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Leaving EU Behind?

How Britain lost its trading edge and whether Brexit is to blame

Sophie Hale, Stephen Hunsaker & Simon Pittaway

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Summary

A decade ago, on 23 June 2016, the UK voted to leave the EU. Most economists expected a transformation in both what the UK produces and who we trade with. A decade on from the vote, and five years since the Trade and Cooperation Agreement (TCA) took effect, this briefing note asks whether that transformation has materialised, taking a deep dive into what has happened to the UK's export strengths, including those prioritised within the Government's industrial strategy.

For decades the UK has been shifting from a goods-exporting economy towards a services-exporting one, but that trend has sharply accelerated in the five years since the TCA came into force: UK trade has tilted from goods to services about three-times faster since 2019 than in the 17 years before. Services now account for 59 per cent of all UK exports in 2025, up 11 percentage points since 2019. But it is a weakness in goods exports, not a boom in services exports, that is doing the work: the value of UK goods exports fell by around £10 billion between 2019 and 2024, even as global exports grew by a quarter.

This goods weakness stands out internationally: the UK has slipped from the world's 11th largest goods exporter to 14th, and the UK's share of global exports fell in three-quarters of the 780 goods products covered. The UK saw the largest fall in goods export volumes in the G7, while its services performance was slightly above the middle of the G7 pack. Compared with France, Germany and the US, both the pace and the breadth of its loss of goods competitiveness stand out. Had the UK held its 2019 share of world goods markets, goods exports would have been roughly £74 billion (25 per cent) higher in 2024; services trade, meanwhile, has moved in the opposite direction. Reorienting towards our services strengths can be viewed as playing to our strengths, but the collapse in our goods trade, covering not just pre-existing weaknesses but also in those sectors deemed strategic priorities in the industrial strategy, is concerning to say the least.

As such, the Government's industrial strategy's starting point is more challenging than has been acknowledged. The eight priority sectors (the so-called 'IS-8') currently cover nearly two-thirds of UK goods trade, yet across many of them the UK's pre-existing strengths have been eroded or have disappearing altogether. Almost half (49 per cent) of the £74 billion goods gap sits in products that sit within the IS-8. This is below their 62 per cent share of goods trade in 2019 so these sectors haven't necessarily underperformed, but this is still a disappointing start for a strategy that is built on these sectors thriving. Some once-staple strengths have disappeared outright in the past five years: revealed comparative advantage has gone in road vehicles and chemicals, alongside dairy, live animals for food, and non-ferrous metals. And the UK has lost ground in exactly the goods the world is buying more of, including: medicines, electronic microcircuits, and data processors. Our work highlights 16 IS-8 products where global demand increased

but the UK's share fell: world trade in them grew by around 40 per cent over the five years, yet UK exports fell. The UK lost a third of its world share in these 16 products – the largest proportional fall in the G7 – with the lost ground going to China, East and South-East Asia and the US, rather than to Europe.

What is driving the UK's poor goods performance? Three explanations are commonly offered: energy prices, China's export push, and Brexit. Each of these headwinds has had a tangible effect, but the key question is which of them can explain why the UK's losses have been uniquely severe. Take energy first: by 2024, the UK had the highest industrial electricity prices of any International Energy Agency member. Yet, across 29 rich economies, there is no clear link between energy-price shocks and goods export performance: Swiss and Swedish exporters faced comparable shocks and still grew their exports. High energy prices are a real burden, but they cannot explain the UK's recent export decline. Nor is this simply the results of a 'China shock 2.0': China's share of world goods exports rose from 14 to 16 per cent between 2019 and 2024, increasingly focused in frontier sectors. Countries more exposed to that push do seem to have fared less well in terms of goods exports. But the UK entered the period with the least China-exposed export mix in the G7 and, after accounting for both energy prices and China exposure, it still has comfortably the largest unexplained export shortfall of any advanced economy in our sample.

That leaves Brexit. UK goods exports tracked our G7 peers closely until the TCA came into force in January 2021, at which point they began to underperform, a divergence that points to Brexit as the most plausible cause. But the damage is not simply a story of lost EU access. For example, in our 16 illustrative underperforming IS-8 products, the UK lost ground in both EU and non-EU markets, with exports to non-EU destinations falling faster. This points to a 'slow puncture' rather than a sudden shock: Brexit has acted to harm the UK through supply chains and investment decisions, with its greatest damage in the frontier sectors where production is globally integrated and investment most footloose. Brexit also raises a huge challenge for politicians looking to 'reindustrialise' the UK economy.

How can we minimise the damage? A necessary starting point is honesty about where the Government's industrial strategy starts from. Its focus is not wrong: it has identified the right sectors, where global demand is growing and Britain retains genuine strengths, but in most of them the UK's advantage is eroding, so the policy measures required to defend, never mind grow their market share, is much bigger than acknowledged. The recent shift towards services should not itself be viewed as a problem: countries specialising in services can be rich (see: the US, France and Singapore), and the UK's export mix is no more concentrated than a typical mid-sized industrialised economy.

So doubling down on these strengths make perfect sense. Instead, the problem for the UK is the broad underperformance of goods sectors, including in those sectors we have ambitions to (at least) protect.

Our diagnosis is that the industrial strategy either has too little jam or too much toast: eight sectors covering nearly two-thirds of goods trade cannot all be priorities. Instead, the answer is to triage within it. That means defending positions where the UK remains world-leading, like aero-engines; contest hard a few sectors where advantage is slipping but not yet gone, like medicines; and be honest where the realistic prize is securing a niche rather than recovering share, as in electronic microcircuits.

Above all, repairing the EU relationship is essential. But this should not be done on any terms. Unilateral regulatory alignment alone will not restore the UK's lost gateway role. The Sanitary and Phytosanitary (SPS) agreement offers a roadmap for extending negotiated, supervised alignment to chemicals, machinery and vehicles. But the EU may not accept even this without concessions on free movement and budget contributions that cross the Government's red lines. In any case, this sort of alignment still falls well short of what full single market access for goods would deliver. So if the Government is serious about prioritising growth, it will not be able to maintain its red lines on trade. As things stand, this is testing the limit of the Government's appetite to make difficult decisions to drive faster growth.

Brexit 10 years on

A decade ago, on 23 June 2016, the UK voted to leave the EU. The consensus at the time was that the UK economy would be transformed, with economists predicting a substantial hit to productivity and substantial changes in what we produce and who we trade with.[1] Ten years' later, and five years since a new trading arrangement, the Trade and Cooperation Agreement, was put into place, this briefing note explores what has happened to the UK's trading strengths – that is, the industries with comparative advantage that we relied on for driving prosperity – and consider whether declines in these areas can be solely attributed to Brexit, or if something larger is at play in the ever-changing global trade landscape.

Why does the changing shape of the UK's exports matter? What a country sells to the world is a window into where it is genuinely productive, and productivity is a key component of economic growth. On the tenth anniversary of the Brexit vote, the UK finds itself in a malaise, with GDP per person growing just 0.1 per cent a year since the pandemic, compared to 1.3 per cent in the (already) disappointing decade for growth that preceded it.[2] Trade is seen as one of the few levers (alongside planning reform and employment support) that can change that trajectory.[3] This is supported by emerging evidence that the hit from Brexit could already be close to double the 4 per cent impact assumed by the OBR.[4] Whether the UK is getting better or worse at producing what the rest of the world wants to buy speaks directly to the country's prospects for growth, and ultimately higher living standards for us all.

When the UK voted to leave, most economists expected a cliff edge to appear suddenly and perilously, with a rapid reorientation of trade away from the EU and towards the rest of the world.[5] But no cliff edges appeared. Instead, there has been a broad-based loss of competitiveness, and a slow closing of the business investment tap.[6]

A decade later, now is a natural moment to reflect on how Brexit has reshaped UK trade in the context of a volatile trading environment overseas and a renewed push on industrial strategy at home. In doing so, we focus on a measure called revealed comparative advantage (RCA) – a measure of the extent to which a country is specialised in exporting a given product, revealing where the relative strengths of its economy lie.

1 See, for example: OBR, The effect on productivity of leaving the EU, March 2020.
2 ONS, Output per hour worked, UK.
3 E Christensen et al., Mountain climbing: Making progress on the UK's growth policy challenge, Resolution Foundation, January 2026, https://doi.org/10.63492/ntdl6708.
4 N Bloom et al., The Economic Impact of Brexit, NBER, November 2025.
5 HM Treasury, HM Treasury analysis: the long-term economic impact of EU membership and the alternatives, April 2016; S Dhingra et al., The consequences of Brexit for UK trade and living standards, Centre for Economic Performance, LSE, March 2016
6 S Dhingra et al., The Big Brexit: An assessment of the scale of change to come from Brexit, Resolution Foundation, June 2022; H Breinlich et al., Voting with their money: Brexit and outward investment by UK firms, Centre for Economic Performance, LSE, February 2019; S Hale, EU-turn: Resetting the UK-EU relationship through strategic dynamic alignment Resolution Foundation, October 2024, https://doi.org/10.63492/sulo395.

It is calculated by comparing the share of a country's total exports in a specific good or service to the share of global exports in the same good or service (see Box 1).

BOX 1: **Measuring export strength: revealed comparative advantage (RCA)**

RCA is calculated as the product's share of UK exports divided by its share of world exports. This measures whether the UK exports more of a given product than the world average, and identifies where are the UK's relative strengths and weaknesses in the global economy.

An RCA greater than 1 signals 'comparative advantage' or a relative specialisation; below 1, 'comparative disadvantage'. If half of a country's exports were in bananas, and bananas accounted for only a quarter of total exports across the world, then that country is said to be relatively specialised in bananas with an RCA of 2. Throughout this report we use a standardised measure that maps RCA onto a −1 to +1 scale (0 = parity), where positive numbers mean the UK has a comparative advantage, and 'crossing zero' means the UK has stopped or started being a relative specialist. A value of 0.5 (say) means the country has a clear advantage in a given product or sector. The advantage of this rescaling is that changes across very different products are directly comparable.

We measure RCA using data on disaggregated goods trade and aggregated services trade from the Harvard Growth Lab's Atlas of Economic Complexity, which is a cleaned version of goods data produced by the United Nations Statistical Division (COMTRADE).[7]

A pre-existing structural shift has accelerated in the past five years

While 23 June 2026 marks the tenth anniversary of the Brexit referendum, it is 1 January 2021 that marks the UK formally leaving the EU and the UK's Trade and Cooperation Agreement (TCA) coming into force. In the five years since there has been a marked shift in trade patterns, with the UK becoming less specialised in goods and more reliant on its services exports.

This shift from manufacturing to services is nothing new. The decline of manufacturing sectors that were once staples of the UK economy – such as cars, chemicals and

7 Harvard Growth Lab's Atlas of Economic Complexity.

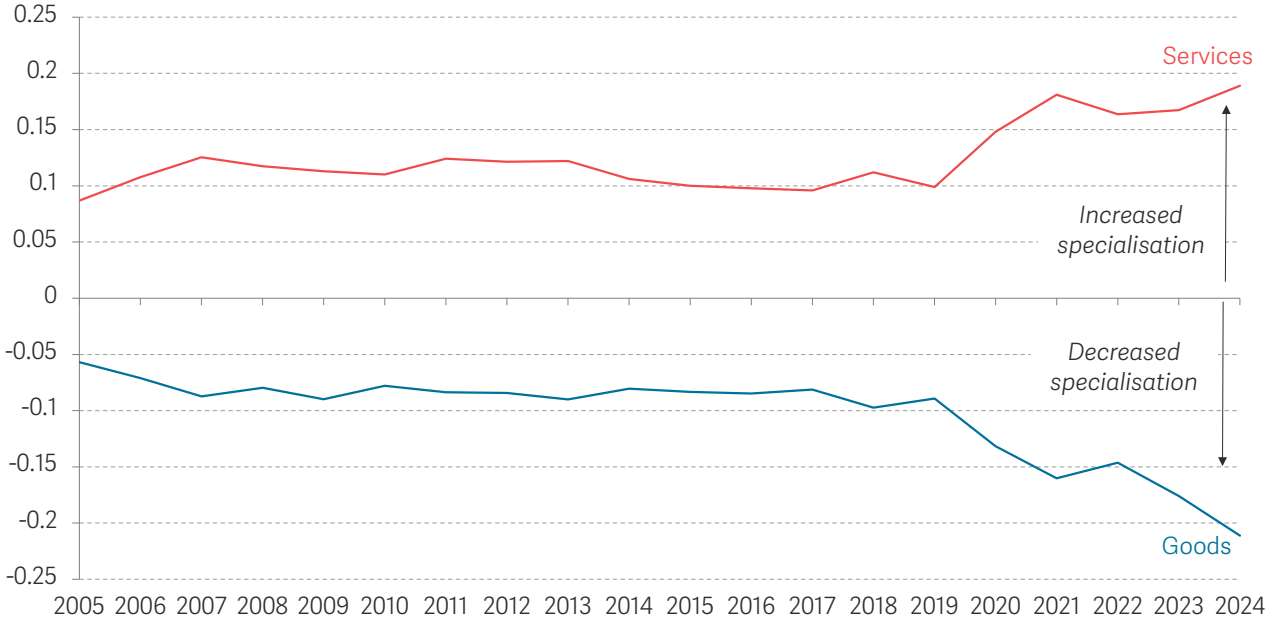
shipbuilding – is a story that long predates Brexit. And the UK has a long-standing specialisation in services that dates back to the 1980s, where already UK service exports were double the global share.[8] What is striking about the last five years, though, is not the direction of travel but its pace.

Comparative advantage normally moves slowly: a country's revealed strength in a product a decade or even thirty years ago is usually a good predictor of its strength today, and wholesale swings between goods and services are rare.[9] Indeed, that was the case in Britain for most of its recent history. As shown in Figure 1, the gap between the UK's aggregate RCAs for goods and services grew slowly between 2005 and 2019, reflecting a gradual move towards more specialisation in services trade, and away from goods.

In the five years of data since 2019, that gap has widened much more rapidly. Between 2019 and 2024 the UK's comparative disadvantage across goods sectors more than doubled, while its advantage in services strengthened.[10]

FIGURE 1: **UK goods sectors have been de-specialising for over a decade, but the trend has rapidly accelerated since 2019**

Standardised RCA for goods and services: UK



NOTES: Goods and total trade excludes erratic products such as gold (SITC products 91,93, 94, 95, 96 and 97).
SOURCE: RF analysis of Harvard Growth Lab, Atlas of Economic Complexity (SITC version).

The UK's shifting pattern of specialisation has pulled apart the two halves of trade. Services grew to account for nearly two-thirds (59 per cent) of all UK exports in 2025,

8 J De Lyon et al., Enduring strengths, Resolution Foundation, April 2022
9 J De Lyon et al., Enduring strengths, Resolution Foundation, April 2022; G Hanson, N Lind & M Muendler, The Dynamics of Comparative Advantage, NBER Working Paper 21753, November 2015
10 All trade value comparisons, except where otherwise mentioned, use Harvard Growth Lab, Atlas of Economic Complexity (SITC version) and exclude erratic products including gold (SITC products 91,93, 94, 95, 96 and 97).

an 11 percentage point jump from 2019.[11] The previous 11 percentage point increase in services took 17 years (from 2002 to 2019), meaning UK trade has tilted from goods to services about three times faster since 2019 than in the years before it.

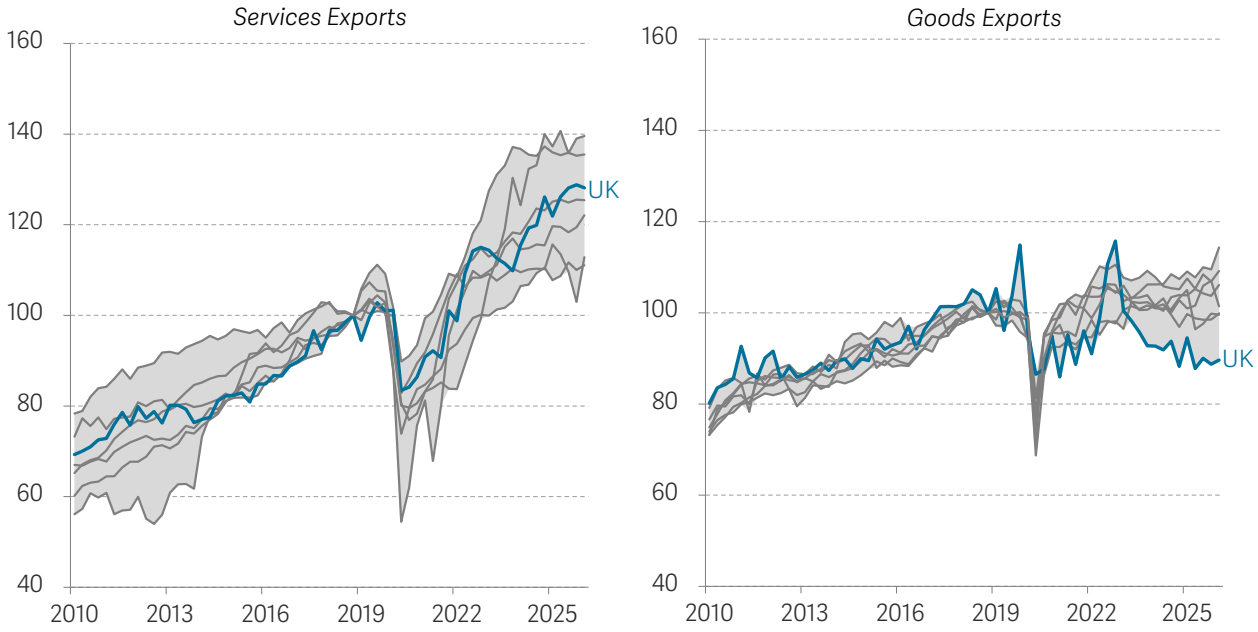
On its own, a mature economy like Britain increasing its specialisation in services might not be cause for concern. But the pattern underlying our shift from goods to services is worrying: rather than services racing ahead, it reflects a stark underperformance in goods.

Between 2019 and 2024, for example, UK goods exports fell slightly in value, by around £10 billion in nominal terms, even as the world's goods exports values grew by a quarter. This five-year window also spans the disruption of the Covid-19 pandemic; but, as the international comparisons below make clear, that shock hit all economies and cannot account for the UK's distinctive goods weakness.[12] Over the same period, the UK slipped from the world's 11th-largest goods exporter to 14th.[13] As shown in Figure 2, this underperformance in goods stands out relative to our advanced-economy peers. Since the end of 2018, the volume of UK services exports has continued to grow broadly in line with the rest of the G7, slightly above the average and outperforming the US, the largest global exporter of services.[14] Meanwhile UK goods export volumes have fallen by more than any other member. This relative underperformance in goods holds up against a broader set of peer economies: goods exports have grown at barely a fifth of the OECD average rate since 2019.[15]

11 ONS, UK Total Trade By All Countries, Seasonally Adjusted, Q4 2025.
12 Based on Harvard Growth Lab, Atlas of Economic Complexity (SITC version) excluding erratic products.
13 Based on Merchandise Trade, WTO stats.
14 However, this does not mean Brexit has not had any negatively consequences on services trade flows to the EU – which may have grown faster in the absence of Brexit. Others find that Brexit reduced services exports to the EU by 7 per cent, less than half the hit to goods exports to the EU (16 per cent). J Springford & A Spisak, The cost of Brexit, ten years on: The impact of leaving the customs union and single market on UK trade, Centre for European Reform, June 2026.
15 E Fry, S Pittaway & G Thwaites, Life in the slow lane: Assessing the UK's economic and trade performance since 2010, Resolution Foundation, June 2024

FIGURE 2: **This rapid de-specialisation of goods is UK-specific**

Index of services and goods export volumes (Q4 2018 = 100): G7

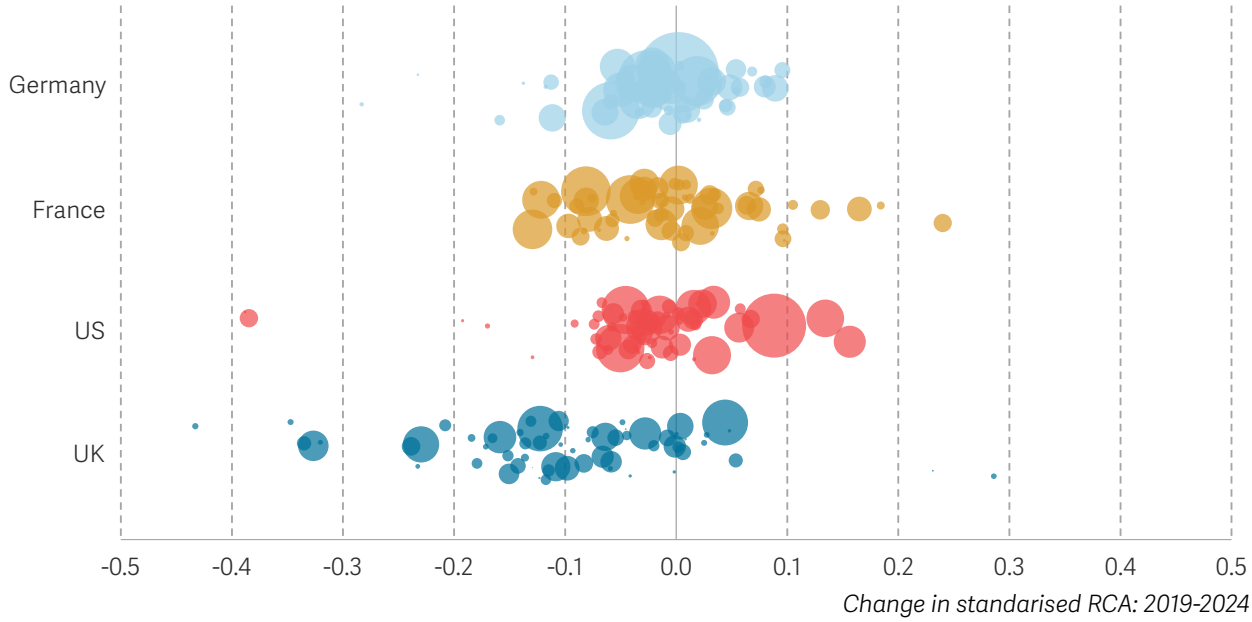


NOTES: Range shows highest to lowest G7 country each quarter. Trade volumes are measured in national currency, chained volume measures, seasonally adjusted.
SOURCE: RF analysis of OECD, Quarterly National Accounts data.

The UK's underperformance in goods is not just larger than our peers, it is also uniquely broad-based. As shown in Figure 3, the UK's RCA fell in 81 per cent of two-digit goods sectors between 2019 and 2024, compared to an average of 62 per cent for France, Germany and the US. The UK also has a notable 'long tail' of goods sectors whose comparative advantage declined sharply in the five years leading up to 2024. Half of the UK's two-digit goods sectors saw a substantial fall in their RCA (of at least 0.1 points) between 2019 and 2024, compared to just 8 per cent of sectors for France, Germany and the US (again as shown in Figure 3).

FIGURE 3: **Among major peers, only the UK has seen widespread losses in comparative advantage**

Change in product-level standardised RCA between 2019 and 2024 by two-digit product, goods only: Germany, France, US and UK



NOTES: Standardised RCA computed for goods and services. Bubble size = product share of country exports in 2024.
SOURCE: RF analysis of Harvard Growth Lab, Atlas of Economic Complexity (SITC version) 2-digit product-level.

Which of these poorly performing sectors should concern us the most? One set that stands out are those where an advantage has been lost outright. These are sectors that crossed from comparative advantage in 2019 to comparative disadvantage by 2024. Six sectors made that crossing: road vehicles, two agri-food sectors (dairy & eggs, live animals for food), chemical materials and products, non-ferrous metals, and the ambiguously named but nonetheless significant 'miscellaneous manufactures' – a mix of consumer, luxury, and creative manufactures such as printed material, jewellery, works of art, antiques, and toys.

A common pattern runs through almost all of them: the fall was driven by the UK retreating – that is, the sector shrinking as a share of what the UK sells – and not by the world bar rising substantially. In all six sectors the UK not only lost competitiveness as measured by a fall in the RCA, but the UK also saw its market share shrink, by around a quarter on average. While the UK's previous comparative advantage in many of these sectors was marginal, the symbolic crossing of the line represents the UK's previous strengths becoming weaknesses.

In some cases, this was merely a continuation of long-standing trends. Britain's comparative advantages in chemicals and miscellaneous manufactures, for example,

have been eroded over a long period. But miscellaneous manufactures was a substantive loss, being the only sector that fell from a clear advantage in 2019 (not a marginal advantage) and a sector where the UK has historically punched above its weight. And for agri-food, along with road vehicles, there is a clear link to Brexit. Trade frictions caused by the implementation of the TCA and one-way border restrictions put up by the EU line up with these sector declines.[16] In road vehicles, new rules-of-origin requirements and supply-chain frictions with EU suppliers have almost certainly contributed to the sector's decline.[17] But those headwinds sit alongside a decade of structural pains, of the UK's lagging transition to EV production and the global momentum moving primarily to Asia and in part to continental Europe.[18]

Arguably the most damaging form of de-specialisation is losing ground in products where global demand is growing fastest – and that is where many of the UK's losses sit. As Figure 5 shows, at the more granular four-digit product level, more than a quarter (29 per cent) of goods products are in the quadrant where the world trade grew faster than average but the UK market share was shrinking. This group includes key sectors, such as electronic microcircuits and digital processors – key components in semiconductors. The UK saw its share of global electronic microcircuits exports fall by 0.3 percentage points while global exports grew 65 per cent. The story is worse for sectors like medicaments, or packed medicines, which saw a 1.5 percentage point fall in the UK market share, and passenger vehicles, where the UK's share of world car exports fell by 1.2 percentage points.

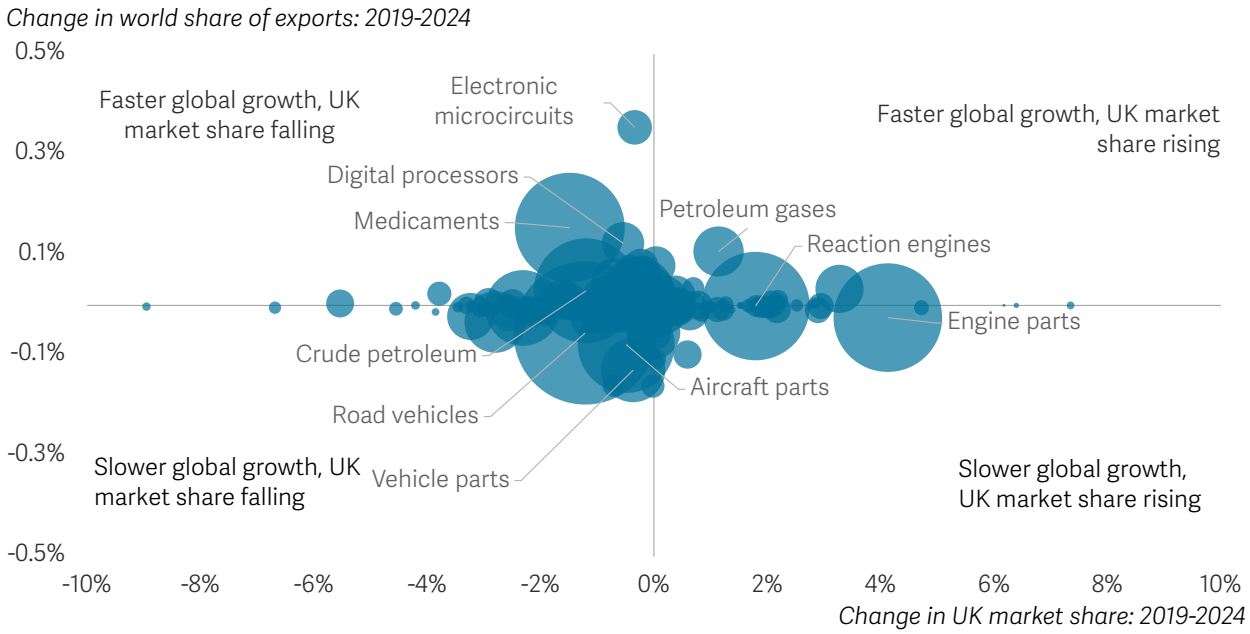
16 The EU applied full third-country sanitary and phytosanitary controls to UK exports from January 2021, while the UK phased in checks on EU imports only from 2024: see National Audit Office, The UK border: Implementing an effective trade border, May 2024. On the TCA's broader effects on UK trade, see J Du, E B Satoglu & O Shepotylo, How did Brexit affect UK trade?, Contemporary Social Science, 2023, https://doi.org/10.1080/21582041.2023.2192043.

17 In December 2023 the UK and EU agreed to delay, to the end of 2026, the stricter rules-of-origin thresholds for electric vehicles and batteries that had been due to take effect in 2024 – a recognition of the supply-chain pressures facing the sector. See European Commission, EU and UK agree to maintain current rules of origin for electric vehicles until 2027, December 2023.

18 IEA, Global EV Outlook 2024 – China accounts for well over half of global electric-car production; Faraday Institution, UK electric vehicle and battery production potential to 2040, 2022.

FIGURE 4: **The UK lost ground in exactly the goods the world wants more of**

Change in the UK share of global exports against the change in the global share of world exports for a given product (percentage points), between 2019 and 2024



NOTES: Standardised RCA computed for goods and services. 4-digit product level RCA used. Bubble size = product share of UK exports. Excludes volatile categories SITC 91, 93, 96 and 97.
SOURCE: RF analysis of Harvard Growth Lab, Atlas of Economic Complexity (SITC Version).

That is not to say it is all doom and gloom. For example, aero-engines and their parts (reaction engines and engine parts) remained one the UK's strongest comparative advantages among goods sectors. The UK supplies over a quarter of the world's reaction-engine exports and that advantage has only strengthened from 2019 to 2024. This is in large part due to the Rolls-Royce franchise of civil and defence engineering. Exports of reaction engines and engine and aircraft parts, account for a combined £36 billion of UK exports, 60 per cent more than passenger cars. As we will discuss in more detail later in the report, this is also a particularly bright spot for the Government's industrial strategy, as these sectors fall into two key sectors: advanced manufacturing and defence.

The common thread here appears to be that the UK is strong at the upstream, high-IP, or hard-to-replicate end sectors (refined metals, engine cores and parts, instruments) but is weakening at the finished final consumer product end (finished medicaments, finished cars).

These bright spots, however, do not change the overall picture of a disappointing five years for UK goods exports, in which the UK lost ground relative to the rest of the world. This is a very broad decline: across 780 goods products, the UK's share of global exports fell in three out of four products between 2019 and 2024. If the UK had held its 2019 share of all goods, UK goods exports would have been £74 billion higher in 2024, about a fifth (21 per cent) higher than the actual number. This net figure hides £87 billion of

'lost' exports across the 588 codes where the UK's share fell, offset by only £12 billion gained across the 186 where it rose.

This underperformance is present across many of the Government's priority sectors

For the Government, a particular worry is that the three-quarters of goods sectors in which the UK has lost market share includes many sectors that were set out as priorities in its 2025 industrial strategy, discussed in Box 2. Products tagged to the industrial strategy's eight priority sectors (the 'IS-8') accounted for almost half (49 per cent) of the £74 billion net loss of goods exports that Britian suffered through falling market shares since 2019.[19] While this reflects the breadth of the IS-8 – covering nearly two-thirds (62 per cent) of goods trade in 2019 – rather than a specific weakness in these sectors, it does pose a challenge to strategy that ostensibly aims to build on Britain's existing strengths.

BOX 2: **Industrial strategy priority sectors**

Published in June 2025, the UK's Modern Industrial Strategy 2025 is a 10-year plan that bets on eight high-growth sectors – the 'IS-8' –that the Government identified as areas of existing UK strength and future drivers of productivity and growth.[20]

1. Advanced Manufacturing
2. Clean Energy Industries
3. Creative Industries
4. Defence
5. Digital and Technologies
6. Financial Services
7. Life Sciences
8. Professional and Business Services

The instinct behind concentrating support on a small number of sectors where Britain already has an edge is sensible. History tells us that trying to build comparative advantage from scratch is enormously costly and rarely successful.[21] A credible industrial strategy, therefore, should build on genuine comparative advantages

19 IS-8 are matched to SITC codes, including SITC 2 digit sectors 51-59, 71-79 and 87 in addition to 4 digit sectors 6251- 6281, 6412, 8811-8841, 8921-8922, and 8972-8973. Match is based on SIC sectors given in: Department for Business and Trade, The UK's Modern Industrial Strategy 2025, June 2025.
20 Department for Business and Trade, The UK's Modern Industrial Strategy 2025, June 2025.
21 Resolution Foundation & Centre for Economic Performance (LSE), Ending Stagnation: A New Economic Strategy for Britain, December 2023; J De Lyon et al., Enduring strengths, Resolution Foundation, April 2022

rather than try to conjure new ones. But a strategy must be clear-eyed on what those strengths are. And it must be realistic about the scale of policy effort required to turn around the UK's position when those strengths begin to turn to weaknesses.

To make things more concrete, we now focus on 16 IS-8-tagged products where the global market grew between 2019 and 2024, but the UK's market share fell (see Table 1). Not only are these products central to the industrial strategy, the payoff from turning around the UK's performance will only grow if these markets keep expanding. We selected the 16 by screening every IS-8-tagged goods product for those where the world market grew while the UK's share fell between 2019 and 2024, and then prioritising the most significant: the largest markets, the steepest UK declines, and – in several cases – products where the UK flipped from comparative advantage to outright disadvantage. These 16 are illustrative rather than definitive and are best read as a concrete illustration of a much broader pattern, not as a ranking of the UK's worst-performing, or most important, products. A different but equally reasonable set of criteria would surface a somewhat different list.

TABLE 1: **Sixteen IS-8 priority products where the UK's world share fell as global demand grew**

Selected 4-digit products within the industrial strategy's eight priority sectors

2-digit level sector	4-digit level product	Industrial strategy priority sectors
Power generating machinery and equipment	Electric motors, generators (not direct current); generating sets	Advanced Manufacturing, Clean Energy
Machinery specialised for particular industries	Harvesting and threshing machines; fodder presses, parts	Advanced Manufacturing
Road vehicles	Motor vehicles for the transport of goods or materials	Advanced Manufacturing
	Motorcycles, auto-cycles, side-cars of all kinds, etc	
Other transport equipment	Warships	Advanced Manufacturing, Defence
	Ships, boats and other vessels	
Dyeing, tanning and colouring materials	Other colouring matter; inorganic products used as luminophores	Advanced Manufacturing

Medicinal and pharmaceutical products	Hormones, natural, or reproduce by synthesis, in bulk Medicaments (including veterinary medicaments)	Life Sciences
Electric machinery, apparatus and appliances, and parts	Electronic microcircuits	Advanced Manufacturing, Digital and Technologies
Organic Chemicals	Oxygen-function acids, and their derivatives Other organo-inorganic compounds Heterocyclic compound; nucleic acids	Advanced Manufacturing, Life Sciences
Artificial resins and plastic materials	Polyurethanes	Advanced Manufacturing
Office machines and automatic data processing equipment	Peripheral units, including control and adapting units	Advanced Manufacturing, Digital and Technologies
Telecommunications, sound recording and reproducing equipment	Microphones; loud-speakers; audio-frequency electric amplifiers	Advanced Manufacturing, Creative Industries, Digital and Technologies

NOTES: IS-8 sectors are Advanced Manufacturing, Clean Energy, Creative Industries, Defence, Digital and Technologies, Financial Services, Life Sciences, and Professional and Business Services.
SOURCE: RF analysis of Harvard Growth Lab, Atlas of Economic Complexity (SITC version).

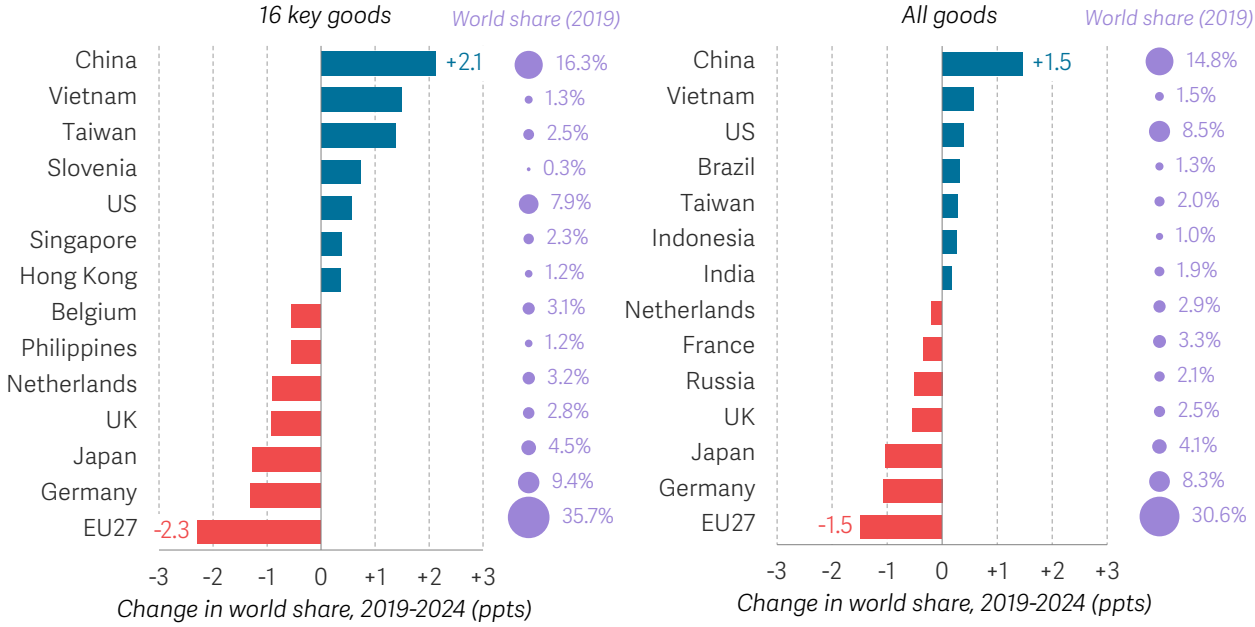
In each of the 16 sectors, global trade grew by between a quarter and two-thirds in the five years to 2024. Across the basket as a whole, world exports expanded by around 40 per cent, from £1.2 trillion to £1.6 trillion. Yet UK exports of these products edged down, from £32 billion to £30 billion. As a result, the UK's share of these markets fell from 2.8 to 1.8 per cent – a third of its position gone in five years – equivalent to around £16 billion of exports forgone in 2024 alone, had it merely held its 2019 share.

The slice the UK gave up in these markets did not, for the most part, go to the EU. As shown in Figure 5, the single biggest winner across the basket was China, whose share rose by 2.1 percentage points – an extra £34 billion of exports – followed by a cluster of

East and South-East Asian producers including Vietnam, Taiwan, Singapore and Hong Kong, and, within Europe, fast-rising eastern members such as Slovenia. At the same time the EU27, like the UK, lost market share – although its 2.3 percentage points loss was proportionally far smaller than the UK's (6 per cent of its starting world share, versus the UK's 33 per cent). Looking at individual countries, Germany and Japan each gave up more ground than the UK in these very products – around 1.3 percentage points apiece, against the UK's 0.9 – but again suffered smaller losses in proportion to their starting points.

FIGURE 5: **The share the UK lost in its priority products went to China and East Asia, not the EU**

Percentage-point change in share of world exports across all goods and the 16 key products, by country: 2019–2024



NOTES: 16 four-digit SITC priority products combined. EU27 = current membership, with the UK shown separately. Share = each country's exports of the basket as a share of world exports of the basket.
SOURCE: RF analysis of Harvard Growth Lab, Atlas of Economic Complexity (SITC version).

The UK's losses are heaviest, and most telling, in pharmaceuticals and the chemistry that feeds them. Medicaments, or packaged medicines, are the single largest loss in the basket in cash terms. UK exports were essentially flat (around £13 billion in both years) while the global market grew by 41 per cent, so the UK would have sold £5.6 billion more in 2024 had it simply held its 2019 share of the world market. One step upstream, the UK's position in the active-ingredient molecules – 4 of our 16 focus products – has not merely slipped but collapsed: its world share of oxygen-function acids fell by two-thirds (from 5.7 to 1.9 per cent) and of heterocyclic compounds and nucleic acids by more than 60 per cent (4.0 to 1.5 per cent), with hormones not far behind. These were products in which the UK held a clear comparative advantage

in 2019; by 2024 several had crossed into disadvantage. The ground went chiefly to Europe's specialist pharma clusters, Switzerland and Ireland, and to the United States and India, rather than dispersing across the world.

A second concentration of losses is in electronics and semiconductors, where the UK was only ever lightly attached to a fast-globalising supply chain. Its small share of electronic microcircuits halved, from 0.67 to 0.33 per cent, even as the world market grew by two-thirds; the gains went to China, Vietnam and Hong Kong, while in data-processing peripherals the winners were Taiwan and Vietnam. A third group – transport and defence equipment, from goods vehicles and motorcycles to ships and warships – is a version of the same story. China alone added around 7 percentage points of the world market in trucks, 8 in motorcycles and 16 in warships, while the UK's once-substantial share of smaller vessels roughly halved, from 10 to 5 per cent.

Across all three clusters the pattern is strikingly consistent: the markets are growing, the UK is being outcompeted within them, and the beneficiary is rarely the EU. In the 16 sectors, China and a collection of other East and South East Asian economies have increased their collective market share significantly. But their growing market share hasn't been taken equally from everyone else. Britain has lost around a third of its 2019 market share, a larger proportional hit than the EU as a whole and any other G7 economy.

Brexit is the only plausible explanation for Britain's fall in goods exports

Why has the UK suffered such a stark loss of competitiveness in these sectors? As hinted above, the answer may not necessarily lie in these sectors specifically: the broader set of sectors covered by the IS-8 are not seeing the UK market share decline by more than other goods sector (they accounted for 49 per cent of losses, versus 62 per cent of goods trade in 2019).

The answer then lies in a broad-based underperformance of goods exports between 2019 and 2024 – rather than a specific weakness in key sectors. When it comes to explaining the poor performance of UK trade in this period, three usual suspects are quickly rounded up: energy prices, China's expansion into new global markets, and Brexit. Each has a pre-existing rap sheet, with its fingerprints across the world economy over the last five years. But the test that matters here is more specific: not whether these factors impacted goods trade everywhere, but whether they can explain why the UK's loss of competitiveness was not merely shared but uniquely severe. We interrogate each suspect in turn.

Higher energy prices doesn't seem likely to explain much of the fall...

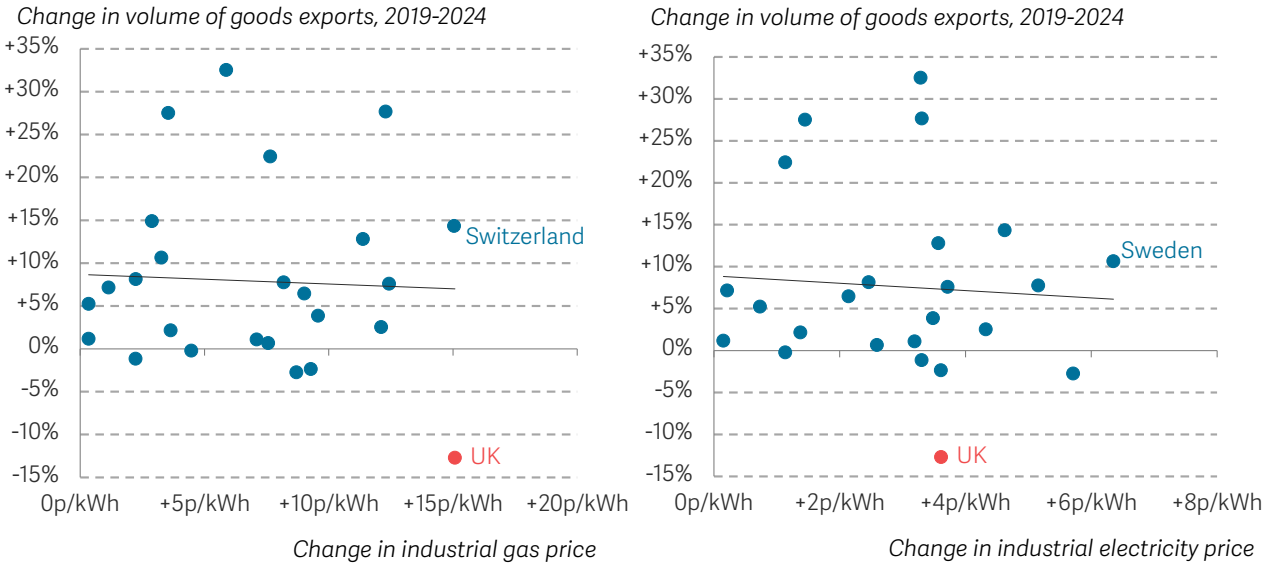
The 2022 energy shock shone a light on a pre-existing problem: British households and businesses pay a great deal for electricity. By 2024 the UK had the highest industrial electricity prices of any International Energy Agency (IEA) member – roughly 94 per cent above the median, the highest in the G7, and some 125 per cent above the median of its EU-14 peers.[22] This is not a new concern: we have repeatedly argued that high electricity prices weigh on competitiveness, and have previously proposed that at least some of the policy levies loaded onto electricity bills should move into general taxation – a case we have made for household bills, but one that also applies to firms too, even allowing for the partial exemptions that energy-intensive industries receive.[23]

How much blame can we attach to the UK's high energy prices for its recent goods underperformance? One way to answer that question is by looking at the experience of different economies in recent years. If countries that experienced a larger energy-price shock tended to see their goods export tank, then we could be reasonably confident that Britain's sharp rise in electricity prices should take the blame. But, as Figure 6 makes clear, this is far from true. Across 29 rich countries in the members, the correlation between energy price moves and goods export performance is negative (as expected) but weak. For example, Swiss businesses managed to grow their goods exports by 15 per cent, despite facing a similarly sized gas price shock to their British counterparts. And Sweden's goods producers shrugged off the largest electricity price rise in the IEA and increased export volumes by 10 per cent.

22 Energy Intensive Users Group, High UK Industrial Electricity Prices Continue to Damage Competitiveness of Energy Intensive Industries, October 2025.
23 J Marshall, Splitting the bill: How can Government help families with high energy bills?, Resolution Foundation, October 2025, https://doi.org/10.63492/hpc653.

FIGURE 6: **There is no clear cross-country link between energy prices and shift to services with the UK as a positive outlier**

Change in goods export volumes against change in industrial gas prices (left panel) and electricity prices (right panel): IEA members, 2019-2024



NOTES: Charts include all International Energy Agency (IEA) members with available data, excluding Ireland due to concerns about the reliability of its goods export volumes. Due to data availability, the change in industrial gas prices is between 2019 and 2023 for Norway and the US; the change in industrial electricity prices is between 2019 and 2023 for Japan and the US; all other energy price changes are between 2019 and 2024. International energy prices are converted to p/kWh using average annual exchange rates.
SOURCE: RF analysis of OECD, National accounts; DESNZ, International non-domestic energy prices.

While it's true that the UK stands out for our high electricity prices – and for the large rise in prices of recent years – the cross-country evidence suggests that is far from enough to explain our poorly performing goods exports. After controlling for industrial electricity and gas prices, Britain's fall in export volumes remains largely unexplained. Nor is it the high level of UK prices – as opposed to the change in them – that does the damage; across the same economies, the level of industrial prices explains export performance no better than the change does, and the UK underperforms by far more than even its position as the most expensive producer in the sample would predict. On to the next suspect.

…nor does a renewed 'China shock'

Between 2019 and 2024, China's share of world goods exports rose from 14 to 16 per cent.[24] Compared to the first 'China shock' (in the early 2000's), China's latest export push has been further up the value chain, with many of the gains concentrated in exactly the

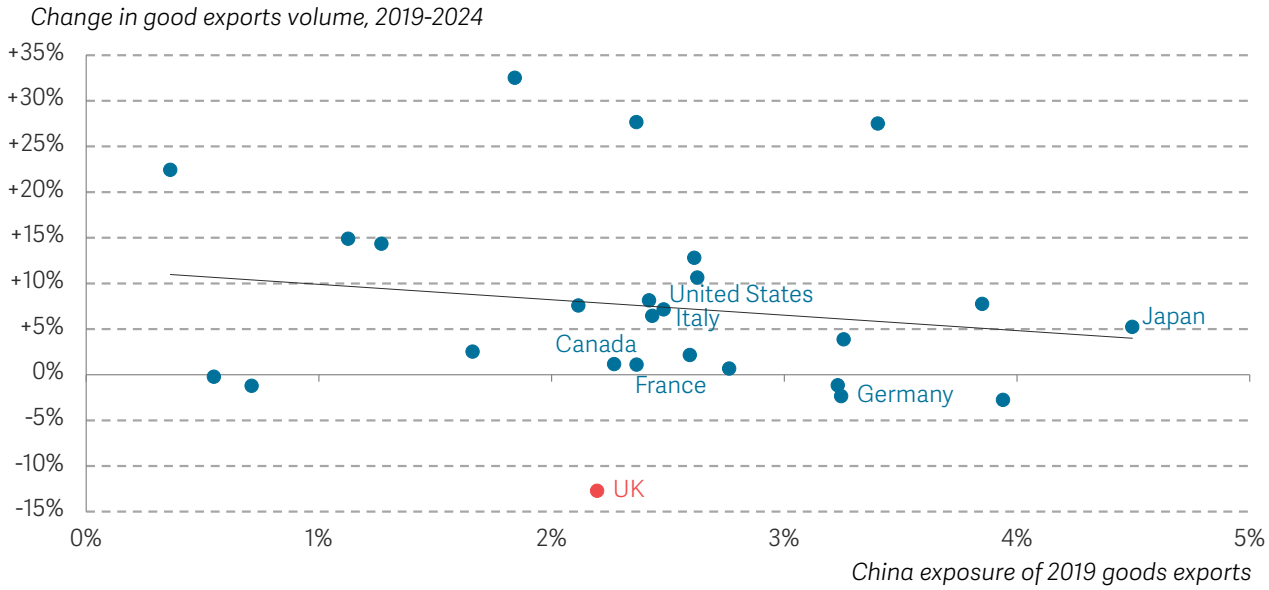
24 The idea of a 'second China shock' concentrated in advanced-manufacturing sectors is now widely discussed. See: S Tordoir, China shock 2.0: the cost of Germany's complacency, Centre for European Reform, 2026; F de Soyres et al, Partner or rival? The sectoral evolution of China's trade, VoxEU (CEPR), 2026; and N Shearing, Another China shock: higher stakes and fewer answers, Capital Economics, 2026.

frontier-manufacturing sectors the UK has laid out in its industrial strategy. In some priority products – electronic microcircuits, peripheral data-processing units, motor vehicles, motorcycles – China now accounts for more than a quarter of the world's supply. As discussed above and shown in Figure 5,, China's growth is a key reason why Britain has lost ground in growing IS-8 sectors. But can Britain's broader exposure to the China's export growth explain our recent weakness in goods across the board?

For the same sample of rich countries, Figure 7 shows the correlation between rich countries' goods exports growth and their exposure to China's export growth between 2019 and 2024. To calculate each country's exposure, we first compute China's percentage-point gain in market share in each four-digit goods sector, then take a weighted average of those gains for each country, based on their distribution of goods exports in 2019. Countries who started the period relying more on markets in which China would go to make large gains have larger measured exposure.

FIGURE 7: **Among the G7, the UK is the least exposed to China's export growth**

Change in goods export volumes and China exposure of goods exports: IEA members, 2019-2024



NOTES: A given country's China exposure is calculated based on its shares of goods exports across product markets in 2019, multiplied by China's growth in product market shares between 2019 and 2024. The sample of countries is the same as that in Figure 6.
SOURCE: RF analysis of OECD, National accounts; Harvard Growth Lab, Atlas of Economic Complexity (SITC version).

The message from the data is clear: the impact of China can't explain the UK's relative underperformance. The correlation between exposure to China and export growth is negative but relatively small: moving from the least (Greece) to the most (Japan) China-exposed country would be expected to take 5 percentage points off goods export growth.

But the UK is not especially exposed. Our pattern of goods exports in 2019 was the least China-exposed in the G7, and significantly less exposed than Germany and Japan. What is striking in the cross-country data is, once again, the large unexplained component of Britain's collapsing goods exports. A cross-country regression of goods export growth on China exposure across the advanced economies makes the point. Given how lightly exposed the UK was to China's advance, it predicts that UK goods exports should have grown strongly between 2019 and 2024 – by around a quarter, in line with similarly-exposed peers. Instead, in current-dollar terms, our exports increased by only around 5 per cent: a shortfall of close to 20 percentage points, among the largest of any advanced economy and behind only Andorra and Luxembourg. With energy prices, as we have seen, adding nothing to the explanation, that shortfall points to powerful UK-specific factors at work. This brings us naturally to Brexit and the implementation of the TCA.

Only Brexit provides a convincing explanation for the UK's dire goods' export performance

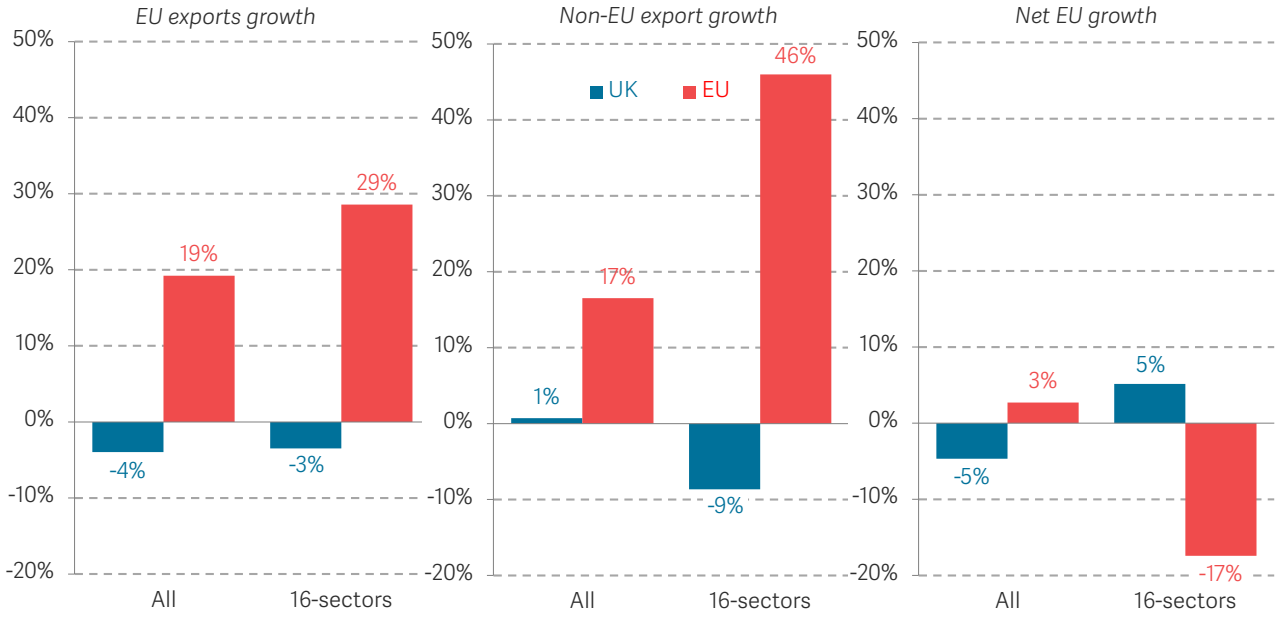
Leaving the EU was a broad institutional change affecting tariff and non-tariff barriers, regulatory alignment, supply-chain logistics, investment levels and incentives, and labour flow. As Figure 2 above shows, prior to the TCA taking effect on 1 January 2021, UK goods exports tracked G7 peers closely, with no meaningful divergence in the years following the 2016 referendum, nor in the immediate run-up to departure. Yet in 2021, when the TCA came into force, UK goods exports began to underperform relative to peers. Moreover, the aggregate figures understate that pain for the smallest exporters: around 16,400 smaller firms stopped exporting to the EU altogether after the TCA came into force – a loss that barely registers in the trade values because the largest firms that dominate the statistics were largely unaffected.[25] The timing of this divergence strongly suggests the most plausible explanation for the UK-specific deterioration in goods export competitiveness between 2019 and 2024 is, therefore, Brexit.

We might have expected the UK to have lost less ground in the markets where Britain's trading terms did not change than in those where it faced a new border. And, on the face of it at least, the pattern looks consistent with a simple 'lost EU access' story. The value of UK goods exports to the EU fell by 4 per cent between 2019 and 2024, while the value of exports to the rest of the world edged up slightly (see Figure 8). Had the UK matched the same product level intra- and extra-EU export growth rates as EU peers, exports to the EU would have grown faster than to the rest of the world. EU trade grew 19 per cent, which was 3 percentage points faster than with the outside world (17 per cent).

25 R Freeman et al., Deep integration and trade: UK firms in the wake of Brexit, CEP Discussion Paper No. 2066, Centre for Economic Performance, LSE, December 2025.

FIGURE 8: **In the priority sectors, the UK is not underperforming on its EU-facing trade – it is losing ground everywhere**

Growth in the nominal value of exports to EU and non-EU destinations between 2019 and 2024, all goods and basket of 16 industrial strategy products: UK and EU



NOTES: All goods excludes fuels (SITC 33 and 34) and gold (SITC 9710). EU growth rates weight each sector's growth by the UK's 2019 trade share in that sector, to give a growth rate comparable to the UK's. Intra-EU trade is exports of EU members to other EU members.
SOURCE: RF analysis of Harvard Growth Lab, Atlas of Economic Complexity (SITC version).

But in the 16 products highlighted above, the pattern inverts. World trade in these products grew by around 40 per cent between 2019 and 2024 – a fast-expanding pie, in which even a country whose exports were growing could lose share. The EU's own exports of these products grew by around 31 per cent – faster than the UK, but still slower than the 40 per cent expansion of the world market, so the EU too lost world share. But the UK fell behind in both directions: exports to the EU were down 3 per cent while exports to non-EU markets fell by 9 per cent. Yet, had the UK experienced EU export growth rates, its exports of these products to the rest of the world would have grown 17 percentage points faster than to the EU (Figure 10). In the sectors we've identified as struggling industrial strategy priorities, the UK is not underperforming on EU-facing trade specifically: it is losing ground everywhere, and fastest outside the EU.

Overall, the UK is not simply underperforming EU peers because it lost out on an intra-EU trade boom. The UK share of non-EU goods exports fell from 3.0 to 2.4 per cent between 2019 and 2024, a fall of 22 per cent, while the EU's share fell from 17.2 to 15.7 per cent, a fall of 8 per cent. On a like-for-like basis that gives the EU no credit for its internal market, the UK lost world export share around two-and-a-half times faster. So the UK's underperformance is not a statistical artefact – it reflects a genuine deterioration in external competitiveness.

Our view is that the best way to think about the impact of Brexit is as a 'slow puncture' with its impact arriving not as a sudden reorientation of trading partners, but as a slow disintegration from global goods trade. Supply chains that previously routed through EU partners, and investment decisions that were contingent on the UK's place in EU production networks.[26] Nor is it surprising that the puncture shows up most clearly in frontier sectors. These are the industries where investment is most footloose, production is organised in global supply chains, and success depends on being inside the networks – so a shock to investment and integration does its greatest damage there.

Sharper targeting of our industrial strategy and a rebuilt EU relationship should be the policy priorities

Where the diagnosis lands matters, because each suspect points to a different prescription. If the story were chiefly about energy prices, the answer would lie in bills and levies; if it were chiefly a China shock, in trade defence and diversification. But the evidence in this report points squarely towards a broad-based, UK-specific loss of goods competitiveness, rooted in Brexit. The transmission has come through supply chains and investment decisions, with a particularly worrying underperformance in some of the key sectors that the Government has chosen to back. Four conclusions can be drawn from this.

The first concerns where the industrial strategy now starts from. The Strategy was written as a plan to build on existing strengths – eight sectors "where Britain already has real strengths", in its own framing.[27] What the trade data show is that, when it comes to goods trade, our strengths in most sectors are eroding rather than compounding: almost half of the £74 billion goods export gap sits in products tagged to the IS-8, and in 16 selected products the UK surrendered a third of its world market share in five years. The scale of that loss is partly by construction – we chose products where the UK was losing ground – but the telling comparison is that Germany, France and Japan all fared materially better in the very same markets. That does not make the bets wrong. The IS-8 is the right set of sectors: they are where the UK's remaining advantages cluster, and in many cases global demand in them is growing. But a clear-eyed assessment of the past five years of trade data changes the job description. The Strategy's task in much of its territory is not to nurture an established edge, but to arrest a decline that is accelerating and that requires a scale of effort and an urgency that the 2025 documents do not yet reflect.

Second, it is important to resist the conclusion that the UK's reorientation towards services is in and of itself the problem. A services specialisation is a trend that most advanced

26 Comparisons that use UK versus rest-of-world trade as a Brexit counterfactual assume Brexit had no spillover effects on trade beyond the EU – an assumption that may be too strong, since disruption to EU-facing supply chains can affect non-EU trade too. See: J Kren, M Lawless, How has Brexit changed EU–UK trade flows?, European Economic Review, 2023, https://doi.org/10.1016/j.euroecorev.2023.104634.

27 Department for Business and Trade, The UK's Modern Industrial Strategy, June 2025.

economies are on: the US, France, Singapore and many more specialise in services exports and all have higher incomes per capita than the UK. Our own previous work has found that the UK's services tilt explains none of its growth underperformance when compared to peers.[28] Nor has the shift left UK trade dangerously narrow. The breadth of the UK's export profile remains typical of a medium-sized economy, neither unusually concentrated nor unusually diversified. On standard measures of export concentration the UK sits mid-pack – more specialised than France or Germany, less so than Japan, and far less so than small services hubs like Switzerland or Ireland.[29] Indeed, deepening existing strengths by being defensive on goods, and expansive on services is arguably the correct trade strategy to have.[30] The problem we have identified is not the direction of travel, but the pace at which the goods sector is being hollowed out and the fact that the hollowing is happening in the goods sectors the government has declared strategic.

The third conclusion is about focus. In culinary terms, the coverage of the industrial strategy can be characterised as having either too little jam, or too much toast. That is to say, between the eight priority sectors, nearly two-thirds (65 per cent) of UK goods trade was covered in 2024. Once financial services and professional and business services are added, it is the overwhelming majority of exports. No feasible amount of money, regulatory attention, or ministerial time (our metaphorical jam) can be reasonably spread across that surface thickly enough to materially shift competitiveness and growth. The solution is not to abandon the industrial strategy when it is barely a year into a ten-year plan. Instead, the approach should be to triage within it. Defend the positions where the UK remains genuinely world-leading. Aero-propulsion is the clearest case: a roughly £36 billion export cluster where the UK supplies over a quarter of the world's reaction engines – and where its advantage has been recently strengthened. Contest hard the markets where advantage is slipping but not gone – such as medicines, still a UK strength but £5.6 billion smaller than its 2019 share would imply. And be honest about products, like electronic microcircuits, where the UK's share has halved to a third of one per cent of a market dominated by East Asian supply chains. Turning around the fortunes of such sectors will be hard, and so targets should be chosen selectively – with the realistic prize being securing inputs and niches rather than gaining broad market share. Clarity of that kind, within sectors and along supply chains, is what would let the jam go where it can actually be tasted.

The fourth conclusion concerns our relationship with the EU. That the UK's losses are spread across both EU and non-EU markets does not reduce the importance of repairing the relationship. An important part of what the UK lost in 2021 was its role as a gateway to

28 J De Lyon et al., Enduring strengths: Analysing the UK's current and potential economic strengths, and what they mean for its economic strategy, at the start of the decisive decade, Resolution Foundation, April 2022.
29 J De Lyon et al., Enduring strengths: Analysing the UK's current and potential economic strengths, and what they mean for its economic strategy, at the start of the decisive decade, Resolution Foundation, April 2022.
30 S Bhalotia et al., Trading Up: The role of the post-Brexit trade approach in the UK's economic strategy, Resolution Foundation, June 2023.

the bloc; a place where firms invested in to serve the single market. If Brexit's damage runs through the entirety of supply chains and investment, then re-establishing the UK's place in European production networks is the repair that pays out everywhere: components and partnerships that flow through EU supply chains feed the UK's exports to the rest of the world as well. But regulatory alignment alone will not restore that. It addresses the costs of divergence by not forcing local manufactures to comply with two different sets of regulation, but not the gateway function which rests on customs formalities and rules of origin. The EU only recognises alignment that is negotiated, dynamic, and supervised. Fortunately, a roadmap exists: the May 2025 UK-EU summit set out a plan to negotiate a sanitary and phytosanitary (SPS) agreement on agri-food trade agreed, built on exactly this kind of negotiated, supervised alignment that seeks to remove the need for certain customs check and paperwork, such as export health certificates. The task would be to use that roadmap for other critical sectors such as chemicals, machinery, and vehicles. The Government hopes this option can deliver benefits while keeping it within its red lines – but the EU may not agree to even this more limited approach without the UK budging on free movement of people and making payments into the EU budget.[31] And at best it will deliver substantially smaller gains than a single market for goods that addresses wider trade barriers.[32] We set this out not as a counsel of despair, but as an honest account of what full repair would require – and therefore of what the Government is choosing to forgo by keeping its red lines where they are.

This first decade of Brexit has largely been spent absorbing global shocks. Yet, amid the economic chaos that has unfolded, an undeniable trend has emerged: the UK's comparative advantage in goods exports has taken a dramatic and rapid hit but, just as the last five years have proven, comparative advantage is not immutable. The industrial strategy could be a catalyst for change – especially if targeted at the right sectors – and a realistic perspective on how much a medium-sized economy can do. However, the cost of waiting could be considerable: Britain's falling market share over the past five years has potentially cost £74 billion a year in lost goods exports. Reestablishing relations with the UK's largest trading partner through routes such as dynamic alignment must remain a priority if the Government is serious about prioritising growth – and this will make maintaining costly red lines on trade increasingly difficult. As the decade since the Brexit vote has shown, the knock-on effects of the UK-EU terms extend far beyond the parameters of that single trading relationship and instead to the UK's role in global trade as a whole.

31 A Berg, Should the UK pursue dynamic alignment with the EU?, Centre for European Reform, July 2024.
32 J Curtice et al., Ten years on: What next for UK-EU relations?, UK in a Changing Europe, June 2026.

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For more information on this report, contact:

Sophie Hale
Research Director
info@resolutionfoundation.org

Resolution Foundation

2 Queen Anne's Gate
London SW1H 9AA

Charity Number: 1114839

@resfoundation
@resolutionfoundation.org
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