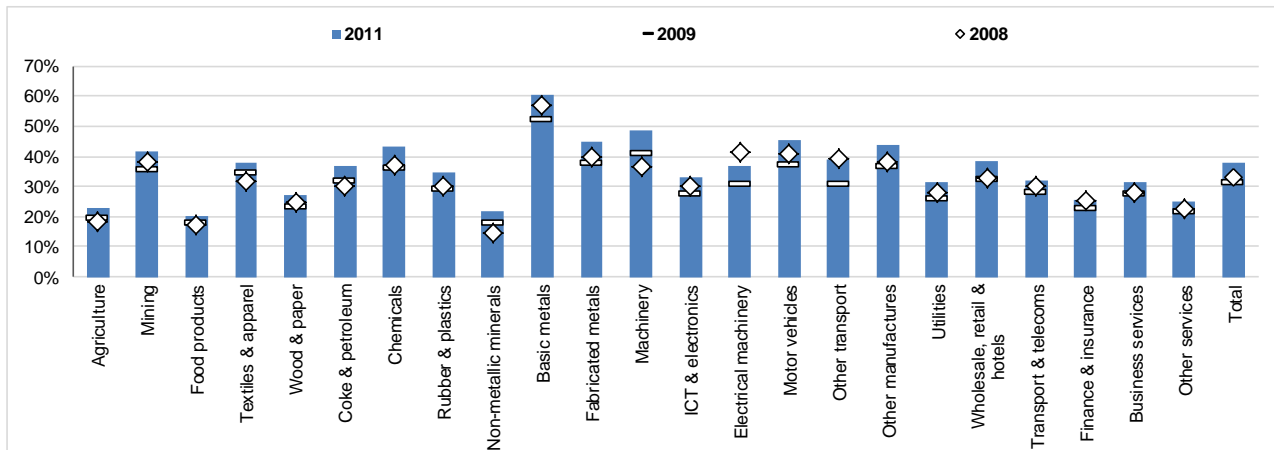


Figure 3b. UK foreign value added content of gross exports
1995 and 2011



Of the total value of UK imports of intermediate products and services, 37.7% was subsequently embodied in exports, slightly below the OECD average (39.3%) but above the share in 2009 (31.6%) (Figure 4). The products with the highest import shares were Basic metals (60.6%), Machinery (48.8%) and Motor vehicles (45.6%).

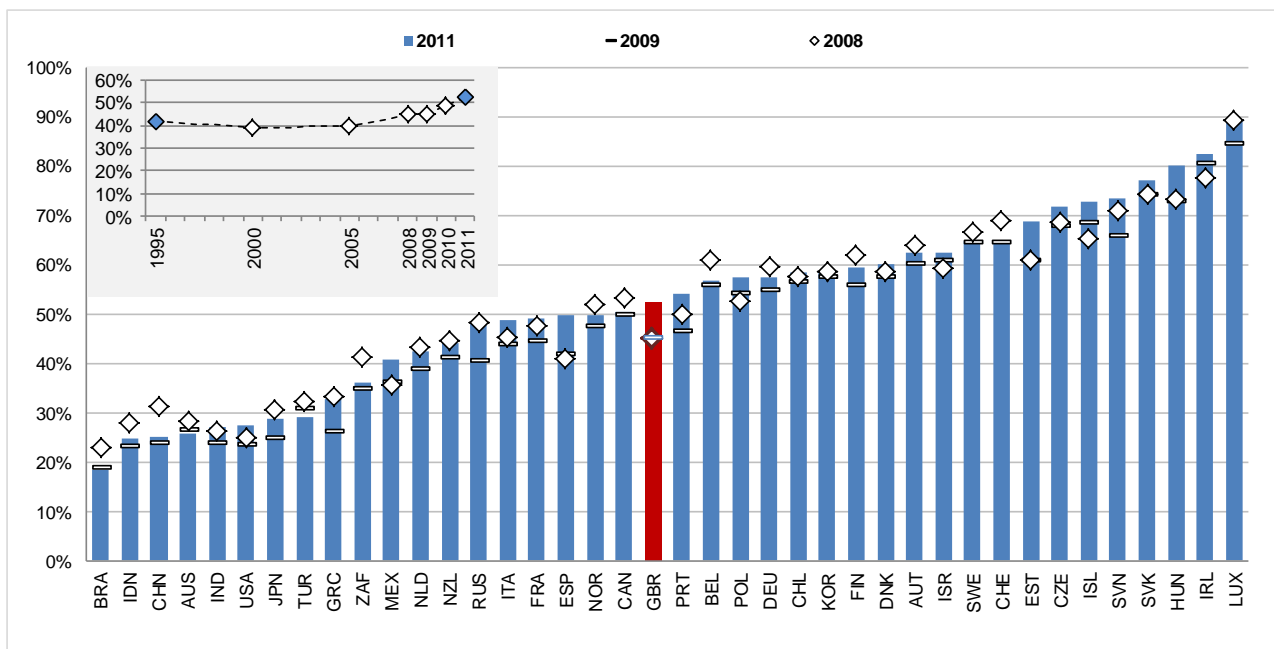
Figure 4. UK imported intermediate inputs used for exports, by import category
percent of intermediate imports, 2008, 2009, and 2011



The destination of domestic value added produced in the United Kingdom

Of the total domestic value added produced by the manufacturing sector in United Kingdom, over half (52.5%) reflected foreign final demand in 2011, significantly up on 2009 (45.3%) and 2008 (44.9%), and above the OECD average (41.9%) (Figure 5).

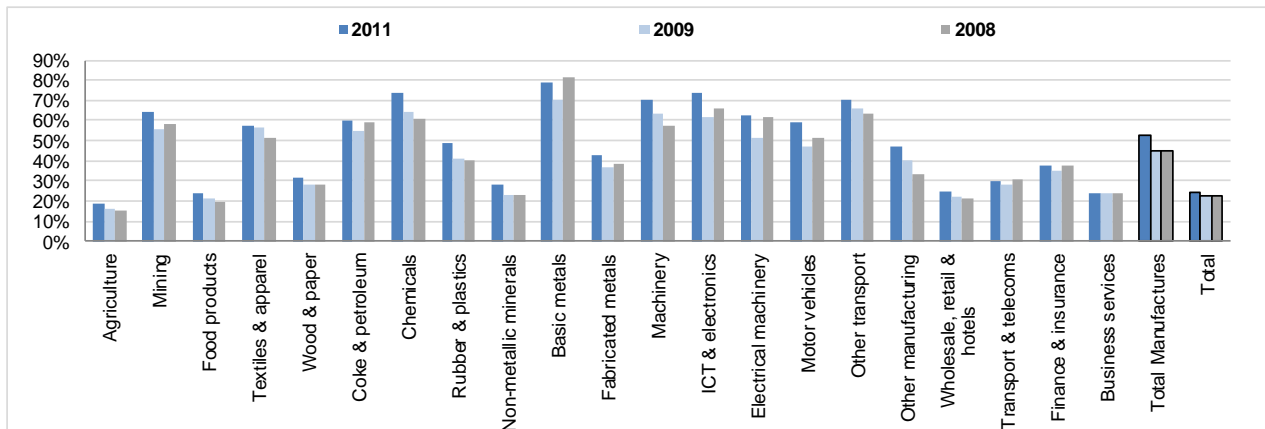
Figure 5. Manufacturing domestic value added in foreign final demand by country,
percent of total manufacturing value added, 2008, 2009, and 2011 (left insert = time series for United Kingdom)



Note: Final demand excludes inventories: See also http://www.oecd.org/sti/ind/TIVA_2015_Guide_to_Country_Notes.pdf

At the total economy level, 24.0 % of UK domestic value added was driven by foreign final demand, but significant differences exist across industries. Basic metals (78.9%), and ICT & electronics (73.8%) had the highest level of export orientation in United Kingdom, with the lowest shares in Agriculture (18.6%) and Business services (23.8%) (Figure 6).

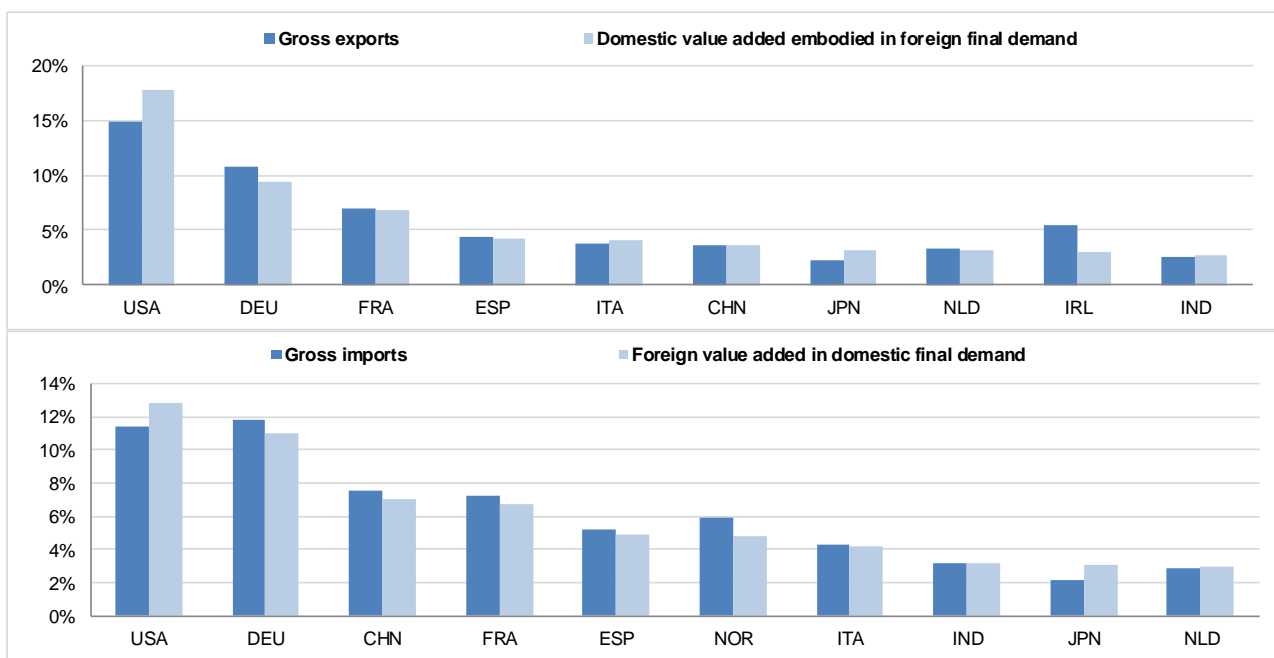
Figure 6. UK domestic value added in foreign final demand, percent of value added by industry, 2008, 2009, and 2011



Note: Final demand excludes inventories: See also http://www.oecd.org/sti/ind/TIVA_2015_Guide_to_Country_Notes.pdf

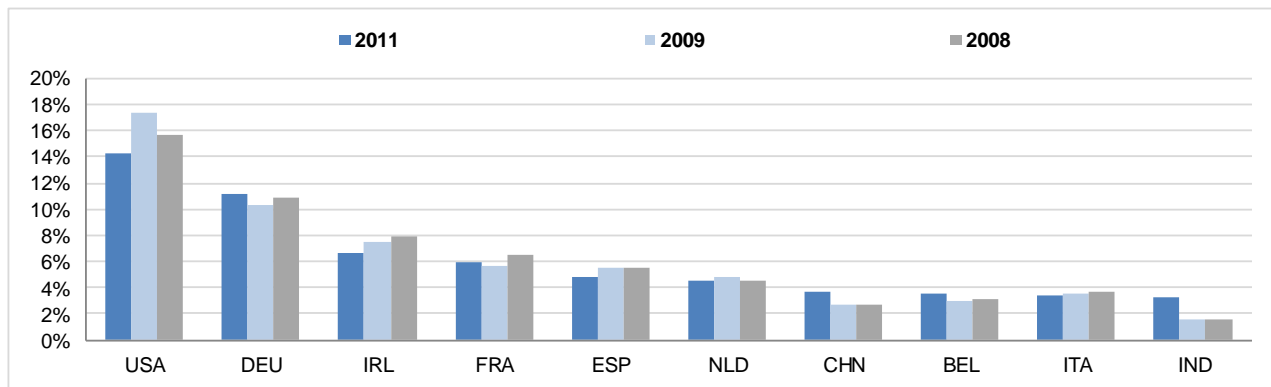
In gross terms and value added terms the UK's top three trading partners were the United States, Germany and France. In value-added terms the share of exports going to the US (17.9%) was higher than in gross terms (15.0%), reflecting UK value-added embodied exports of European partners. For imports, in value-added terms, the United States was the most important source, displacing Germany (in first place on a gross basis), in part reflecting the relatively high domestic value-added content of US exports (Figure 7, bottom).

Figure 7. UK exports to and imports from main partner countries percent of total gross and value added exports and imports, 2011



Considering only exports of intermediate goods and services in value-added terms, the UK's major export destinations in 2011 were: the United States (14.2%), Germany (11.2%), Ireland (6.7%), and France (5.9%) (Figure 8).

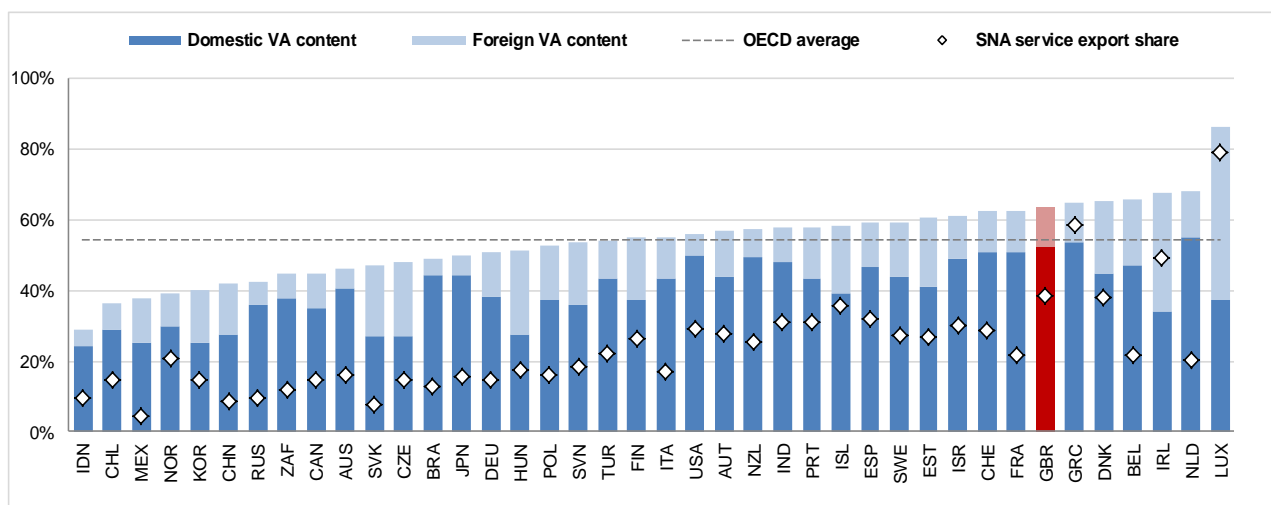
Figure 8. UK domestic value added embodied in intermediate exports to main partner countries
percent of total intermediate exports, in value added terms, 2008, 2009, and 2011



The importance of services

In 2011 the services content of total exports in the UK was 63.5%, significantly above the OECD average of 54.3% (Figure 9).

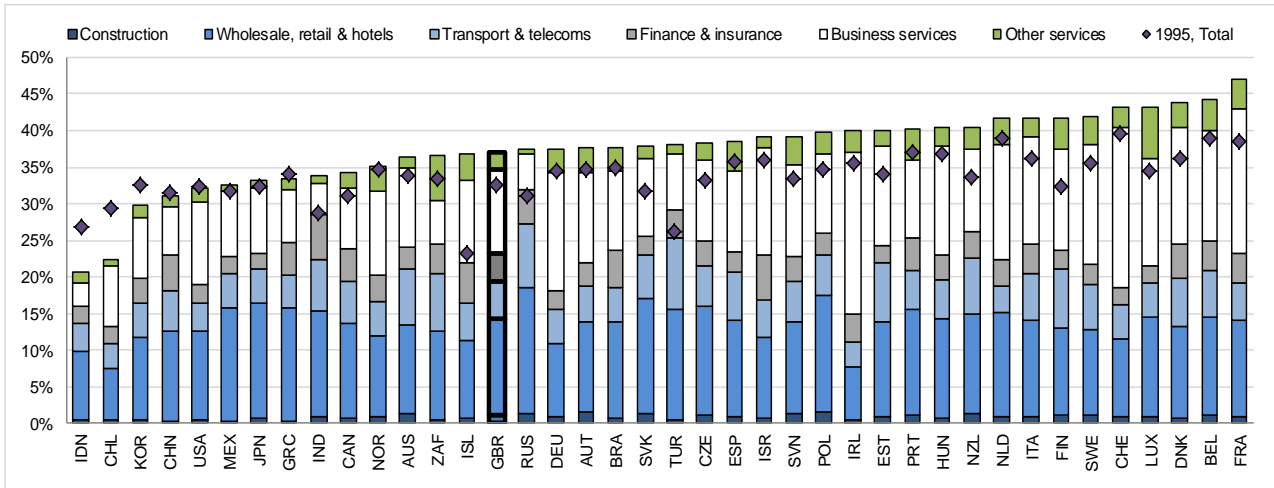
Figure 9. Services content of gross exports by country, gross and value-added terms,
percent of total gross exports, 2011



Note: SNA services export shares include re-exports in the denominator, and include any actual differences in free on board and basic prices (the distribution margin provided by resident distributors to resident exporters) in goods.

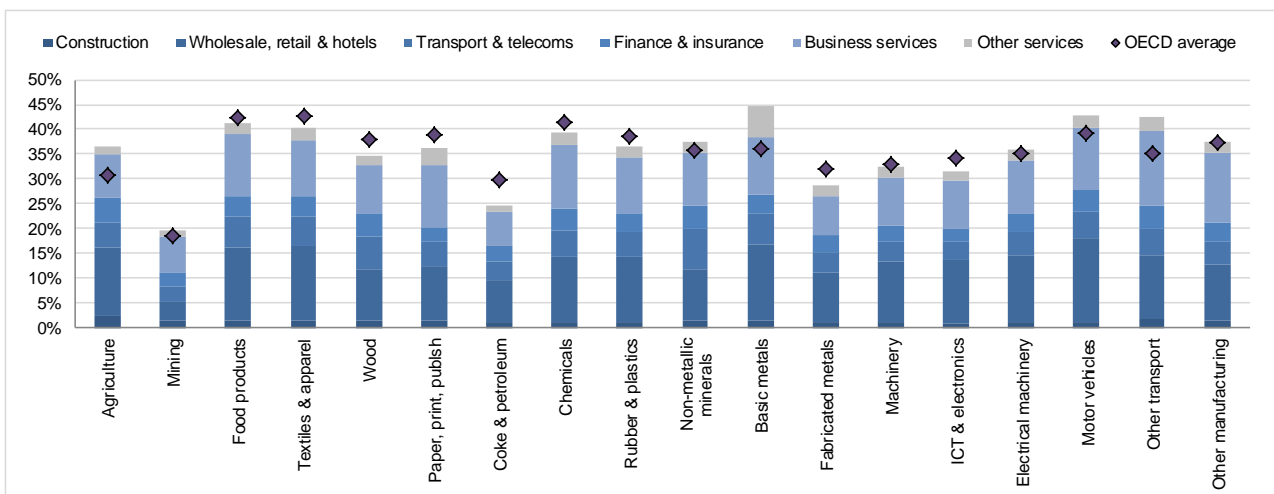
For exports of manufactured goods alone, 37.1% of the total value reflected services sector value-added, slightly above the OECD average (36.9%). Of this share, the Wholesale, retail & hotels sector accounted for 13.0% of total gross exports, with Business services and Transport & telecoms accounting for 11.5% and 5.1% respectively (Figure 10).

Figure 10. Services value added embodied in manufacturing exports, by country, percent of total gross exports, 1995 and 2011



At the individual sectoral level, the services content of exports was highest in Basic metals (44.7%), Motor vehicles (42.8%) and Other transport (42.5%) (Figure 11).

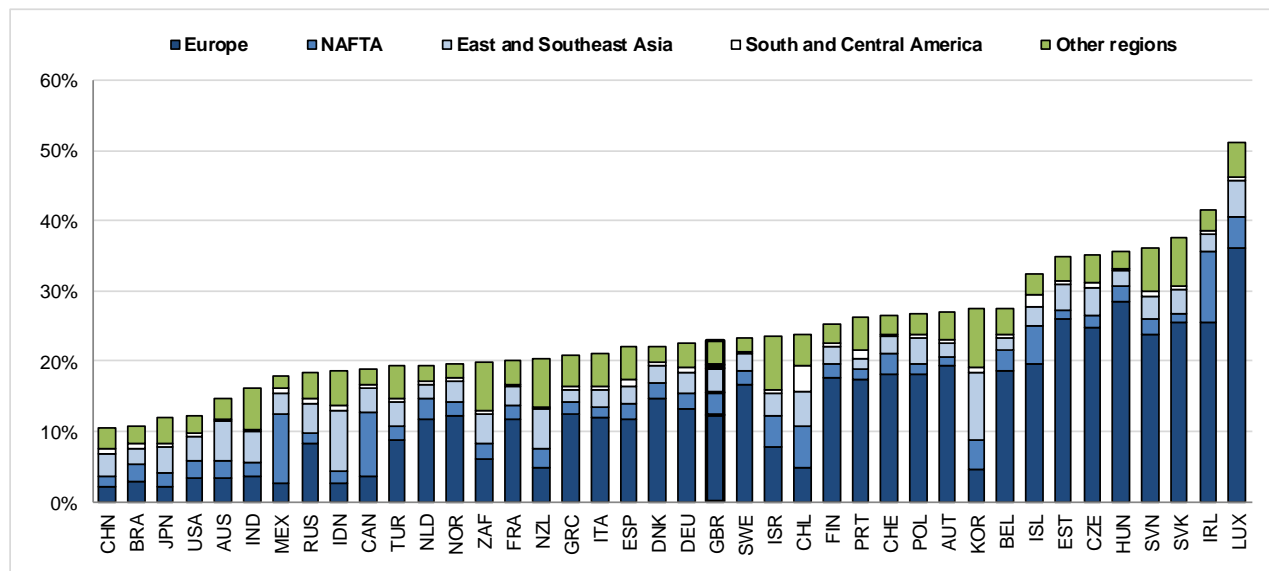
Figure 11. UK Services content of gross exports, by exporting industry and service category percent of gross exports by industry 2011



The origin of domestic consumption

In 2011, 23.0% of UK total final domestic consumption reflected foreign content, of which Europe contributed 12.2 percentage points (pp), NAFTA 3.2 pp, East and Southeast Asia 3.6 pp, South and Central America 0.4 pp and other regions 3.6 pp (Figure.12).

Figure 12. Foreign value added content of domestic consumption by country
by source region, 2011



Further Information

The information included in this note is based on the 2015 edition of the Trade in Value Added (TIVA) database.

» Access the data at <http://oe.cd/tiva>

» Please contact us with your questions at tiva.contact@oecd.org