

AT THE CROSSROADS

Regional trade in the North East

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60-SECOND SUMMARY

The North East is exceptional among English regions both in having recorded a positive balance of trade for most of the past 20 years, and in the scale of its goods export growth over the past decade. The available data suggests that the region's exports to its domestic neighbours – London, Scotland and the rest of the north of England – are also strong. This is unsurprising. The North East sits at the intersection of these four important markets and, with its good connectivity, it plays a vital role as a burgeoning trading hub.

However, it stands at a crossroads in another sense, too. Because a greater proportion of its trade is with the EU than that of other English regions, the impact of any change in Britain's relationship with the EU – positive or negative – will be greater for businesses in the North East than for those elsewhere. Furthermore, the region's dependency on the export of road vehicles and chemicals is too great. And, given that its trade with the North West and Yorkshire is of a higher value than that with any other EU nation, its relationship with the 'northern powerhouse' is also critical.

For these reasons, the North East Local Enterprise Partnership must provide targeted support to help the North East's businesses to trade outside the region, and it must press ahead with its smart specialisation programme to address the region's dependence on a narrow range of goods exports. More widely, the North East's business representatives and local authorities must play a full part in the northern powerhouse initiative, and develop more formal links with Scotland.

ABOUT THE 'REWIRING THE NORTH EAST' SERIES

This is the first of three reports in a series entitled 'Rewiring the North East'. Each of them examine links between the economy of the north east of England and its current and potential trading partners.

This report considers trade flows between key EU and UK destinations in detail; the second report will discuss innovation and the movement of skills; and the third will consider perceptions and representations of the North East as a region in and with which to do business. Taken together, the series will explore the North East's position as a critical hub of economic activity, and consider by what means it can maximise the potential of its role as the nexus between vital markets to the north (Scotland), the south (London and the wider South East), the east (the EU) and the west (the rest of so-called 'northern powerhouse').

TRADE WITH THE EU

The north east of England is rightly celebrated for its sustained and substantial success as an exporter. At around £12 billion in 2015, the total value of international goods exports from the North East may be low compared to other English regions, but those exports account for a relatively *high* proportion of the region's GVA, and it also has a high export value per employee job.

At £7 billion, the EU accounts for 57.7 per cent of the North East's international exports. Compared with other English regions, the value of good exports from the North East is high relative to the size of its population and business base, and has remained stable over time. Given that a greater proportion of the North East's international trade is with the EU than that of other English regions, the impact of any change to this relationship – positive or negative – will be greater for businesses in the North East than elsewhere.

International exports from the region are heavily dominated by three types of goods: 'road vehicles' accounted for 40.9 per cent of exports to the EU in 2015, while 'medicines and pharmaceutical

products' and 'organic chemicals' together made up a further 22.4 per cent.

The region's impressive strengths in automotive manufacturing and chemical production form the basis of its reputation as a 'specialist' exporter, and represent considerable achievements in terms of both attracting investment and establishing a strong presence in international markets. However, the fact that the North East's goods exports to the EU depend on a relatively narrow number of industrial sectors potentially leaves the region vulnerable to future economic 'shocks' in global markets. Trade figures for 2015 suggest that the potential for diversification is being recognised; this should be nurtured and sustained.

TRADE WITH DOMESTIC MARKETS

The available data suggests that the value of the North East's exports to other parts of northern England may be *higher* than that of those to any individual EU country. In 2010 (the most recent year for which figures are available) the value of the former stood at nearly €1.5 billion – nearly twice the value of trade with Germany, France and the Republic of Ireland.

Furthermore, in 2010 the value of the North East's goods exports to Scotland, and to London and the South East, were both comparable to those of the region's major EU export destinations.

There are also significant differences in the types of goods and services traded domestically compared to foreign exports, with higher value sectors such as 'high tech' and 'mid tech' manufacturing characterising domestic trade.

Put simply, trade with the rest of the northern powerhouse and other domestic markets might be just as important to the North East as any international links.

RECOMMENDATIONS

On the basis of the analysis presented in this report we make a number of recommendations.

- First, the North East Local Enterprise Partnership (NELEP) should press ahead with the 'smart specialisation' approach it adopted in its 2014 strategic economic plan, in order to address both the region's dependence on a narrow range of goods exports, and the issues and risks associated with the historical features of the region's economy.
- Second, the importance of the North East's trade with markets *within* the UK should be better recognised and exploited by NELEP and its partners – not least by developing more formal business and governmental links with Scotland, and by playing a full part in 'northern powerhouse' developments.
- Third, NELEP should lead the way in providing specific support for North East businesses to enter into and increase domestic and international trade outside of the region.
- Finally, the Office for National Statistics and GLA Economics should work to provide more comprehensive data on trade *between* regions of the UK, as well as on international trade, covering as broad a range of goods and services as possible.

For the full report, including all references, data sources and notes on methodology, see:
www.ippr.org/publications/at-the-crossroads

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