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British Export Markets, 1953-1963

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David G. Hayes

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### British Export Markets, 1953-1963

Throughout the first nine months of 1964, the foreign trade position of the United Kingdom deteriorated significantly. The seasonally adjusted current account deficit widened steadily from £5 million in the fourth quarter of 1963, to an estimated £150 million in the third quarter of 1964. In general, exports have failed to match the high and moderately rising level of imports by ever increasing margins. Moreover, British industry has failed to hold its 1963 share of world markets: exports were nearly 9 per cent of world exports in 1963, but only slightly better than 8 per cent in the first six months of 1964.<sup>1/</sup> However, the weakening position of British industry in world markets is not a recent phenomenon. This paper will attempt to demonstrate that it began as early as 1954 and that it has continued uninterrupted since then. In addition, an attempt will also be made to show that this weakening position is due in part to the development in Britain's export markets of domestic industries producing goods formerly imported from the United Kingdom.

The strength or weakness of British industry in world markets is analyzed in this paper in terms of Britain's share of the value of all exports to different geographic markets. A review of the data shows that Britain's share of her most important export market--the Overseas Sterling Area--declined from 35 per cent in 1953 to 23 per cent in 1963, the latest year for which data are available. Shares of other important geographic markets held firm over the period or declined slightly. Exporters in North America and Japan and, in the earlier years, in the European Economic Community, gained ground in the OSA at the expense of the United Kingdom. However, since 1958, the share held by the EEC has remained relatively stable.

A number of explanations have been offered for Britain's losses of market shares in general and losses in the OSA market in particular.<sup>2/</sup> Two of these hypotheses are evaluated in this paper. Both deal only with the countries of the OSA, but this emphasis is appropriate because of their importance to the United Kingdom as buyers of British goods. First, the National Economic Development Council has maintained that the withdrawal of import licensing restrictions by the OSA, which discriminated against North America and Japan to the advantage of Britain, accounts for the observed changes in the shares of that market. A second hypothesis examined in this paper states that the changes in market shares were due in part to the development of domestic industries producing goods formerly imported from Britain; in addition, this study attributes part of these changes to the failure of Britain and the success of North America and Japan in meeting the changing import requirements of developing economies.

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<sup>1/</sup> Based on data published in International Monetary Fund, International Financial Statistics.

<sup>2/</sup> See National Economic Development Council, Export Trends, (London: HM Stationary Office, 1963), pp. 6-17 and International Monetary Fund, 1964 Annual Report, pp. 123-130.

The evidence examined here lends credence to both these hypotheses. However, the existence of evidence in support of the second hypothesis emphasizes that the weakness in Britain's export sales is very broadly based. It suggests that any official attempt to spur exports must create incentives for the production of new goods as well as the reduction of British prices and costs on goods currently produced. This in turn involves a flexibility within the British economy for the factors of production--capital, managerial skills and labor--so that resources can be shifted from the goods they have been making to the additional production of goods more in demand in export markets.

### Export markets and market shares

A first step in the assessment of changes in Britain's share of export markets is an examination of the geographic distribution of British exports. From 1953 to 1963, the countries comprising the Overseas Sterling Area continuously purchased the largest percentage of British exports; countries in North America, the European Economic Community and the European Free Trade Area purchased, in that order, somewhat smaller ones. These four areas together accounted for over 80 per cent of Britain's total exports in each of these eleven years.

Although the relative position of these four markets--defined in terms of the percentage of the total value of British exports sold in each market--did not change over time, there was a more uniform geographic distribution of the British exports in 1963 than in 1953. The percentage sold in the OSA declined noticeably, while that sold in EEC grew markedly and that in EFTA only little. There were moderate swings in the percentage sold to North America with the underlying trend showing increases through 1959, but decreases thereafter. (See Table 1.)

The decreasing percentage of total British exports that moved to OSA is not only noticeable in its own light, but the fact that it was virtually uninterrupted and without any cyclical pattern makes it all the more striking. On the other hand, changes in the percentages sold in other geographic markets followed a different pattern. These all show cyclical patterns which could be explained by a number of factors, not the least of which is statistical compensation for the steadily decreasing percentage of total exports sold in OSA.

Although these four markets continued to purchase the greatest proportion of British exports, Britain's share of these markets declined significantly between 1953 and 1963. This was particularly true in the OSA--Britain's most important export market. British exports to the OSA as a percentage of world exports to the OSA declined from 35 per cent in 1953 to a little over 23 per cent in 1963. (See Table 2.) The share of the EFTA market declined from nearly 13.6 per cent to 11.4 per cent during these eleven years. There was a one percentage point fall in the share of the EEC market between 1953 and 1958, but this loss was nearly eliminated by 1963. On the other hand, there was a small net gain in the share of the North America market over these eleven years, but between 1959 and 1963 the size of the share declined by over one percentage point.

Table 1. United Kingdom: Percentage of U.K. Exports to Selected Geographic Areas, Value of all Exports, and Export Volume, 1953-1963

Year	Percentage of all exports to:				Value of Exports to all areas (\$M)	Volume Index of all exports to all areas a/ (1961=100)
	North America	European Economic Community	European Free Trade Area	Overseas Sterling Area		
1953	12.37	13.15	10.98	46.99	7,150	n.a.
1954	10.66	13.16	12.01	48.44	7,410	82
1955	10.32	13.06	10.44	47.88	8,040	87
1956	13.37	13.65	10.47	44.14	8,790	92
1957	13.35	13.90	10.31	43.65	9,210	93
1958	14.56	13.16	10.01	43.87	8,890	90
1959	17.16	13.95	10.41	40.34	9,320	93
1960	15.27	14.67	10.75	40.20	9,950	98
1961	14.56	16.68	11.64	38.12	10,310	100
1962	13.65	19.02	12.15	35.40	10,620	102
1963	12.62	20.24	9.71	35.67	11,410	106

Source: United Nations, Monthly Bulletin of Statistics, various issues. Periodically, this Bulletin publishes the value (in U.S. dollars) of the exports from each trading area to every other trading area. Data for the United Kingdom are given separately thus permitting the calculation of the percentage of total British exports sold in each area.

a/ Source: Board of Trade, Report on Overseas Trade, various issues.

These losses in market shares are clear evidence of a long run displacement of British goods, and they have cost the United Kingdom heavily in terms of foreign sales. One way of estimating this cost is to assume that in each year the size of each market--the dollar value of exports to it--would have been as it actually was and the market share of the United Kingdom for any one year was equal to the average of the preceding three years.<sup>3/</sup> The difference between actual and hypothetical sales to each market is one estimate of this cost. On the basis of such a technique, it is estimated that the United Kingdom lost an average of £ 363 million per year at current prices from 1956 to 1963. (See Table 3.) Because of the absolute size of the OSA market and the size of Britain's share, losses of sales in this market were by far the greatest.

<sup>3/</sup> This has the effect of smoothing out changes in market shares due to non-recurrent phenomena.

Table 2. United Kingdom's Exports as a Percentage of the Value of World Exports to Major Markets (per cent)

Year	North America	European Economic Community	European Free Trade Area	Overseas Sterling Area
1953	6.07	6.45	13.68	35.07
1954	5.76	5.91	14.31	34.75
1955	5.87	5.64	12.90	33.65
1956	6.59	5.56	12.81	31.62
1957	6.70	5.51	12.12	30.18
1958	7.23	5.41	11.74	30.61
1959	7.80	5.62	11.77	28.81
1960	7.58	5.31	10.98	26.52
1961	7.13	5.71	11.17	26.68
1962	6.77	6.10	11.24	24.38
1963	6.40	6.15	11.42	23.85

Source: These percentages were calculated on the basis of the data published in Monthly Bulletin of Statistics (see footnote to Table 1). For the purpose of this note, world exports to each area were calculated so as to include intra-area exports because, for any given area, Britain's international competitors include those inside and outside the area. However, an exception was made in the case of EFTA and OSA. Britain is a member of both groups. An estimation of her share of exports to these areas should not be dependent upon her imports from the rest of the world. Hence, world exports to Britain were deleted in the calculation of world exports to EFTA and OSA.

Table 3. United Kingdom: Differences Between Actual and Estimated Exports to Selected Markets, 1956-1963 (Millions of U.S. dollars)

Year	Markets				Total
	North America	European Economic Community	European Free Trade Area	Overseas Sterling Area	
1956	126	-95	- 67	-351	-387
1957	148	-43	-195	-420	-510
1958	- 13	-34	- 65	-152	-264
1959	198	30	-136	-259	-167
1960	88	-55	- 86	-502	-555
1961	- 78	82	- 36	-288	-320
1962	-155	185	- 8	-455	-433
1963	-169	170	76	-342	-265

Source: See note to Table 1. (-) means actual sales less than estimated sales.

Because the OSA provides the largest market for British goods and because Britain's share of this market showed the greatest decline, the remainder of this paper will attempt to explain the losses in this particular market.

United Kingdom's decreasing share of the OSA market

A review of the changes in the shares of the OSA market held by different geographic areas reveals that increases in the shares held by North America, the EEC and Japan fully account for the decreases in Britain's share. (See Table 4.) Any hypothesis which seeks to explain British losses must also explain the gains made by these other geographic areas and at least be consistent with the timing of these changes.<sup>4/</sup>

Table 4. Exports to the OSA Market by Area as a Percentage of World Exports to OSA, 1953-1963

Year	Area			
	<u>North America</u>	<u>European Economic Community</u>	<u>Japan</u>	<u>United Kingdom</u>
1953	12.05	10.38	2.81	35.07
1954	10.84	11.18	4.11	34.75
1955	11.49	11.36	4.90	33.65
1956	12.71	11.90	4.89	31.62
1957	13.62	12.39	5.33	30.18
1958	13.15	13.18	5.10	30.61
1959	13.87	12.87	5.63	28.81
1960	16.87	13.39	6.76	26.52
1961	15.82	13.37	6.48	26.68
1962	17.70	13.16	7.00	24.38
1963	18.58	12.95	7.53	23.85

Source: See Table 1.

The major hypothesis advanced by the National Economic Development Council to explain Britain's losses in the OSA market, as stated in Export Trends, was structured in terms of the adoption and subsequent relaxation of import restrictions by members of the OSA.<sup>5/</sup> The report stated:

<sup>4/</sup> Because the OSA covers so many countries, it is important to point out that the losses in market shares by the United Kingdom and the gains made by others was not apparently confined to just a few of them. The data permit a separation of Australia, New Zealand and the Union of South Africa from the rest of the sterling area. The changes in market shares shown in Tables 2 and 4 are similar to those that are observed for each of these two segments of the market.

<sup>5/</sup> Export Trends, pp 6-17.

It is likely that...the ending of quota restrictions discriminating in our favor was the most important of those [factors] which caused the especially large loss of our share in the sterling area.<sup>6/</sup>

The report also notes that these restrictions on the volume of imports were especially directed toward North America and Japan. Hence, one would expect that upon the removal of these restrictions imports from North America and Japan would increase and those from Britain diminish, given that the composition of import demand was biased, for whatever reason, in favor of goods from these two areas. This bias could depend upon lower prices of similar goods or the availability of, in some sense, "superior" products.

Assuming the existence of this bias, the NEDC hypothesis is not without some supporting evidence. Table 4 shows that the largest gains by North America and Japan were made in 1960--the year in which Australia (the largest single market in the OSA)--removed the last element of discrimination against the dollar area countries.<sup>7/</sup> Moreover, larger gains were made by North America and Japan in 1962 when Australia removed, with minor exceptions, all remaining quantitative restrictions.<sup>8/</sup>

However, Table 4 also reveals that the displacement of the United Kingdom by North America and Japan was a gradual process extending over the entire eleven years. It did not occur in the form of a once and for all shift after 1960, as the NEDC hypothesis would suggest. As a result, the importance of this hypothesis is subject to serious questioning.

The fact that North America and Japan were able to increase their market shares during a time period when import licensing restrictions discriminated against them supports the assumption that the composition of import demand was biased in their favor. It also points up the degree to which British goods were not competitive, however defined, in this market.

Granting that even with the maintenance of import licensing restrictions Britain's share would have deteriorated, are there any factors other than shifts to different international suppliers that would explain these losses?

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6/ Ibid., p. 7.

7/ See International Monetary Fund, Annual Report on Exchange Restrictions, 1961, pp. 35-36.

8/ Annual Report on Exchange Restrictions, 1963, p. 30.

It is well known that the composition of the flow of goods between developed and developing economies changes greatly over time. The developing economies produce larger and larger amounts of goods that were formerly imported, thereby decreasing, at least in relative terms, their imports of these goods. Therefore, it is reasonable to expect that the United Kingdom lost traditional product markets to domestic producers. Further, because Britain has not been able to capture other product markets, losses in the share of the OSA market have been particularly acute.

For the purposes of this paper, Australia will be used as illustrative of the OSA in general in testing this hypothesis. It is by far the largest single importer in the OSA and a country which traditionally purchased a very large percentage of total imports from Britain.

Evidence in support of this hypothesis is the existence of inverse relationships over time between the volume indices of goods which are imported from the United Kingdom and produced in Australia.

For example, the import volume index for iron and steel fell by 58 per cent between 1953 and 1963 while the volume index of domestic production rose by 91 per cent. (See Table 5.) Also the import volume for machinery and transportation equipment fell by 26 per cent while the volume index for domestic production increased by 63 per cent.<sup>9/</sup>

Table 5. Volume Indices of Selected Australian Imports from the United Kingdom and Similar Domestically Produced Goods  
(1961=100)

Year	Iron and Steel		Machinery and Transportation Equipment	
	Imports	Domestic Production	Imports	Domestic Production
1954	197	59	152	64
1955	221	61	165	76
1956	149	63	147	67
1957	144	72	131	65
1958	115	79	131	75
1959	113	81	122	87
1960	150	91	138	104
1961	100	100	100	100
1962	86	110	118	89
1963	83	113	123	104

Source: See footnote 9, this page.

<sup>9/</sup> These indices were constructed on the basis of data published in Board of Trade, Report on Overseas Trade, various issues, and Commonwealth Bureau of Census and Statistics, Monthly Review of Business Statistics, February, 1964. The import indices were constructed by valuing the United Kingdom data on the value of exports of iron and steel and machinery and transportation equipment in 1961 prices and then using the observations for 1961 as the bases in the computation of volume indices. The Australian data on domestic production are published in real terms but not in volume indices. Because iron and steel output are given separately, individual volume indices were computed and then an unweighted average was calculated. In addition, there is no single Australian time series for machinery and transportation equipment. As a result, individual volume indices were computed for each of 14 different items that are presumably included in the United Kingdom series on machinery and transportation equipment. Once again an unweighted aggregate index was calculated. The Australian domestic production indices were not weighted because the import indices were not weighted.

The fact that the percentage increases in domestic output are larger than the percentage decreases in imports is to be expected on the grounds that domestic production rose from relatively low levels while imports were declining from relatively high levels.

The losses of traditional product markets due to import substitution were not offset by gains in other British exports to the OSA. There is some evidence which supports the hypothesis offered earlier that lower cost or "better" quality goods were available from North America, Japan and the Common Market--the three areas that increased their shares of the OSA market at the expense of the United Kingdom. The NEDC study Export Trends, after examining changes in the export price indices of the United States, members of the EEC, and Japan for the years 1953 to 1961, concluded: "So far as export prices of manufactures are concerned, there seems to have been . . . a rise in our prices compared with those of most other countries . . . . In general, where prices have risen the most exports have risen the least, although the relationship is by no means an exact one " 10/ With respect to quality differences as an explanation for losses of market shares the report stated: "It seems probable that differences in design, quality, delivery dates and salesmanship were also of importance " 11/

In summary, the evidence examined in this paper suggests that Britain's losses in the OSA market were not primarily due to the removal of import licensing restrictions. Instead, these losses reflected the substitution of domestically produced goods for goods imported from the United Kingdom; and this substitution was facilitated, if not encouraged, by these import restrictions. Moreover, this substitution was not offset by gains in other British exports, because cheaper or "better" goods were offered by international competitors to Britain's export customers.

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10/ Export Trends, p. 16.

11/ Ibid., p. 15.