

Local roots of trade routes

The UK's regional services trade over time

23 January 2023 – Emily Fry & William Xue Barlow

Services trade is increasingly important for the UK

Politicians are often laser-focussed on goods trade, [but trade in services is increasingly important for the UK's growth story](#). Globally, services trade growth is expected to continue to outpace goods trade growth – with the share of services predicted to rise from 25 per cent of trade in [2020 to 28 per cent by 2035](#). And [the UK, being the second largest services exporter in the world is well placed to benefit from this growth](#), with [broad-based strengths in services including ICT, education, culture, marketing and finance](#).

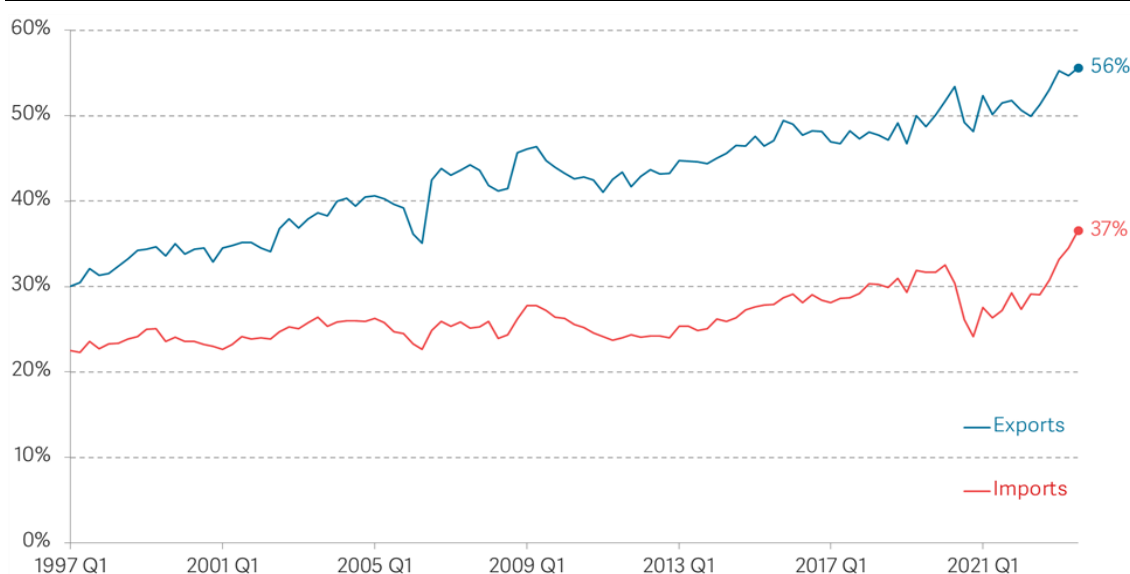
Services industries already account for more than two thirds of British exports by value added, but these services specialisms have become more important to the UK over time: exports of services surpassed goods for the first time in 2019, and, by Q3 2023, services comprised 56 per cent of UK exports compared to 30 per cent in 1997 (see Figure 1). Services share of imports has also been rising from 23 per cent in 1997 to 37 per cent in Q3 2023.

In the past, the UK has successfully capitalised on its advantages in tradable services, expanding its global market share from 7.5 per cent to 8.8 per cent between 1995 and 2007. Since the financial crisis, however, growth in exports of UK services has fallen below global growth, leaving the UK share of global services exports falling back to 7.3 per cent in 2021.

Figure 1

Services trade is increasingly important for Britain

Services imports and exports as a share of total: UK



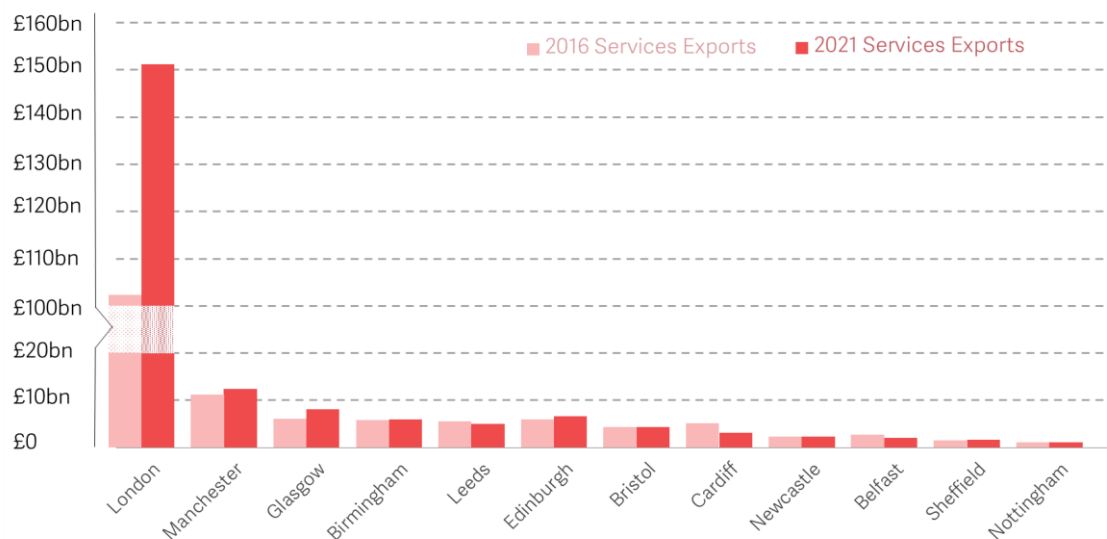
Notes: Total trade excludes precious metals, including non-monetary gold.

Source: RF analysis of UK trade time series, October 2023.

Too much of this strength in services trade has been concentrated in London

Unfortunately, what services trade growth the UK has experienced in recent years has been dominated by its capital. In 2016, London exported almost ten-times as much services as Britain's second largest city, Manchester (£103 billion vs £11 billion). Since then our exports have become even more London-centric, with service exports from London growing by 47 per cent between 2016 and 2021 to reach £152.2 billion (see Figure 2). Meanwhile, exports from Manchester and Birmingham grew by just 11 per cent and 3 per cent respectively. Britain's third largest service-exporting city, Glasgow, saw growth of 34 per cent (but it only exported just over one-twentieth of what London did in 2021). As a result, London's share of UK services exports rose by 8 percentage points between 2016 and 2021 to reach 46 per cent, with the only other major city in Britain seeing a rise in its share of UK services exports being Glasgow (up from 2.2 per cent to 2.4 per cent).

Figure 2 **Since 2016, London has captured the majority of services export growth**
Services exports by city: UK, 2016 & 2021



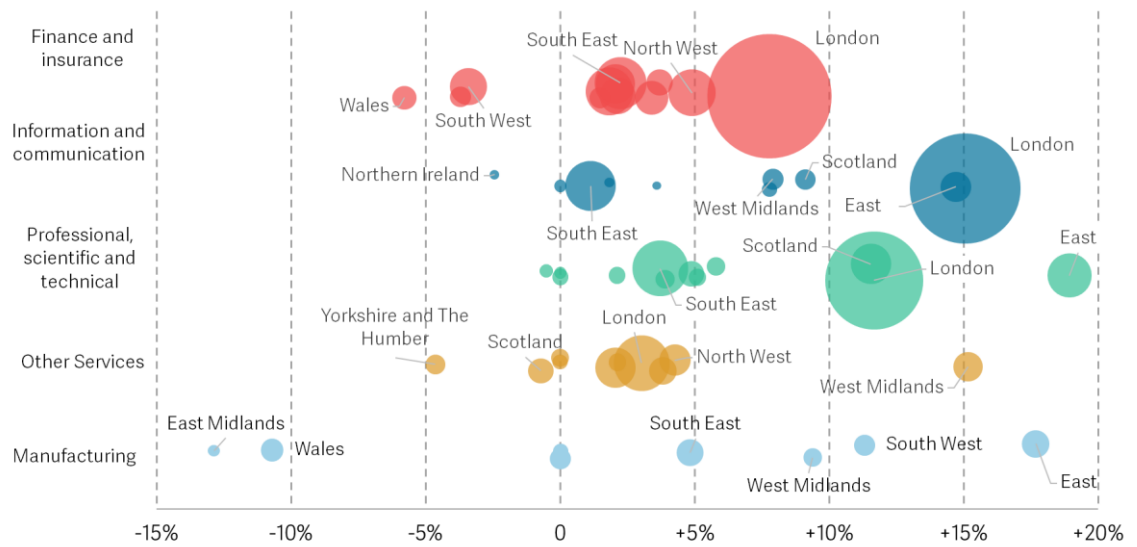
Notes: Core cities constructed using Eurostat Metropolitan areas. Exceptions for London, where ITL1 region is used, as well as Newcastle and Belfast, which were missing values for Sunderland and Ards & North Downs, respectively. Source: RF analysis of ONS 2016-2021 Subnational trade data; Eurostat Metropolitan regions.

Interestingly, it is no longer the case that London's success is due to the financial sector. London's export strengths are broad-based, and increasingly diversified within tradable services. For example, as shown in Figure 3, exports of information and communication services grew by an average of 15 per cent per year between 2016 and 2021, and professional service exports were up 12 per cent per year, both of which represent stronger growth than in financial services, where exports from the capital grew by 8 per cent per year. Indeed, the share of financial services in London's exports fell slightly from 36 per cent to 35 per cent between 2016 and 2021.

Figure 3

London's services export growth is broad-based

Average annual service export growth rate by selected high value-added industry and region: UK, 2016-2021



Notes: Bubble size reflects 2021 services exports value for respective industry and ITL1 region. Information and communication missing East Midlands, South West and North West. Professional services missing North East, Wales. Other service industries missing North East, Northern Ireland, and South West. Manufacturing is missing the North West, Northern Ireland, Scotland, Yorkshire and London.
Source: RF analysis of ONS 2016-2021 Subnational trade dataset.

The latest regional services trade data available is for 2021, a year that was still heavily affected by the pandemic. Services at the eye of the storm, such as transportation and accommodation, also tend to account for a larger share of exports for regions outside of London (for example, 23 per cent of services exports from Yorkshire and the Humber in 2019 were in transportation and accommodation, compared with just 9 per cent in London). However, London had the largest falls in this sector, with exports down 55 per cent between 2019 and 2021 (compared to a 35 per cent fall in the best performing region, Yorkshire and the Humber). But even if we exclude this sector, London still dominates UK services export growth, with its share of UK's services exports growing from 40.5 per cent to 48.5 per cent.

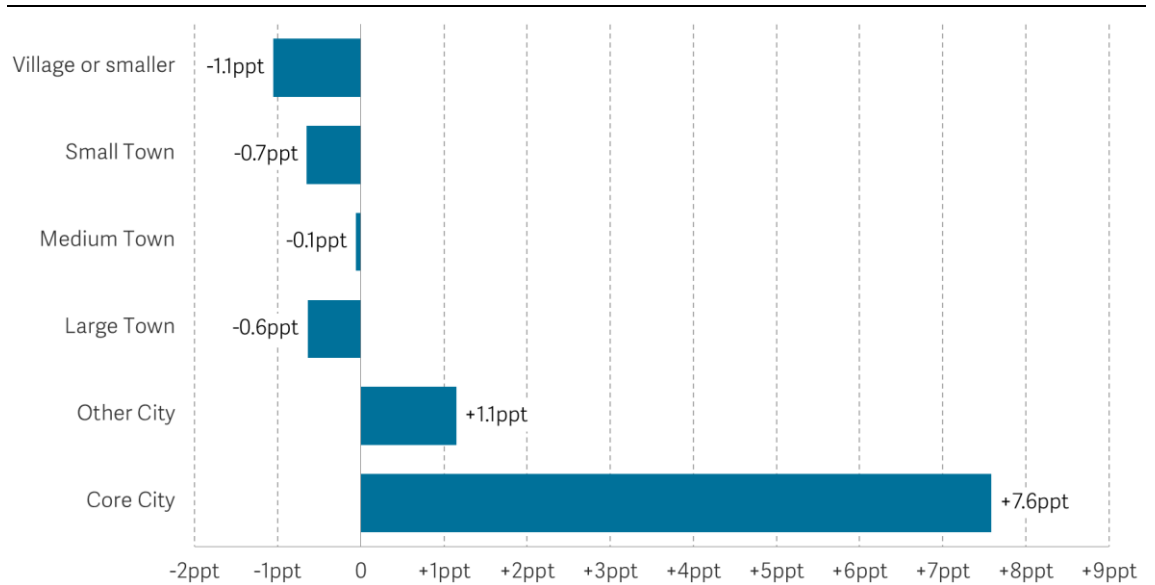
Cities are likely to be the centre of services trade in the future

Tradable services are more likely to concentrate in large cities than manufacturing activity, as [they offer a large pool of skilled labour that can attract productive services firms to co-locate in city centres](#). Since 1998, the share of the local economy comprised of tradable services has risen by 7.6 percentage points in core cities, and 1.1 percentage points in other cities, compared to falls of 0.7 percentage points in small towns and 1.1 percentage points in villages (see Figure 4).

Figure 4

Core cities have seen tradable services grow as a share of their economy

Percentage point increase in the tradable services share of gross value added by main settlement type: UK, 1998-2021



Notes: Local authorities combined to match ITL3 regions used in ONS trade data, and most common type of settlement inhabited by combined population. NISRA population data used for Northern Ireland. Tradable services include information and communication, financial and insurance activities, professional scientific and technical activities, and creative industries.

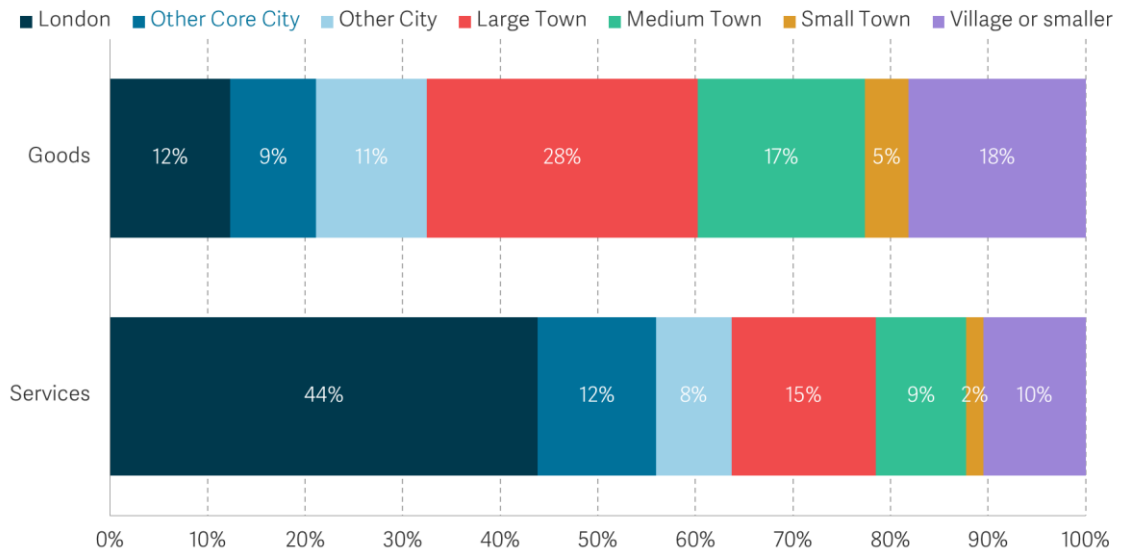
Source: RF Analysis of ONS, Regional gross value added (balanced) by industry: all ITL regions; House of Commons local authority population data; NISRA population data.

As shown in Figure 5, the majority (56 per cent) of total services trade in 2021 came from twelve core cities, with only 15 per cent from large towns and 9 per cent from medium towns. This is a much more concentrated pattern than seen in goods trade, where core cities accounted for just 21 per cent of goods trade in 2021, with areas predominantly with large towns accounted for 28 per cent, and medium towns a further 17 per cent. Yet it is not the overall pattern of Britain's services trade that is unusual, but the dominance of the capital compared to other cities: just 12 per cent of total services trade in 2021 came from the eleven core cities outside of London.

Figure 5

Britain's core cities are the heart of services trade

Services and goods trade (imports plus exports) by settlement type: UK, 2021



Notes: Local authorities combined to match ITL3 regions used in ONS trade data, and most common type of settlement inhabited by combined population. NISRA population data used for Northern Ireland. Source: RF analysis of ONS 2016-2021 Subnational trade; House of Commons local authority population data; NISRA population data.

Major cities outside of London must capture a larger share of services trade

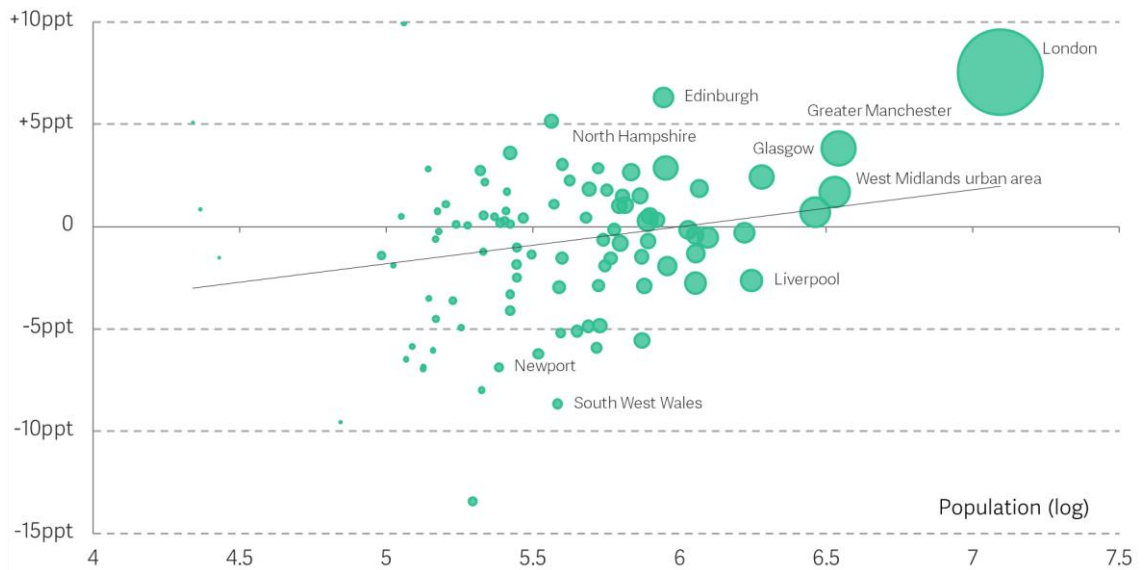
The success of France's second cities in growing their service industries and exports suggests that there is no reason that recent growth in services trade should be limited to London. In particular, between 1995 and 2018, the share of exports from major French cities that consists of services (as opposed to manufacturing) increased by [21 percentage points](#). The services export share in two of France's second cities (Bordeaux and Lille), grew more quickly than in Paris, leaving Lille with a higher services export share than Paris in 2018.¹ In contrast, not only had London maintained the leading position in services export share in the UK in 2021, but had also witnessed a widening gap with the country's second-tier cities over the past five years.

There are, however, signs that Britain's second cities have the potential to harness tradable services, even if progress has been slow in recent years. A prerequisite for cities to export services is to develop their tradable services industries. Since 1998, Edinburgh and Greater Manchester have seen the share of tradable services as a proportion of the economy grow by 6.3 percentage points and 3.8 percentage points respectively, as shown in Figure 6. Although London's share grew even faster – by 7.6 percentage points during this period – this growth suggests that there is potential for services agglomeration outside of London, especially if policy supports it.

Figure 6

Tradable services grew as a share of the economies of key second cities

Change in share of tradable services as a proportion of total value added by metro area, by log population: UK, 1998-2021



Notes: Metro areas are created in line with Eurostat definitions. Smaller areas include towns and villages and are shown at ITL3 level. Size of bubble represents GVA of tradable services in 2021. Tradable services include information and communication, financial and insurance activities, professional scientific and technical activities, and creative industries.

Source: RF Analysis of ONS, Regional gross value added (balanced) by industry: all ITL regions; House of Commons local authority population data; NISRA population data.

Overall then, Britain should celebrate our services specialisms, but policy makers should recognise that the recent growth in services exports has been concentrated in our capital. The urban agglomeration effect for services is powerful, but it is imperative that other major cities in Britain transform into successful hubs for tradable services to achieve a more evenly distributed growth across the UK. An effective economic strategy needs us to recognise that, and set the wheels in motion now. As our two recent deep dives into Greater Manchester and the Birmingham Urban Area concluded, that requires providing sufficient housing for a larger highly skilled workforce, who are well connected by mass transit to the central business district, that itself contains sufficient space devoted to offices.²

¹ With thanks to Dennis Novy for sharing the data on regional services export shares of French cities.

² See: P Brandily et al., [A tale of two cities \(part 1\): A plausible strategy for productivity growth in Birmingham and beyond](#), Resolution Foundation, September 2023; P Brandily et al., [A tale of two cities \(part 2\): A plausible strategy for productivity growth in Greater Manchester and beyond](#), Resolution Foundation, September 2023