

The UK-China economic and political cooperation: The Brexit implications

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ABSTRACT

Objective: The research aimed to examine the strength and nature of the UK's relations with China under new circumstances caused by Brexit. Specifically, this article attempts to answer what was the impact of Brexit on economic and political relations between the UK and its significant economic partner, China. In pursuance of the goal, the authors discuss the economic and political implications of a new status quo in bilateral cooperation in the field of trade and investment and the political aspects of Brexit for both partners.

Research Design & Methods: We explored the UK-China relationship in the context of Brexit implications using a literature analysis and examined the strength and nature of economic relations between countries mentioned above using the trade orientation and intensity indicators.

Findings: Brexit created a new landscape for bilateral cooperation between the UK and its partners worldwide. The long-term consequences of Brexit will continue to unfold in years to come, but we may already recognize some early trends in bilateral relations. The analysis of the UK's trade orientation based on the historical data for the period 2013-2022 revealed the decreasing significance of Germany and the increasing position of China and the United States as the UK's trading partners. Moreover, the analysis of trade intensity revealed the lowest trade intensity between the UK and China post-2012 compared with Germany and the US. Nevertheless, the values of the trade intensity index with China indicate that there is still potential to increase exports to China.

Implications & Recommendations: The proposed set of indicators can serve to question the major tendencies of bilateral trade. Together, the indicators portray a comprehensive picture of interdependence and the strength of existing connections between two countries and help examine whether cooperation is strengthening or weakening. The orientation index identifies the strength and importance of the relationship with the trading partner relative to other trade relations' significance and monitors the progress of the cooperation, while the trade intensity index can be used to determine whether the value of trade between two countries is greater or smaller than expected based on their importance in world trade. The analysis results will allow scholars to determine possible actions that should be undertaken by the UK and – possibly – the EU to develop trade and investment cooperation with China in a more balanced way.

Contribution & Value Added: The article extends the knowledge of Brexit's economic and political implications for UK-China bilateral cooperation. Furthermore, the article presents a comprehensive analysis and evaluation of the current UK-China relations in the context of Brexit. We examined economic relations between the countries mentioned by means of trade orientation and intensity indicators.

Article type: research article

Keywords: Brexit; UK-China relations; trade; trade orientation indicator; trade intensity indicator

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INTRODUCTION

The United Kingdom (UK) withdrew from the European Union (EU) on 31 January 2020. Significant challenges to the existing relationships of the UK with its economic partners worldwide emerged not only during the process of leaving the community itself but also in the following years. The new reality

requires legal agreements that provide the basis for future satisfactory bilateral cooperation. The disengagement from the EU is a complex process that has already changed the trade and investment patterns in Europe and may have many implications for the global economy, including the trade diversion effect and reshaping of global value chains. The miscellaneous consequences of the process need evaluation and discussion, even though the time span is short.

The article aims to examine the strength and nature of the UK's relations with China, one of the UK's most significant economic partners, under new circumstances created by Brexit. We compared China with Germany and the US, the remaining British top economic partners, to provide the context to distinctive bilateral relations with China. Vice versa, the UK, Germany, and the US are China's top economic partners.

Specifically, this article attempts to answer two research questions:

RQ1: What are the short-term implications of Brexit on economic cooperation between the UK and China?

RQ2: Has Brexit worsened UK-China political relationship?

In pursuance of the goal, we will discuss the institutional and economic implications of a new status quo in bilateral cooperation in the field of trade and investment and the political aspects of Brexit for both partners. Despite a short time span and unexpected phenomena such as the Covid-19 pandemic and war in Ukraine, the first shifts in trade patterns should be visible, thus allowing early recognition and enriching the scope of the analysis. The article is divided into three parts. The first section discusses Brexit in the context of international relations. The second section presents the indicators used to examine the strength and nature of trade relations between the UK and its major economic partners. The final section explores the UK's political and economic relations with China under the new circumstances caused by Brexit.

LITERATURE REVIEW

Brexit Through the Lens of International Relations

As a relatively new phenomenon, Brexit needs intense research. Until 2016, studies concentrated on theories of integration, leaving the possibility of withdrawal from the EU unchecked. Moreover, until scholars have not researched the mechanisms that had to be adopted to manage a new reality after the British voted to leave. Thus, academic literature on Brexit is growing fast.

There are different reasons for Brexit. Back in 1956, Myrdal saw the process of disintegration as a result of economic hardships. Colantone and Stanig (2018) backed his arguments and noticed the support for Brexit in the British regions suffering from the globalization process. Interestingly, the authors blame China for the hardships of the British economy. Other authors stress the role of cultural resentment and identity (Norris & Inglehart, 2019).

There are few studies about the economics of disengaging from different communities. According to Rosamond (2016), Brexit can be regarded as an open-ended process and a definable outcome. Head *et al.* (2010) conducted an in-depth analysis of the effects of independence on post-colonial trade. Djankov and Freund (2002) and Mazhikeyev and Edwards (2021) undertook the issue of cooperation between post-Soviet countries after the collapse of the Soviet Union. Meanwhile, Brexit is an example of partial disintegration that has not been studied before.

Many studies explore the following subjects: the costs and benefits of Brexit (Dhingra *et al.*, 2017), the changes in value chains (Vandenbussche *et al.*, 2017), foreign direct investment (FDI) flows (McGrattan & Waddle, 2019) or the general consequences to the British economy (Plakandaras *et al.*, 2017; Begg, 2017; Graziano *et al.*, 2018). Hallet (2019) argues that Brexit will entail high economic costs and economic performance losses from trade and investment reductions. Gao *et al.* (2022) confirmed it by finding that political events have essential effects on mutual fund reallocation as asset management practices appear to have changed since the Brexit referendum. One of the most important consequences of Brexit is uncertainty shared by all partners involved in trade and investment. Osnago *et al.* (2015) found that uncertainty about future trade policy has an average effect on trade compared to tariffs of up to 8.7%. To reduce policy uncertainty, new trade agreements need to be

signed (Limão & Maggi, 2015), and the negative impact of Brexit should be compensated by free trade agreements (Jackson & Shepotylo, 2018). According to Freund and McLaren (1999), trade flows change in anticipation of preferential trade agreements (PTAs). Baier and Bergstrand (2009) proved that the effects of PTAs are usually more intense than presumed.

While the consequences of Brexit remain unknown, theoretical approaches emphasise different factors. Neoclassical realism appreciates the role of decision-makers and the material capabilities or military power the UK has at its disposal. Thus, according to Oliver (2017), the most important challenge of Brexit might be asymmetry in economic relations with the EU which may be mitigated by a new quality of cooperation with other partners. Much will depend on the British reconstruction of the UK's international image and role in the global system, as well as on ideas and perceptions of leading politicians engaged in the process.

The UK-China cooperation appears as an example of a realistic approach in international relations theory where countries cooperate due to rationality, despite asymmetric gains (Mearsheimer, 1990). A separate issue is a possible EU disintegration process that Brexit might unleash (Jones, 2018).

RESEARCH METHODOLOGY

The research methodologies applied to explore the UK-China economic and political relations in the context of Brexit implications vary. The political aspects of bilateral relations are based on content analysis, whereas the strength and nature of economic cooperation between the countries were examined using the trade orientation and intensity indicators. The data used was retracted from International Trade Centre Database (ITC) and HM Department for International Trade Database.

We may examine the short-term economic consequences of Brexit through the lens of the UK's economic connections with its main partners. Moreover, we can measure the trade orientation and the intensity of cooperation between two countries by the level of cross-border flows of goods and services (trade) as well as capital (FDI and other types of financial assets) between these partners compared to their bilateral or multilateral economic relations with the rest of the world. There is extensive scientific literature on the measurement and analysis of bilateral economic relations, especially trade relations. We may identify several basic approaches to studying the strength and nature of bilateral trade relations, including the gravity model of bilateral trade (Tinbergen, 1962), indicators of trade intensity (Kojima, 1964; Srivastava & Green, 1986), and geoeconomic vulnerability indicators (Kostecka-Tomaszewska & Krukowska, 2020).

The overall picture of the scope and nature of international bilateral relations ties between economic partners can be characterised by indicators presented below. The proposed indicators provide a proper set that can be used to investigate the economic linkages between countries from the angle of trade orientation and intensity of bilateral cooperation. As trade is one of the main dimensions of economic interactions between countries, consequently, we will use this variable to analyse the strength of bilateral relations and the degree of interdependence between the UK and its significant economic partners, *i.e.* Germany, the US, and China.

We employed the indicators presented below to analyse the trade relations that the UK has with China and compare them to the ones it has with Germany and the US. We conducted the analysis over the 2013-2022 period based on data from the International Trade Centre (ITC). The indicators allow for exploring the performance of the UK's exports and imports in various dimensions, providing a comprehensive picture of the strength and nature of the UK's bilateral relationships with its selected partners.

Furthermore, applying trade integration and intensity indicators can be helpful to quest the major tendencies of bilateral trade. Together, the indicators portray a comprehensive picture of interdependence and the strength of existing connections between two countries and help examine whether cooperation is strengthening or weakening. We may use the orientation index (2) to identify the strength and importance of the relationship with the trading partner relative to other trade relations' significance and monitors the progress of the cooperation and the trade intensity index (3) by Srivastava and Green (1986) – to determine whether the value of trade between two countries is greater or smaller than expected based on their importance in world trade.

$$\text{Trade share}_{ij} = \frac{\text{Export}_{ij} + \text{Import}_{ji}}{\text{Export}_{iw} + \text{Import}_{wi}} \quad (1)$$

$$\text{Trade orientation index}_{ij} = \frac{\text{Export}_{ij} + \text{Import}_{ji}}{\text{Export}_{iw} + \text{Import}_{wi}} \div \frac{\text{Export}_{iw} + \text{Import}_{wi}}{\text{Export}_{ww} + \text{Import}_{ww}} \quad (2)$$

$$\text{Export orientation index}_{ij} = \frac{\text{Export}_{ij}}{\text{Export}_{iw}} \div \frac{\text{Export}_{iw}}{\text{Export}_{ww}} \quad (2.1)$$

$$\text{Import orientation index}_{ij} = \frac{\text{Import}_{ji}}{\text{Import}_{wi}} \div \frac{\text{Import}_{wi}}{\text{Import}_{ww}} \quad (2.2)$$

$$\text{Trade intensity index}_{ij} = \frac{\text{Export}_{ij}}{(E)\text{Export}_{ij}} \quad (3)$$

$$(E)\text{Export}_{ij} = \frac{\text{Export}_{iw}}{\text{Export}_{ww}} \times \frac{\text{Import}_{wj}}{\text{Import}_{ww}} \times \text{Export}_{ww} \quad (3.1)$$

In which:

- Export_{ij} - exports from country i to country j;
- (E)Export_{ij} - expected exports from country i to country j;
- Export_{iw} - exports from country i to all destinations;
- Export_{jw} - exports from country j to all destinations;
- Export_{ww} - total world exports from all countries;
- Import_{ji} - imports from country j by country i;
- Import_{ij} - imports from country i by country j;
- Import_{wi} - imports from all origins by country i;
- Import_{wj} - imports from all origins by country j;
- Import_{ww} - total world imports from all countries.

The trade orientation index is the ratio of two trade shares. The numerator is the share of bilateral trade with a partner j in the whole trade of the country under study i. The denominator is the share of the country i in total world trade. We may also calculate the trade orientation index using export or import shares instead of trade shares. This index allows us to measure the relative trade intensity between trading partners compared to trading with others. An index value greater than 1 indicates that a given country i is more focused on cooperation with partner j than with the rest of the world.

In turn, the trade intensity index is calculated as the ratio of the actual volume of trade between two countries i and j to the expected value of trade between these partners, in which the expected intensity of bilateral trade cooperation is defined by the importance of these economies as importer and exporter in the world trade. The trade intensity index higher than 1 indicates that the trade relationship between partners is stronger than expected, given both countries' shares in world trade. If the value is below 1, it implies that the relationship is weaker than expected (Srivastava & Green, 1986, p. 626).

RESULTS AND DISCUSSION

The Institutional Framework of UK-China Relations After Brexit

All partners of the United Kingdom accepted its decision to leave the European Union with bewilderment and anxiety. The most concerned partner was China as it had invested much in a privileged relationship, extensive trade, and investment in the UK, and the countries shared many years of fruitful cooperation. Only a few years before Brexit did the British government announce the golden era in Sino-British relations and wanted the UK to be 'China's best partner in the West' (BBC News, 2015; HM Government, 2017). The UK used to be a stepping stone into the EU market with a secure investment environment where Chinese companies could establish and strengthen their brand on the way to the continent. Many Chinese companies decided to establish their European headquarters in London, *i.e.*

Huawei. The plans for cooperation were huge: the construction of a GBP 24 billion Hinkley (Somerset) nuclear power station and other nuclear plants at Sizewell (Suffolk) and Bradwell (Essex), a GBP 42.9 billion high-speed rail network linking London and Birmingham, or the plans to make London the leading Western renminbi hub (Carrington, 2015; Topham, 2015; HM Treasury, 2016). The UK was not only a gateway to the bloc but also a means of projecting economic and political power, influence, and technology (Leavenworth, 2016; Phillips, 2016). Despite the traditional diplomatic restraint, when visiting the UK in October 2015, Chinese President Xi Jinping supposedly expressed China's support for the British stay in the European Union (Brown, 2016). With such a solid long-term commitment, China must have been appalled by the British voters' decision.

At the same time, the UK cannot ignore China's significant market potential that can stimulate its economic growth. Therefore, the UK has been courting China hoping for investment within the last decade: its prime ministers (David Cameron, Theresa May, Boris Johnson) abandoned their dangerous human rights rhetoric for a lenient win-win approach. Within the EU, the UK had been the strongest supporter of granting China market-economy status, pushed for EU-China FTA negotiations, and has blocked higher EU tariffs on Chinese steel (Kuo, 2018; Cameron Irritates Brussels by Pushing EU-China Trade Deal, 2013; Mason, 2016). As a significant European economic power, the UK was the first prominent G7 member and a leader of European countries that joined the China-led Asian Infrastructure Investment Bank (AIIB) as a founding member in 2015.

As a member of the European Union, the UK benefited from the grouping's *acquis* which provided the basis for bilateral cooperation between the EU's members and third countries, including China. Therefore, disentangling the UK from the EU requires setting new regulations for cooperation between partners under new circumstances created by Brexit. Since Brexit, economic cooperation between the UK and China has been regulated by a bilateral investment treaty (BIT) signed in 1986 when trade and investment were significantly smaller. As trade and investment relationships between the UK and China have become closer, trade and market access gains now depend on their reciprocal openness and coordination of bilateral policies. Therefore, the agreement signed nearly four decades ago is highly outdated. The relationship requires new regulations on such issues as intellectual property protection, market access, and tariffs, to mention a few. To meet the current challenges, the UK needs to create a new legal framework for cooperation with China, including signing trade and investment agreements to regulate the post-Brexit reality.

Partners need a free trade agreement (FTA) and a new comprehensive agreement covering trade in goods and services, financial flows, and new fields such as sustainable development. New rules should make regulations more transparent and determine such issues as freedom of capital flow and transfer of funds, investors' protection (*i.e.* prohibition of discriminatory measures, protection against expropriation), reciprocal treatment (*i.e.* most-favoured-nation treatment), *etc.* According to Hoekman (1999), deep FTAs are the standard that countries aiming to strengthen economic cooperation should adopt.

The need is even more pressing as the EU signed a new investment agreement in December 2020, opening the Chinese market to services. According to Miller from the British Chamber of Commerce in China (Miller, 2021), the UK needs to work out its trade and investment deals with China that will reduce both tariff and non-tariff barriers to British exporters and investors and can be better targeted at the UK's strong services sector which has long been underrepresented in China. Other issues that need further regulation are enhanced market access for UK goods and services, free-trade agreement, fair competition with Chinese SOEs, IP protection, and mutual recognition of qualifications.

Therefore in 2021, prime minister Boris Johnson declared he was 'fervently Sinophile' and intended to improve bilateral relations despite all the contentious issues. As a result, both countries agreed to resume cooperation: the 11th China-UK Economic and Financial Dialogue (Wang, 2021) and trade talks with Beijing via the Joint Economic and Trade Commission (Courea, 2022b) happened in 2022. Furthermore, in 2022 the UK government allowed the sale of the UK's most significant semiconductor plant in Wales to Nexperia, a Dutch subsidiary of the Chinese technology company Wingtech (Courea, 2022a).

The Reality of Post-Brexit Economic and Political Relations Between the UK and China

Brexit created a new background for bilateral cooperation between the UK and its partners from all over the world. The British decision to leave the EU also changed complex relations with China, though not as much as presumed. China's bilateral trade and investment inflow remains stable and the pre-Brexit scenario of becoming over-reliant on China has not fulfilled. Nevertheless, within the last years, bilateral political relations started to deteriorate. Together with the Covid-19 pandemic and the war in Ukraine, Brexit ousted the UK from the leading position among China's European partners due to China's unclear stance on the conflict in Europe and the global suspicion over its role in the pandemic outburst. Mistrust between partners was even strengthened by China being a single country with trade benefits due to extended lockdowns in Europe and China's initial handling of the pandemic, thus enabling it to strengthen its global trade position.

As a result, the UK hardened its strategy towards China, trying to advance British interests. In its policy document issued in March 2021, entitled *Global Britain in a Competitive Age: The Integrated Review of Security, Defence, Development and Foreign Policy*, the Cabinet characterized China as the UK's 'biggest state-based threat to economic security' (HM Government, 2021). Following the decision of the National Cyber Security Centre (NCSC) to consider Huawei a high-risk vendor, the British government excluded the company from its 5G network construction over unclear security practices and links to the Chinese government (Kleinmam, 2021; NCSC, 2020). In the same year, political tensions rose when the UK decided to provide special visas for Hong Kongers with British Nationals (Overseas) status and their family members in response to a new national security law for Hong Kong. According to the British government, the law violated agreements between the UK and China during the Hong Kong handover in 1997 (Kirk-Wade & Gower, 2022, p. 3). As a result, the authorities suspended the dialogue in bilateral economic forums. Moreover, in the following years, authorities blocked some attempted sales to Chinese companies (*i.e.* Perpetuus, a specialized graphene manufacturer) and some companies confronted resistance to continued partnership (*i.e.* CGN building a nuclear power plant in Suffolk). Furthermore, as part of a government strategy, the UK continues to reduce reliance on China for rare earth minerals (*i.e.* lithium) (Courea, 2022b).

Furthermore, the geopolitical environment around China changed because of the traditional alliances of the Western powers. In 2021, the UK signed up for the trilateral security pact with Australia and the US (AUKUS). In February 2022, the UK joined the US in a diplomatic boycott of Beijing's 2022 Winter Olympic Games. China has to compete with the aligned Western economies, committed to free trade rules and anti-dumping measures. The traditional British support for the US was extended to its tensions with China over trade, support for North Korea, or navigation freedom in the South China Sea. The rising assertiveness of China under Xi Jinping, with its 'wolf-warrior diplomacy,' disinformation campaigns, and open hostility towards the US and Australia, has revealed a new quality in bilateral relations. In the UK, the feeling of uncertainty increased with the Russian aggression against Ukraine in February 2022, met with the Chinese tactical restraint (Martina, 2022). The new UK's position on China concentrates on two aspects: engagement where necessary while remaining realistic about China's authoritarianism. Owing to such a pragmatic stance, the British diplomats have recently managed to improve the chances of UK companies bidding for contracts from state-owned enterprises and secured GBP6 million worth of licences to launch fund management in China, while openly expressing national security concerns (HM Government, 2023).

Hence, as China is driven by its strategic interests, in 2022, bilateral trade and investment remained high. China continues as one of the UK's most important economic partners. In 2022, it was the fourth-largest trading partner accounting for 6.5% of total UK trade (HM Department for International Trade, 2023). The mainstays of UK goods exports to China include cars, crude oil, medicinal and pharmaceutical products, and non-ferrous metals, and imports from China consist of telecoms and sound equipment, office machinery, clothing, and metal manufacturers. Since 2019, China has risen in trade in goods above France and the Netherlands, and in services, exports to China grew by almost 250% between 2010 and 2019 (Patel & Xu, 2021). The largest share in services is travel and 'other business

services' (*i.e.* accounting, legal, advisory, *etc.*), which account for over half of the UK's services exports to China (2022). Other significant categories include intellectual property, financial, and transportation services (HM Department for International Trade, 2023). The growth was caused by an increased market opening in many sectors due to the post-pandemic re-opening.

Chinese FDI flows to the UK remain stable though there is visible competition with other European partners, notably Germany, attracting Chinese companies with its advanced robotics companies. The UK hosted more investment than other EU members in 2016-2018, despite the depreciating pound sterling (Percy, 2019). The most significant deals included the Chinese takeover of a warehouse company Logikor (USD 14.4 bn), telecoms Global Switch (USD 7.6 bn), HSBC (USD 12.7 bn), and Barclays (USD 3 bn). At the same time, China has been attracting investment from the UK by opening the services sector. In 2021, China was the top priority investment destination for 39% of British companies and the second or third priority for another 18% (BCCC, 2022a).

According to the British Chamber of Commerce in Beijing, British investors face disadvantages, particularly concerning market access barriers. In the technology or food and beverage industry (BCCC, 2021), the disadvantages include delays in receiving licenses, problems with accessing or moving company finances, and Chinese cyber and IT restrictions. Furthermore, due to strict cyber security regulations in China, British businesses fear their local operations will be separated from their global networks (Yang & Mitchell, 2020). Other challenges include state-sponsored competition (*i.e.* subsidies), employment of foreign staff, enforcement of laws and regulations (BCCC, 2023, 2022b, 2020), and fear of being blacklisted under China's corporate social credit scheme in the case of cooperation with a penalised company (Yang & Mitchell, 2020). A rather pessimistic outlook of British businesses results from the growing geopolitical tensions and a slowing global economy (BCCC, 2023).

Trade Orientation and Intensity of Trade Cooperation Between the UK and its Main Trade Partners

An analysis of the trends in the UK's trade with its main trading partners depicts the diverse nature of the country's trade relationships with China, Germany, and the US (Figure 1). Until 2021, trade relations with the US remained relatively stable and roughly balanced, mainly with the UK surplus. In 2022, there was a significant increase of USD 38 billion (65%) in imports from the US. Due to this, the UK recorded a deficit of USD 34 billion. Regarding trade connections with Germany, imports and exports have been slowly declining. In contrast, imports from China have been gradually increasing over the past few years, generating a significant trade surplus in China's favour. As a result, China has become a leading supplier of goods to the UK market. At the same time, British exports to China display an upward trend with some fluctuations.

Until 2020, the UK's bilateral trade relationships with major partners were stable with no significant fluctuations. The most considerable observed change concerns imports from the US and China in 2021-2022 (Figure 1). However, determining whether the current situation is a result of post-Brexit adjustments or the Covid-19 pandemic is challenging as both phenomena have simultaneous consequences. However, undoubtedly, the increased UK demand for medical products, such as masks, ventilators, pharmaceuticals, and electronics, has shown a dangerous dependence on Chinese supplies. Over the past year (2022), the UK's total trade with China has reached almost USD 140 billion (ITC, 2023).

Geographic trading patterns and interdependence between countries are linked to the volume of bilateral transactions. The relative importance of bilateral relations with country *j* for country *i* is measured by the trade share (1), which is calculated as the ratio of total trade between countries *i* and *j* and the total trade of country *i* with all the partners. In addition to the general indicator of trade share based on total trade turnover, exports and imports can be separately taken into account. The trading relationship between two countries can be characterised by the following shares: $\text{Export}_{ij}/\text{Export}_{iw}$, $\text{Export}_{ji}/\text{Export}_{jw}$, $\text{Import}_{ji}/\text{Import}_{wi}$, and $\text{Import}_{ij}/\text{Import}_{wj}$, which help assess the mutual importance of partners in bilateral trade cooperation. The values of these indicators prove that Germany, the USA, and China have been important trading partners of the UK in recent years. However, this is a one-sided dependency, as the UK does not play such a significant role in the foreign trade of its partners (Table 1).

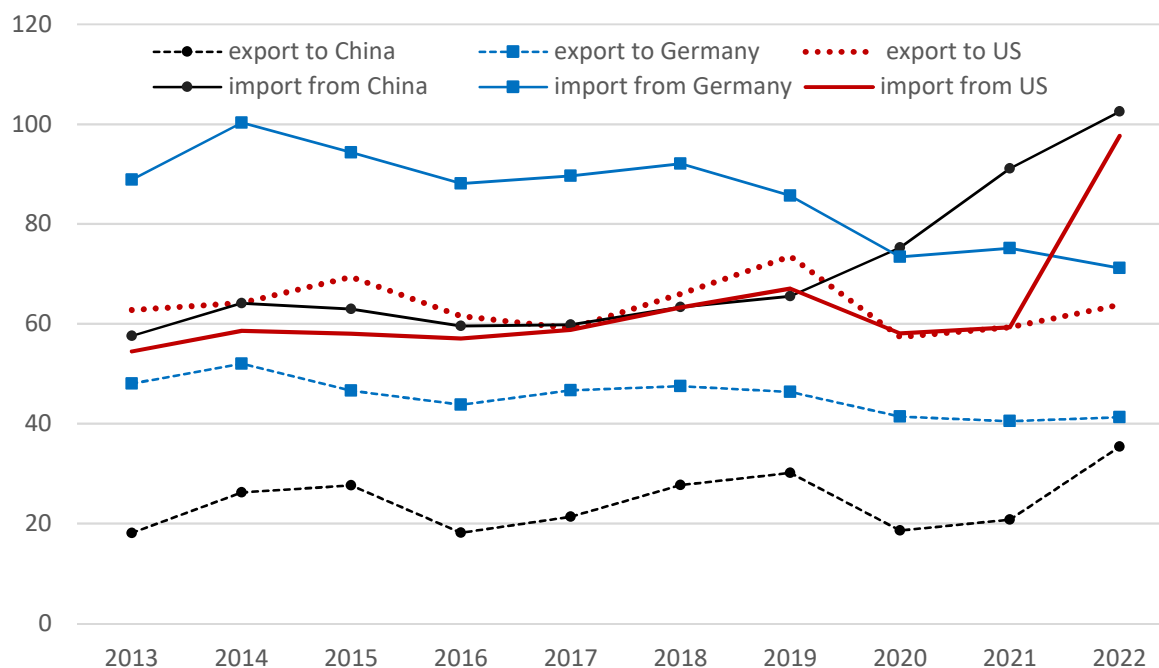


Figure 1. Trends in the UK's trade with China, Germany, and the US (billion USD)

Source: own elaboration based on International Trade Centre Database; ITC, 2023.

Table 1. Shares in mutual foreign trade between the UK and its partners: China, the USA, and Germany (%)

Trade relation	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
China in UK's export	3.3	5.1	5.9	4.4	4.8	5.6	6.4	4.6	4.4	6.7
US in UK's export	11.5	12.6	14.9	15.0	13.4	13.4	15.7	14.3	12.7	12.0
Germany in UK's export	8.8	10.2	10.0	10.6	10.6	9.7	9.9	10.3	8.6	7.8
UK in China's export	2.3	2.4	2.6	2.7	2.5	2.3	2.5	2.8	2.6	2.3
UK in Germany's export	6.5	7.0	7.4	7.1	6.6	6.2	6.0	5.6	4.7	4.7
UK in US's export	3.0	3.3	3.7	3.8	3.6	4.0	4.2	4.1	3.5	3.7
China in UK's import	8.8	9.2	10.0	9.4	9.3	9.4	9.5	11.9	13.1	12.6
US in UK's import	8.3	8.4	9.2	9.0	9.2	9.4	9.7	9.2	8.5	12.0
Germany in UK's import	13.5	14.4	15.0	13.8	14.0	13.7	12.4	11.6	10.8	8.7
UK in China's import	1.0	1.2	1.1	1.2	1.2	1.1	1.2	1.0	1.0	0.8
UK in Germany's import	4.4	4.2	4.0	3.7	3.5	3.4	3.4	3.4	2.7	2.5
UK in US's import	2.3	2.3	2.6	2.5	2.3	2.4	2.5	2.1	2.0	1.9

Source: own elaboration based on International Trade Centre Database; ITC, 2023.

In turn, the trade orientation and intensity indices measure the relative trade intensity between trading partners compared to other countries. If indexes are greater than 1, it means that the country is more focused on trading with its given partner than with the rest of the world and the relationship is stronger than expected. Figure 2 shows the orientation and trade intensity indices calculated from the UK's perspective. Based on historical data from 2013 to 2022, an analysis of the UK's trade orientation indicated a decline in the importance of Germany as a trading partner and an increase in the significance of China and the USA after 2018. Throughout the study period, all trade orientation indicators with analysed trading partners exceeded the value of 1. The US had the highest indicator level of 4.32 in 2022. Moreover, the analysis of trade intensity revealed the lowest trade intensity between the UK and China after 2013 compared with Germany and the USA. The values of the trade intensity index with China are constantly changing, lying between 0.30-0.60. This indicates that there is still potential to increase exports to China. In turn, the trade flows of the UK with Germany are decreasing with the trade intensity indicator greater than 1 for the whole period. The trade intensity remained high in 2013-2022 but the indicator's value has a decreasing tendency. In the case of the US, the indicator's value fluctuates around 1. This may indicate

that countries have come close to the limits of further intensification of mutual trade and the possibilities of continued trade expansion have run out due to the well-established trade relations.

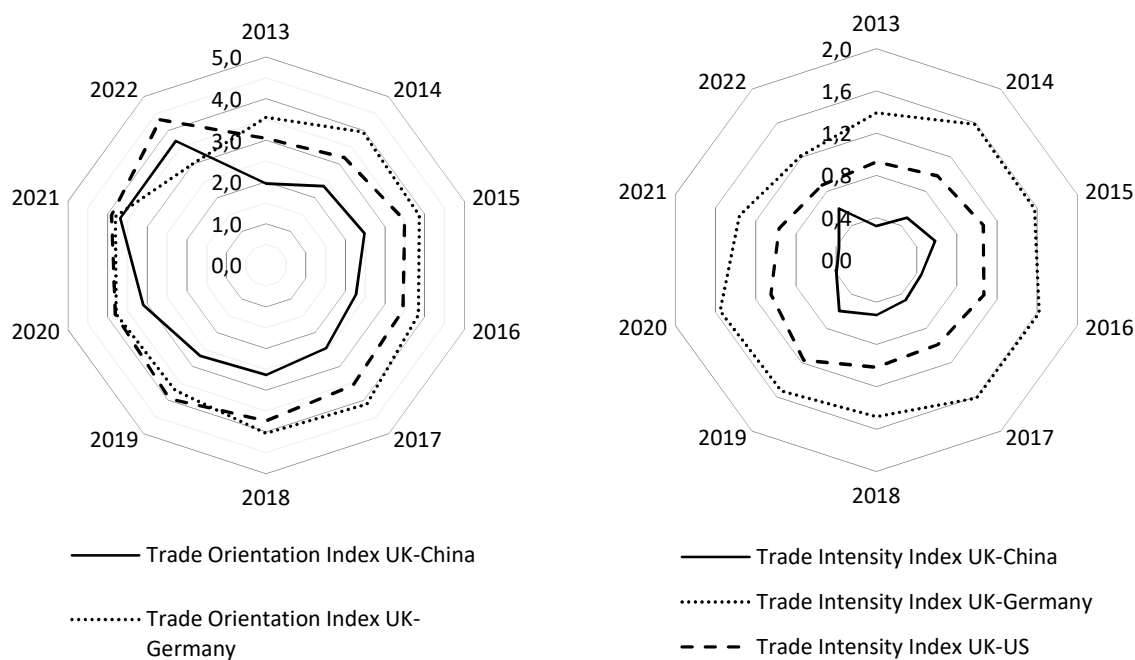


Figure 2. Trade orientation and intensity indicators between the UK and its partners: China, the USA, and Germany, 2013-2022

Source: own elaboration based on International Trade Centre Database (ITC, 2023).

CONCLUSIONS

The early analysis of the Brexit implications on bilateral UK-China relations proves that they are various yet undetermined. Since 2016, China has been reconsidering the UK as a desirable investment location, given it lost its most crucial appeal as a gateway to the EU and as an ally, through which China has successfully pursued its 'divide and rule' tactics on EU partners. Thus, Brexit lowered the rank of the UK among China's economic and political partners. With the constant risk of the Scottish and Northern Irish secession and the continuous competition with Germany as a technological hub, the UK's position has become even worse. Nevertheless, the UK remains China's important trade and investment partner, though it lost much of its ability to influence China when acting alone without the EU's support. On the other hand, the UK is not particularly dependent on China as well.

Initially, it was estimated that the long-term consequences of Brexit will include a loss of 4% in economic output. The Covid-19 pandemic even aggravated the economic slowdown. Therefore, strengthening bilateral trade and investment with China should be a necessary instrument to support the post-Covid recovery. The future shape of the relationship between the UK and China will largely depend on a new agreement that will provide the basis for bilateral cooperation between partners. The UK is pragmatic about its partnership with China. It wants to keep all the possibilities open in a balanced dialogue, where it can have practical economic cooperation with no human rights concerns engaged. Notably, the past linkages between the UK and EU member states – such as infrastructure, production and consumption chains, and business networks – still exist and limit the reorientation of trade and investment flows.

Currently, the UK has to face the challenges caused by the consequences of Brexit and the Covid-19 pandemic. It is too early to assess whether the trends in bilateral relations result from post-Brexit adjustments or the pandemic. There is still little clarity on the implications of both phenomena in the long run; more precisely, how both issues will influence the development of the UK,

its trade, international cooperation, and relations with the main economic partners. The long-term implications of Brexit are still to be uncovered.

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