

Net Trade (X-M)

Net trade (also called the trade balance) is the difference between the value of exports (X) and imports (M). Exports are an injection into the circular flow (spending on UK goods/services from abroad), while imports are a leakage (UK spending on foreign goods/services).

For example the UK's biggest service export is **"Other Business Services"** (consultancy, legal, R&D) generating nearly **£200 billion** in annual export value.

This highlights how the UK has shifted **away** from **manufacturing** e.g **ship building** in Hartlepool and towards a **service led economy**. As a result, the UK now relies on strong earnings from professional and financial services to offset its persistent deficit in physical goods.

Influences on the Net Trade Balance

Real income (UK and abroad)

When UK real income rises in a boom, households spend more and a larger share often goes on imports (e.g. UK consumers spend 46.4 billion on cars each year with primarily German cars e.g BMW's and Mercedes). This increases M and tends to weaken the trade balance.

When real income rises abroad, foreign consumers and firms buy more UK goods and services. This increases X and tends to strengthen the trade balance.

Exchange rates

SPICEE

Stronger Pound Imports Cheaper Exports Expensive (Vice Versa for weaker pound)

If the pound appreciates, UK exports become more expensive for overseas buyers while imports become cheaper for UK buyers. This tends to reduce X, raise M, and worsen (X-M).

If the pound depreciates, UK exports become cheaper for overseas buyers while imports become more expensive for UK buyers. This tends to raise X, lower M, and improve (X-M).

State of the world economy

In a global boom, world demand tends to rise and this usually increases demand for UK exports. This raises X and strengthens the trade balance.

In a global slowdown or recession, world demand falls and demand for UK exports tends to drop. This lowers X and weakens the trade balance.

Protectionism (trade barriers)

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Protectionism is simply when govts set policies that restrict international trade by setting e.g tariffs , quotas , subsidizing domestic producers etc

A tariff is a tax on imports e.g 10% import duty on cars from China .

If protectionism increases through tariffs imports become more expensive and demand for imports tends to fall. This can strengthen (X-M), but retaliation from other countries may reduce UK exports and offset the improvement.

If protectionism decreases and trade barriers are removed, imports become cheaper and more available so M may rise. This can weaken (X-M), although exports may also rise if trade becomes easier overall.

Non-price Competitiveness

Exports can stay strong even when UK prices rise relative to competitors. Non-price competitiveness increases foreign demand for UK goods and services without relying on lower prices.

Key non-price factors include:

- Higher quality and reliability
- Brand reputation
- Design and innovation

This is perfectly demonstrated in Germany .German cars remain one of the UK's top import because buyers prioritize **prestige and engineering** over a low price tag. This proves that high quality **brand reputation and innovation** can drive massive demand regardless of price .