

# Розділ 2

## ЕКОНОМІКА

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**МАРГАРИТА СЕМЕНОВА**

*магістр зі спеціальності «Міжнародні економічні відносини»*

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#### **FOREIGN TRADE OF THE UK: KEY TRENDS AND PERSPECTIVES AFTER BREXIT**

*У статті були встановлені основні тенденції розвитку торговельних відносин Великобританії із країнами-членами ЕС та поза його межами. Також була надана оцінка торгових відносин Великобританії з країнами-членами організації USMCA, зокрема, з головним стратегічним партнером країни – Сполученими Штатами Америки. Були визначені основні напрями торгової взаємодії Великобританії із Китаєм та подальші перспективи розвитку. В результаті аналізу у статті були визначені перспективи розвитку торгово-економічних відносин Великобританії після виходу з Європейського Союзу та можливі моделі розвитку.*

*Ключові слова:* Великобританія, Європейський Союз, європейська інтеграція, зовнішня торгівля, СOT, USMCA, США, Китай.

The relevance of the topic is the extremely important role that the United Kingdom of Great Britain and Northern Ireland has played and continues to play in the global economy and in the system of international trade and investment relations. According to the WTO, at the beginning of 2017, the UK's economy was the fifth largest in the world in terms of GDP (about 2,9 trillion U.S. dollars) and the country was the second largest exporter of services – 324 billion dollars.

The country has a strong position in the global market overseas. Their accumulated volume of investment in British companies and banks in 2017 exceeded 1,4 trillion US dollars (second place in the world after the USA), and foreign direct investment in the United Kingdom's economy was amounted to 1.2 trillion US dollars – also second place in international range [4, p. 29].

With the active transformation of international economic activity and the increasing influ-

ence of the geopolitical factor, the position of the UK in the international arena can be rather uncertain.

A pressing issue is the prospects for the development of foreign economic relations of Great Britain in connection with the country's withdrawal from the European Union. The past referendum on termination of UK membership in the EU can rightly be considered an unprecedented phenomenon in the history of the European integration project – previously none of the participating countries made an official decision to withdraw from the European market.

Аналіз останніх досліджень і публікацій. The formation for this article was significantly influenced by the fundamental works of famous scientists, which deeply and comprehensively studied the problems of the world economy, international trade, modern integration processes, revealed the causes of global crisis phenomena, characterized the key economic trends.

First of all, the works by O. I. Bontush [1], I.R. Bruslik [2], Hbranchak T.R. [5], O.S. Hrytsyak [6], I. O. Hrubinko [7], N.A. Volgina, N.P. Guskova, A.A. Dynkina, N.V. Zakharova, N.I. Ivanova, L.L. Klochkovsky, V.B. Kondratieva, I.S. Koroleva, A.V. Kuznetsova, Yu.N. Moseykina, A.N. Spartak, L.N. Fedyakina, L.L. Fituni, R.I. Khasbulatov, P.P. Yakovlev etc. Many foreign scientists have studied and continue to study the problems of the national economy and foreign economic relations of the United Kingdom, among which should be noted Shona Glynn (S. Glynn) and Alan Booth (A. Booth), Stephen Fox (S. Fox), Peter Ingram (P. Ingram), Michael Thomas (M. Thomas), Ann Ruff (A. Ruff), Ewart Kip (E. Keep), Ken Mayhew (K. Mayhew), Alan Whitaker (A. Whitaker).

Постановка завдання. The purpose of the research are to identify and comprehensively analyze processes and perspectives of British foreign trade, the main causes and possible consequences of a country's exit from the EU and future trade prospects of relations with leading foreign partners.

Виклад основного матеріалу. The UK's foreign economic activity continues to be one of the bases for national economic growth: its development trends are based on a negative trade balance adjusted for a positive balance in trade of services, primarily financial, which determines the specialization of the country. The strengths and weaknesses of British TNCs are determined by the direction and geography of corporate activity. The negative balance of trade is traditional for the country, while in the service sector there is a positive balance [6, p. 45]. This disproportion indicates a high competitiveness of British exports of services, primarily financial, which is explained by the country's international specialization in this particular sector of the economy, however, national producers do not have enough resources for equal competition in the domestic market with foreign competitors.

The main points of British imports are manufacturing finished products, fuel, agricultural products. An analysis of the geographical structure of British foreign trade shows that the EU is still the main trading partner of the country: trade relations with Germany, the Netherlands and France are traditionally strong. Impor-

tant partners from other regions are the USA, China, Norway and Japan (Figure 1).

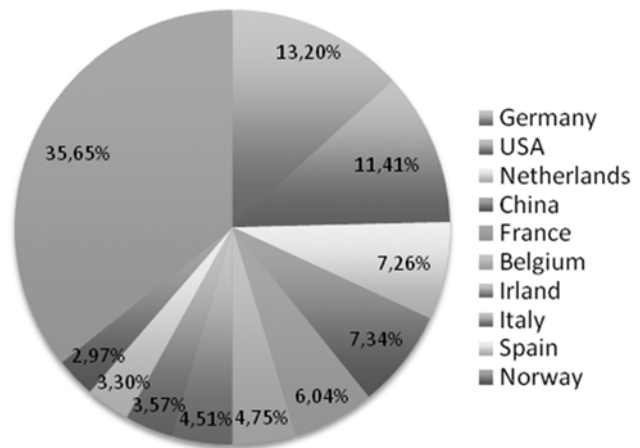


Figure 1– Geographical structure of foreign trade in goods of the UK, 2017

Britain imported goods at 14.2 billion pounds (18.6 billion US dollars) more than sold worldwide. Thus, the deficit of foreign trade in goods in 2016 increased by 1.4 billion pounds in comparison with 2014. The increase in the deficit was mainly caused by a fall in fuel exports and an increase in imports of machinery.

In 2016, the trade between the UK and the EU was estimated at 520 billion pounds, representing 47% of the total trade of the UK with all countries. The USA, the closest major trading partner in the UK, accounted for 16% of the total [8, p. 30]. In trade with the EU, the UK exported more than 144 billion pounds and services worth 90 billion euros. Although the UK had a total deficit of 82 billion pounds in trade with the EU, it had a surplus of 14 billion pounds sterling in trade in services, mainly because of its competitive advantages in the area of financial services and professional and business services.

Leading positions among foreign investors in the UK economy hold the US. The key recipient of British investment is also the United States. In recent years, oscillatory processes have been observed in the structure of outgoing investment flows, in particular, an increase in the growth rates of British companies' investments in developing countries, mainly in the BRICS countries (Brazil, Russia, India, China, South Africa) and a decline in the growth rates of investments in developed countries, which primarily include the United States and the

countries of the European Union [1, p. 22]. In order to reveal the strengths and weaknesses of British transnational corporations against the background of new processes and phenomena in international economic relations, a SWOT analysis of the activities of the largest TNCs was conducted, which allows us to reveal the development strategy of the UK business (Table 1).

The huge assets of companies and the diversification of the structure and geography of their activities, in particular, the reorientation of a significant part of the foreign share of business to emerging markets, primarily Asian, allows companies to be compared to the slower growth in developed economies.

Formally, the main points of tension in relations between Britain and the EU were the provisions governing the freedom of movement of such a factor of production as labor, budgetary relations, the freedom to determine their own foreign trade policy.

An analysis of the statistics of British trade with the rest of the EU states illustrates the weakening of the position of the island nation as an exporter to mainland Europe and the strengthening of the position of European countries on the British market. Despite strong positions in the field of export of services, primarily financial, however, the state as a whole did not receive the expected economic benefits from membership in the European Union without the ability to conduct its own foreign trade policy in relation to third countries.

On the other hand, a selective exit from the EU common market legislation will increase the

risks of losing guaranteed access to the single European market, which, in turn, in the opinion of the absolute majority of business leaders, will have devastating effects on national production, investment flows and overall competitiveness of the economy.

Considering the western vector of foreign trade relations of the United Kingdom, it is advisable to take into account statistical indicators that demonstrate that Britain is not as powerful a foreign economic partner for the United States as the United States is for Britain: Britain takes the seventh place among American trading partners (after Canada, China, Mexico, Japan, Germany and South Korea). Thus, it is obvious that the UK is not so much a strategic trade and economic partner, as a political and military one.

Finally, a third neutral scenario could be a balanced analysis of the consequences of Brexit for bilateral relations between the United Kingdom and China: Britain, not burdened by EU restrictions, can pursue its own financial and trade policies favorable for China, which can stimulate closer trade.

In many ways, the UK and China have complementary needs for their economies. China is looking for specialists in the high-tech services industry that Britain can offer. In turn, Britain should maintain significant inflows of investments due to its constant and large deficit in the current account, which can be achieved by encouraging China to foreign investment. Unlike the EU, which is considered to be the largest sector of industry and agriculture, the UK is in a better position to negotiate an FTA with China. Such

**Table 1 – SWOT-analysis of the activities of British TNCs**

Strengths	Weaknesses
Solid assets of companies; Diversification of the structure and geography of activities	The deterioration of financial performance; Negative reputation (in particular, in the field of environmental protection); Reduced business performance in Western markets
Possibilities	Threats
Continuation of investment and previously launched projects in Asia and Latin America; Financial companies can spread successful British experience in other states, provided that the legal framework is consistent	Tightening standards and requirements for the sale of energy products; Reducing global energy demand; Reduction of the credibility of certain TNCs due to the revealed financial frauds; The tightening of British legislation may lead to increased taxes for large banks in the country; The decline in economic growth in China threatens to weaken the growth of other regional economies

a treaty would be more profitable for China itself, since it has only a few free trade agreements and is currently going through a difficult time, while it reinstalls its external and internal priorities to reform its slowing economy.

Another important direction in the Asian vector of United Kingdom foreign economic policy is the Commonwealth of Nations. Despite the fact that this association does not provide any significant trade or economic benefits for the United Kingdom, and the volume of foreign economic relations of Great Britain with the top five foreign trade partners are many times greater than the volume of trade and investment cooperation with the countries of the Commonwealth, now many members of the association, such as Australia, New Zealand and India openly support the British government's decision on independence from the European Union – such a result of the referendum can boost the signing of the bilateral trade and investment agreements.

In general, several alternatives regarding trade policy can be found. It should also be considered that a wide range of possible outcomes of the dialogue does not preclude the adoption of extremely opposite positions by each of the parties. On the other hand, it is the polarity of the positions of the two capitals that can play a positive role in the context of new economic relations, for example, the UK can provide a high level of financial services, while the EU can ensure unimpeded movement of British citizens throughout the Union, and, vice versa, the UK pharmaceutical industry can gain preferential treatment in the EU in exchange for access to the British farmers market.

On the other hand, it should be noted that, for example, from November to December 2017, imports of goods from Australia grew by 36%, from South African Republic – by 24%. Over the year, from 2016 to 2017, the volume of imports from Norway also increased by 59%, from the USA – by 26%, which are not members of the EU. On the contrary, there is a decrease in imports from the following countries: from Hong Kong – by 37%, from China – by 5.1% [8, p. 40] (Table 2).

Moreover, after leaving the EU, the United Kingdom can choose a model of bilateral trade with the member states of the World Trade Or-

ganization (WTO), of which it has been a member since 1995. The vast majority of the former colonies and dominions of Great Britain are already members of the WTO, which will greatly facilitate the withdrawal of trade and economic ties with these states to a new level.

But it should be noted that under these circumstances, there may be a long-term decline in trade volumes by 20.7-29.2%, a fall in GDP by 2030 relative to the forecast will be 3.7-3.7%, the impact on households will become even stronger, namely, a decrease is expected real wages by 4.6-6.3%, as well as a decrease in the level of consumption by 4.0-5.4% [9, p. 16].

**Table 2 – Trade balance of the UK with the EU members and other countries in 2017, billion dollars**

	The EU members	Other countries	Overall
Export	162	172	334
Import	267	262	529
Balance	-105	-90	-195

Despite the fact that the regulation of economic relations between the UK and the EU by the WTO rules may most adversely affect the country's economy, this economic architecture is considered as the most acceptable, as it excludes the free movement of EU citizens in the UK. Secondly, after the completion of the Brexit procedure, the United Kingdom can begin to strive to expand the volume of transactions with 48 developing countries, which guarantees duty-free imports of goods to it.

The list of developing countries compiled by the United Nations includes such countries as Bangladesh, Ethiopia, Kenya, etc. For example, Kenya is the leading tea exporter to Britain, representing 43.3% of the total tea import. In turn, Britain itself is an exporter of tea, which was sent primarily to EU member states [6, p. 59].

Consequently, another direction in the development of trade and economic ties in Britain may be the country's accession to the United States–Mexico–Canada Agreement (USMCA) – a free trade agreement between Canada, the US and Mexico.

Moreover, it should be noted that the GDP of the United Kingdom of 2017 according to the

World Bank is much higher than the other competitors: British GDP in 2017 amounted to 2.3 million US dollars, US – 18.5 million US dollars, Canada – 1.5 million US dollars, Mexico – 1 million US dollars, which suggests that Britain will definitely become a powerful influencer in trade.

**Висновки і перспективи досліджень.** Summing up, it should be said that it is quite hard to accurately determine the future scenario of building trade and economic relations of Britain due to the fact that both the UK and the EU are interested in the most beneficial way to complete the negotiations.

But it will have a negative impact on trade within the EU, since the member states of the EU will lose in the face of Britain the main market for their products. For the UK, Brexit is a catalyst for reorientation in the search for sources of investment and labor resources to replace those that it successfully used as a member of the EU [4, p. 18].

From our perspective, one of the most possible scenario for the British trade and economic development after leaving the EU could be the creation of an FTA with developing countries in order to gain a barrier-free access for the UK in

order to import goods, as well as to use low-cost labor forces.

Major British trade partners are high-income countries, such as the United States and some European countries. The United States is the largest export market for British goods and the main international supplier of goods and services, while Germany is the largest importer of goods to Britain.

No matter what the trade conditions will be agreed after Brexit, it is clear that the continuous global integration will be essential for British economic growth. The challenge will be not only to quickly negotiate deals, but also how Britain will manage to compete while large economies strive to regional trade blocs in order to gain more benefits for their trade.

Therefore, the prospects for concluding an agreement remain unclear, and the balance between the positions of the United States, the UK and European countries will require further study. However, it can already be assumed that a possible bilateral trade agreement between the UK and the EU will retain some features of WTO in terms of trade liberalization, the elimination of non-tariff restrictions and approaches to protecting investments.

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**Семенова М. Р. Внешние торговые отношения Великобритании: ключевые тенденции и перспективы после выхода из ЕС**

*В статье были проанализированы основные тенденции развития торговых отношений Великобритании со странами-членами ЕС и за его пределами. Также была дана оценка торговых отношений Великобритании со странами-членами международной организации USMCA, в частности, с главным стратегическим партнером страны – Соединенными Штатами Америки. Были определены основные направления торгового взаимодействия Великобритании с Китаем и дальнейшие перспективы развития. В результате анализа в статье были определены перспективы развития торгово-экономических отношений Великобритании после выхода из Европейского Союза и возможные модели развития.*

*Ключевые слова: Великобритания, Европейский союз, европейская интеграция, внешняя торговля, ВТО, USMCA, США, Китай.*

**Semenova M.R. United Kingdom's foreign trade relations: key trends and perspectives after exit from the EU**

*The UK's foreign economic activity continues to be one of the bases for national economic growth: its development trends are based on a negative trade balance adjusted for a positive balance in trade of services, primarily financial, which determines the specialization of the country. The strengths and weaknesses of British TNCs are determined by the direction and geography of corporate activity. The negative balance of trade is traditional for the country, while in the service sector there is a positive balance. The EU provides British businesses with privileged access to markets in more than 50 countries outside the EU. The main points of British imports are manufacturing finished products, fuel, agricultural products. An analysis of the geographical structure of British foreign trade shows that the EU is still the main trading partner of the country: trade relations with Germany, the Netherlands and France are traditionally strong. Important partners from other regions are the USA, China, Norway and Japan. Leading positions among foreign investors in the UK economy hold the US. An analysis of the statistics of British trade with the rest of the EU states illustrates the weakening of the position of the island nation as an exporter to mainland Europe and the strengthening of the position of European countries on the British market. Despite strong positions in the field of export of services, primarily financial, however, the state as a whole did not receive the expected economic benefits from membership in the European Union without the ability to conduct its own foreign trade policy in relation to third countries.*

*Key words: UK, the European Union, European integration, foreign trade, WTO, USMCA, USA, China.*

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