



North America and Global Economy
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Trade Research Report

United Kingdom



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1 Introduction

Despite its small size, the United Kingdom is the fifth largest trading nation in the world. Due to its reliance on trade, it has a major stake in maintaining a vigorous and open world trading system.¹ As one of the five permanent members of the UN Security Council, a founding member of NATO, and of the Commonwealth, the UK pursues a global approach to foreign policy while weighing the degree of its desired integration within Continental Europe.

This report provides a detailed analysis of the United Kingdom with a focus on its trade relations with Canada. The first part of the report is based on the country profile and describes various characteristics such as demographics, economy and political structure. This is followed by an analysis of British international trade with reference to export and import and foreign direct investment data. Finally, we present an overall assessment and future outlook on the UK trade performance as well as Canada's potential for further trade and investment with the UK.

2 Brief History

The Roman Invasion of Britain in 55 BC and most of Britain's subsequent incorporation into the Roman Empire encouraged development and fostered closer ties with the rest of Europe. As Rome's strength declined, the country was again subject to invasion. Norman rule ultimately ensured Britain's safety from further intrusions.²

By the end of the 14th century, foreign trade, originally based on wool exports to Europe, emerged as a cornerstone of national policy. Sea power was emphasized to protect trade and expand English influence. Attracted by the spice trade, English mercantile interests spread to the Far East. Britain continued expanding its influence abroad during the next two centuries and was a dominant industrial and maritime power during the 19th century and played a leading role in developing parliamentary democracy and in advancing literature and science.³

The first half of the 20th century saw the UK's strength seriously depleted in the two World Wars. Beginning with the independence of India and Pakistan in 1947, the remainder of the British Empire was nearly completely broken down. However, the second half of the century saw the UK rebuilding itself into a modern and prosperous European nation and becoming one of the trillion dollar economies of Western Europe.

3 Country Profile

3.1 Population

The population of the United Kingdom was 60,441,457 with a growth rate of 0.28% for 2005.⁴ The majority of the population is between the ages of 15 and 64, while both the younger and older groups each represent approximately one quarter of the population.

¹ <http://www.cid.harvard.edu/cidtrade/gov/ukgov.html>

² <http://state.gov/r/pa/ei/bgn/3846.htm>

³ <http://www.cia.gov/cia/publications/factbook/print/uk.html>

⁴ <http://www.cia.gov/cia/publications/factbook/print/uk.html>

Age (Years)	% of population	Male	Female
0-14	17.7	5,490,592	5,229,691
15-64	66.5	20,329,272	19,855,862
65 and over	15.8	4,063,357	5,472,683

Table 1. Age distribution according to 2005 estimates

3.2 Ethnic Composition

According to the 2001 census, the ethnic composition is predominantly white (Caucasian) and this group accounted for 92.1% of the total population. The Caucasian group encompasses 83% English, 8.6% Scottish, 4.9% Welsh and 2.9% Northern Irish. The other ethnic groups were as follows: Black (2%), Indian (1.8%), Pakistani (1.3%), Mixed (1.2%) and other (1.6%).

3.3 Religion

The religious composition is mostly Christian. It encompasses Anglicans, Roman Catholics, Presbyterians and Methodists and together they represent 71.6%. Of the remaining, 2.7% are Muslim, 1% is Hindu, 1.6% are other, and 23.1% are unspecified or have no religion.⁵

3.4 Geography



Figure 1. Map of United Kingdom

The United Kingdom is located in Western Europe, to the north west of France. It covers a total area of 244, 820 sq km (Land: 241,590 sq km and water: 3,230 sq km).⁶ Its coast line runs 12,429 km and 360 km of the border is shared with Ireland. Comparatively, its area is smaller than the US state of Oregon. The UK boasts a temperate climate moderated by prevailing southwest winds over the North Atlantic current. More than one-half of the days are overcast. Violent storms, flooding, drought, changing weather patterns (hotter summers and colder winters) due to global warming are the principal natural hazards affecting the UK.

The land is rich in natural resources including coal, petroleum, natural gas, iron ore, lead, zinc, gold, tin, limestone, salt, clay, chalk, gypsum, potash, silica sand, slate and arable land. Its terrain consists mostly of rugged hills and low mountains, level to rolling plains in the east and the south east. Slightly less than one quarter of the land is used for agriculture, while the remaining land is used for other endeavours, such as housing and industry.

The capital city is London while some of the major

⁵ <http://www.cia.gov/cia/publications/factbook/print/uk.html>

⁶ <http://www.cia.gov/cia/publications/factbook/print/uk.html>

cities include: Birmingham, Leeds, Liverpool, Manchester, Newcastle upon Tyne, Sheffield, Westminster, Bristol, Derby, Leicester, Plymouth, Portsmouth, Southampton, York, Belfast, Derry, Cardiff, Glasgow, Edinburgh and Swansea.⁷

3.5 Economic Overview

The United Kingdom has the fourth largest economy in the world, is the second largest economy in the European Union and is a major international trading power. A highly developed, diversified, market-based economy with extensive social welfare services provides most residents with a high standard of living. London ranks with New York as a leading international financial centre.

Since 1979, the British Government has privatized most of its state-owned companies, including British Steel, British Airways, British Telecom, British Coal, British Aerospace and British Gas. In some cases the government retains a share in these companies. The Labor Government has continued the privatization policy of its predecessor.⁸

Over the past two decades, the government has contained the growth of social welfare programs. Agriculture is intensive, highly mechanized, and efficient by European standards, producing about 60% of food needs with less than 2% of the labor force. The UK has large coal, oil and natural gas reserves; primary energy production accounts for 10% of GDP, one of the highest shares of any industrial nation. It is the European Union's only significant energy exporter. It is also one of the world's largest energy consumers and most analysts predict a shift in the UK status from net exporter to net importer of energy by 2020 or sooner. Oil production in the UK is leveling off. While North Sea natural gas production continues to rise, gains may be offset by ever increasing consumption.⁹

The principal growth sectors in the UK economy are: Telecom-IT (fully deregulated market, most liberal in Europe); Energy (renewables, alternative and nuclear); Aerospace and Defence; Agri-Food (growing market for new premium, specialty and organic products); Construction & Building Products (most dynamic market in Western Europe); Health Care (medical instruments, software, biotechnology); Environment (waste and emission reduction systems to help UK meet EU and international targets); Metals and Minerals (third largest exporter of diamonds).¹⁰

Services, especially banking, insurance and business services account by far the largest portion of GDP while industry continues to decline in importance. GDP growth slipped in 2001-2003 as the global downturn, the high value of the pound and the bursting of the new economy bubble hurt manufacturing and exports. Output recovered in 2004 to 3.2% growth but fell in 2005 to 1.8%.¹¹ Despite slower growth, the economy is one of the strongest in Europe. Inflation, interest rates and unemployment remain low.

GDP (Purchasing Power Parity)	\$1.867 trillion (2005 est.)
GDP (Official Exchange Rate)	\$2.275 trillion (2005 est.)
GDP (Real Growth Rate)	1.8% (2005 est.)
GDP per capita (PPP terms)	\$30,900 (2005 est.)

⁷ <http://www.cia.gov/cia/publications/factbook/print/uk.html>

⁸ <http://www.infoexport.gc.ca/ie-en/DisplayDocument.jsp?did=378>

⁹ <http://www.state.gov/r/pa/ei/bgn/3846.htm>

¹⁰ <http://www.infoexport.gc.ca/ie-en/DisplayDocument.jsp?did=378>

¹¹ <http://www.cia.gov/cia/publications/factbook/print/uk.html>

GDP composition by sector	Agriculture – 1.1% Industry – 26% Services – 72.9% (2005 est.)
Investment (Gross Fixed)	16.3% of GDP (2005 est.)
Saving Rate	4.5% as of August 2005 ¹²
Inflation Rate (Consumer Prices)	2.2% (2005 est.)
Unemployment Rate	4.7% (2005 est.)

Table 2. Economic Profile Indicators as per 2005 estimates

3.6 Economic Structure

The economy of the UK is predominantly driven by the service industry. If we look at the GDP composition by sector, we see that services make up 79.5%, manufacturing makes up 26%, and agriculture encompasses 1.1%. Alternatively, if we look at the labour force by occupation, we see a similar pattern. 79.5% of the population is employed in the service sector, 19.1% in the manufacturing sector, and 1.5% in agriculture.¹³

Much of the UK's main industries involve industrial equipment, natural resource processes, and consumer goods. Some examples are: machine tools, electrical power equipment, automation equipment, shipbuilding, aerospace, automotive, electronics and communications, chemicals, coal, petroleum, paper and paper products, textiles, and food processing.¹⁴

3.7 Government Finances

The government of UK has been performing well on the financial front with a budget surplus. But in the fiscal year 2004-2005, it registered a budget deficit of \$69.6 billion. The governmental revenues were estimated at \$881.4 billion and the expenditures at \$951 billion in year 2005. For 2004, government expenditures increased to 44.1% of GDP.¹⁵ The UK's public debt-to-GDP ratio was 37.2%.¹⁶

3.8 Balance of Payments Position

The UK's exports for 2005 were \$372.7 billion USD and imports were \$483.7 billion USD, resulting in a current account deficit of \$38.4 billion USD (Appendix 4 and 5).

The UK carried a foreign debt of \$7.107 trillion USD. Its foreign exchange reserves (including gold) were \$48.73 billion USD as of 2004. The international investment position IIP was 12% of GDP in 2004. Since 1995, the level of UK's external liabilities have generally grown more strongly than the level of external assets, so that the net international investment position moved from a net asset to a record net liability position of £141.1 billion in 2004 (Appendix 6). In terms of FDI flows, investment abroad and into the UK both increased dramatically from the mid-1990s, reflecting the increased globalization of the world economy (Appendix 7). In recent years, the UK has needed to borrow from abroad to finance a

¹² <http://www.bankofengland.co.uk/statistics/rates/baserate.pdf>

¹³ <http://www.cia.gov/cia/publications/factbook/print/uk.html>

¹⁴ http://en.wikipedia.org/w/index.php?title=Economy_of_the_United_Kingdom&printable

¹⁵ <http://www.heritage.org/research/features/index/countryFiles/pdfs/UnitedKingdom.pdf>

¹⁶ <http://www.statistics.gov.uk/instantfigures.asp>

continuing current account deficit, which has resulted in inward investment (UK liabilities) exceeding outward investment (UK assets).

The currency of the United Kingdom is the British pound (GBP - £). In terms of the exchange rate to the US dollar, the value of the pound has been decreasing over the past few years.

Year	2001	2002	2003	2004	2005	Feb. 2006
£/US \$	0.6947	0.6672	0.6125	0.5462	0.5400	0.5748

Table 3. Exchange Rate movements from 2001 to 2006¹⁷

3.9 Political Structure

The United Kingdom does not have a written constitution. The equivalent body of law is based on statute, common law, and “traditional rights”. The monarch holds executive power but this power is exercised by a cabinet of ministers who are selected among the members of the House of Commons, and the House of Lords.¹⁸ The prime minister is the leader of the largest party in the House of Commons. The maximum parliamentary term is 5 years but the prime minister may ask the monarch to dissolve Parliament and call for general elections anytime.

Type of Government	Constitutional monarchy ¹⁹
Head of State	Her Majesty Queen Elizabeth II
Prime Minister (Head of Government)	The Rt. Hon. Tony Blair, MP
Deputy Prime Minister	The Rt. Hon. John Prescott, MP
Secretary of State for Foreign and Commonwealth Affairs	The Rt. Hon. Jack Straw, MP
Secretary of State for Trade & Industry	Alan Johnson, MP
Minister of Trade	Ian Pearson, MP

In 1997, national elections opened a new era of British politics when after 18 years of Conservative government rule, the Labour Party under Tony Blair won the majority by promoting a moderate “New Labour” Agenda, committed to economic prosperity, a centrist foreign policy and the reform of the UK political system. After a successful first term in office, Blair won a second term in office in 2001 with a very wide margin. He then became the first Labour Prime Minister to win a third consecutive term when he was reelected on May 5, 2005. The Conservative and the Liberal-Democrats form the major opposition parties. The main British parties support a strong transatlantic link but have become increasingly absorbed by European issues as Britain’s economic and political ties to the continent grow in the post-Cold War world.

¹⁷ <http://www.cia.gov/cia/publications/factbook/print/uk.html>

¹⁸ <http://www.state.gov/r/pa/ei/bgn/3846.htm>

¹⁹ <http://www.number10.gov.uk/output/Page2988.asp>

3.10 Government

Governmental Action Plan

The Labor government has focused closely on the reform and improvement of key public services including health care, education and transportation. Its current international focus includes the Middle East with the Prime Minister having identified African development as a major priority. The UK has an important role to play within the European Union and held the EU Presidency for the second half of 2005. While not currently apparent on the political landscape, an important economic decision facing the government in the medium term is whether to adopt the Euro. Polls continue to show that two thirds of the public wish to retain the pound.

Devolution

The UK is characterized by many separate identities and these different parts were accommodated through their respective governmental structures. The British Parliament established legislative bodies in all three regions of Scotland, Wales and Northern Ireland. Devolution has opened up new opportunities for an enhanced Canada-UK dialogue on governance issues given the policy parallels with Canadian federalism.

Northern Ireland and the Good Friday Agreement

By the mid-1990's, peace measures fostered by the British Government and President Bill Clinton initiated the restoration of a local government in Northern Ireland which ultimately led to the Good Friday Agreement. Key elements of the Good Friday Agreement include a devolved government, a commitment to work towards disarming all the paramilitary organizations, police reform and the promotion of human rights. In late September 2005, it was announced that the IRA had "fully and verifiably" decommissioned its weapons.

3.11 International Organizations

The UK is a powerful international player with extensive membership in a number of international economic, trade and political organizations namely the North Atlantic Treaty Organization (NATO), the United Nations (UN), the G8, the Commonwealth, the European Union, the Organization for Security and Cooperation in Europe (OSCE), the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD).²⁰ Other international organizations of which the UK forms part are: AfDB, AsDB, Australia Group, BIS, C, CBSS (observer), CDB, CE, CERN, EAPC, EBRD, EIB, ESA, FAO, IADB, IAEA, IBRD, ICAO, ICC, ICCT, ICFTU, ICRM, IDA, IEA, IFAD, IFC, IFRC, IHO, ILO, IMF, IMO, Interpol, IOC, IOM, ISO, ITU, MIGA, MONUC, NAM (guest), NEA, NSG, OAS (observer), OPCW, OSCE, Paris Club, PCA, PIF (partner), UN Security Council, UNAMSIL, UNCTAD, UNESCO, UNFICYP, UNHCR, UNIDO, UNMIL, UNMIS, UNMOVIC, UNOMIG, UNRWA, UPU, WCO, WEU, WHO, WIPO, WMO, ZC.²¹

²⁰ <http://www.infoexport.gc.ca/ie-en/DisplayDocument.jsp?did=61538>

²¹ <http://www.cia.gov/cia/publications/factbook/print/uk.html>

3.12 Trade Areas

Like all EU members, the UK is represented by the EU in the current Doha Development Round of trade negotiations as well as the “Trade and Investment Enhancement Agreement” currently being negotiated with Canada.

3.13 State of Bilateral Relations with Canada

Historical Overview

Canada’s history as a Commonwealth country is closely bound to the United Kingdom’s and the relationship today reflects this in its diversity and strength. The Commonwealth preserves many institutions deriving from British experience and models such as parliamentary democracy that exists in Canada as well.²² From as early as the 1500s, explorers, fishermen and traders from the British Isles ventured across the North Atlantic, followed over the next four centuries by generations of British migrants.²³ Today, Canada’s largest ethnic group is people of British ancestry. Canada-UK bilateral ties are therefore rooted in common history, family ties and shared values and traditions. Moreover, the UK is Canada’s primary trading partner among the European countries, our largest export market worldwide and our second largest source of tourism.

Political and Defence Relations

Canada has continued to support the Northern Ireland Peace Process and contributed more than \$7.7 million to the International Fund for Ireland for projects to support inter-communal cooperation between youth. Canadian experts also play pivotal roles in supporting the process. Defence relations are close with many collaborative ventures in operations, training and significant defence procurement in both directions. Canada and the UK also boast a shared tradition of peacekeeping.

Multilateral Cooperation

Canada and the UK work closely together in the G8, the North Atlantic Treaty Organization (NATO), the United Nations and the Commonwealth on the promotion of human rights, democracy and the human security agenda. Ties are moreover enhanced by common membership in various international organizations. The annual Canada-UK Colloquium is one of the most important vehicles for policy dialogue, cooperation, sharing of best practices. The Colloquium is hosted on a rotational basis between Canada and the UK.

Cultural and Academic Relations

The UK is Canada’s most important cultural export market in Europe (\$14.5 million in 2002). Canadian artists and cultural industries are penetrating Britain on a larger scale as Britain upholds dominant force in book, music, film and design industries. Academic relations

²² <http://www.state.gov/r/pa/ei/bgn/3846.htm>

²³ http://www.dfait-maeci.gc.ca/canada-europa/united_kingdom/can_UK-en.asp

programs in the UK are among the strongest that Canada has in the world. The relationship includes a dynamic Canadian studies program.

Trade Relations (Trade and Investment Relations)

The commercial relationship with the UK is the most extensive that Canada has in Europe. It is also one of Canada's fastest growing markets for exports. More than one quarter of Canada's exports to the European Union are sold to the UK. As Canada's third largest market for exports, after the United States and Japan, the UK is a major market for Canadian primary goods, manufactured goods and services. There is however a steady trend towards value-added products and services.²⁴ Canada and the UK are part of NAFTA and EU respectively. They work closely towards keeping these regional trade agreements open and outward looking.

New Agreements (Trade Agreements)

The UK and Canada work together on many bilateral and international initiatives. A new and substantive stage in the UK/Canadian relations was launched in June 1997 when the two Prime Ministers issued a Joint Declaration at the G8 Summit in Denver.²⁵ This declaration was officially named "Canada and The United Kingdom: Towards the Next Millennium, A Joint Declaration" and aimed at strengthening the ties between the two countries and fostering greater cooperation on multilateral and global issues.

In this context, the joint work program includes the following elements:

- Enhanced contracts to facilitate agreement on issues and sectors of mutual interest such as foreign affairs and defense, trade and investment, new technologies, environment, social affairs and culture.²⁶
- Joint projects in foreign policy areas including human rights, defense and security cooperation, operational immigration and customs cooperation as well as regional issues.
- Trade and investment cooperation to encourage the two-way flow of goods and services and investment capital.
- Science and technology cooperation to encourage science and technology partnerships between Canadian and UK firms and academic institutions.

3.14 Global Rankings

According to the Global Competitiveness Report 2005-2006, the UK was ranked 13th with a Growth Competitiveness Index (GCI) of 5.11 while in 2004, it was ranked 11th.²⁷ This depicted a decrease in its GCI ranking.

The Human Development Report ranked the UK 15th with a Human Development Index (HDI) of 0.939.²⁸ It is interesting to note that the HDI trends have been on the increase for many years. In 1975, HDI for the UK stood at 0.845 increasing up to 0.948 in year 2000.

²⁴ http://www.dfait-maeci.gc.ca/canada-europa/mundi/country_uk_c-en.asp

²⁵ <http://www.britishhighcommission.gov.uk>

²⁶ <http://www.britishhighcommission.gov.uk>

²⁷ <http://www.weforum.org/>

²⁸ <http://hdr.undp.org/statistics/data/indicators.cfm?x=1&y=1&z=1>

The UK was part of the highest cluster by achievement in human development (HDI of 0.800 or above).²⁹

Transparency International ranked the UK 11th in terms of the Corruption Perceptions Index (CPI) in 2005 with a score of 8.6.³⁰

In the 2006 Index of Economic Freedom, UK was ranked 5th with a score of 1.74. The goal of the index is to measure 161 countries against a list of 50 independent variables divided into 10 broad factors of economic freedom.³¹ Low scores are more desirable. Since UK scored in the lowest category of 1-1.99, it means that the level of government interference in the economy is low and consequently more economic freedom is enjoyed.

4 International Trade

4.1 Total Exports and Imports

Total exports of goods for 2004 accounted for USD\$ 349.6 billion. During the same period of time, imports were USD\$ 456.9 billion. The total trade amount was USD\$ 806.5 billion (Appendix 8). In 2004, export volume rose by 1.5% while import volume rose by 6% to a record annual level.³² The merchandise trade deficit was \$107.3 billion.³³ The UK has exports that span several different sectors. Some of the UK's main exports include energy sources such as hydrocarbon, automobiles, manufactured goods, food, and financial services, of which the UK is particularly strong. The country's main imports include food, fuel, consumer goods, and machinery.

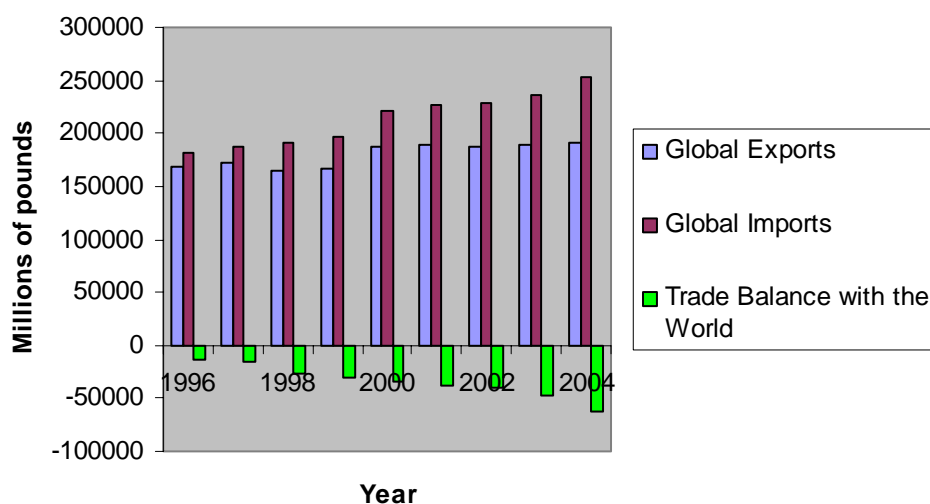


Figure 2. UK Trade Balance with the World (1996-2004)

²⁹ http://hdr.undp.org/reports/global/2005/pdf/HDR05_HDI.pdf

³⁰ http://www.transparency.org/policy_and_research/surveys_indices/cpi/2005

³¹ <http://www.heritage.org/research/features/index/countries.cfm>

³² United Kingdom Balance of Payments, The Pink Book 2005, Office for National Statistics

³³ Country Briefing: Britain, The Economist Intelligence Unit, <http://www.economist.com>

United States 15.3%	Netherlands 6%
Germany 10.8%	Belgium 5.1%
France 9.2%	Spain 4.5%
Ireland 6.8%	Italy 4.2%

Table 4. Main Destination of Exports (2004)

Germany 13%	Belgium 4.9%
United States 9.3%	China 4.3%
France 7.4%	Italy 4.3%
Netherlands 6.6%	

Table 5. Main Sources of Imports (2004)

4.2 Trade In Invisibles

Trade in services covers the provision of services by UK residents to non-residents and vice-versa. There are 11 main product groupings for services and these include: transportation, travel, communications, construction, insurance, financial, computer and information, royalties and license fees, other business, personal, cultural and recreational and government services. Banking, insurance, business services, account by far for the largest proportion of GDP. During 2004, exports of services increased by 5.9% and imports of services grew by 2.8% (compared to growth of 5.9% and 5.3% respectively in 2003 (Appendix 9). The increase in the surplus was mainly due to an increase in the financial services surplus.

4.3 Canadian Exports to the UK

The UK is one of Canada's most important trade partners, being the main country in Europe with which Canada engages in trade. Overall, the UK is Canada's third main country to which we export. 2004 saw Canada's exports to the UK increase 25% from the previous year, reaching \$7.67 billion CND.³⁴ There is a focus on value-added products rather than commodities for export to the UK, the main products being, precious metals, machinery, nickel, and aerospace goods.³⁵

4.4 Canadian Imports from the UK

While exports to the UK have been increasing, there has been a parallel increase in imports from the UK, reaching \$9.65 billion CND in 2004. This amount of merchandise imports represented an increase of 4.75% from the previous year. The main products that Canada imports from the UK include machinery, aerospace goods, and pharmaceutical goods.

³⁴ http://www.dfait-maeci.gc.ca/canada-europa/united_kingdom/can_UK-en.asp

³⁵ http://www.dfait-maeci.gc.ca/canada-europa/united_kingdom/tradewithUK-en.asp

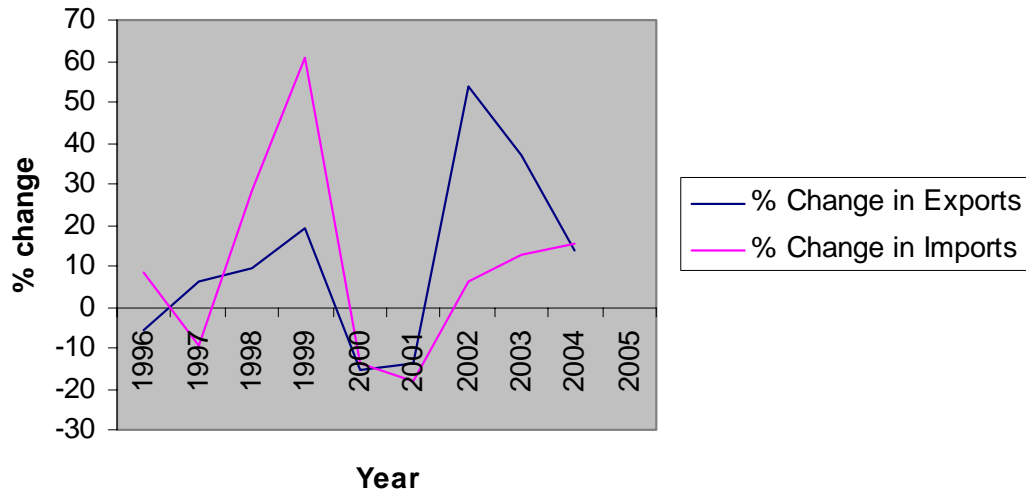


Figure 3. Percentage Change in Exports and Imports between Canada and UK

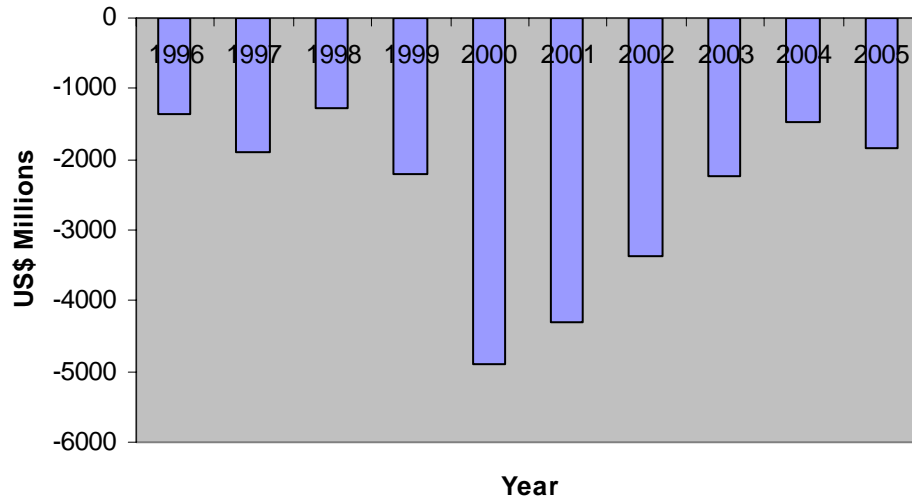


Figure 4. Canada's Trade Balance with UK (1996-2005)

4.5 Trade with the US

The UK is the fourth largest market for US goods exports after Canada, Mexico and Japan and the sixth largest supplier of US imports after Canada, China, Mexico, Japan and Germany. US exports to the UK in 2000 totaled \$USD 33.9 billion while US imports from the UK totaled \$USD 42.7 billion. The US has had a trade deficit with the UK since 1998 (Appendix 1).³⁶

³⁶ <http://www.state.gov/r/pa/ei/bgn/3846.htm>

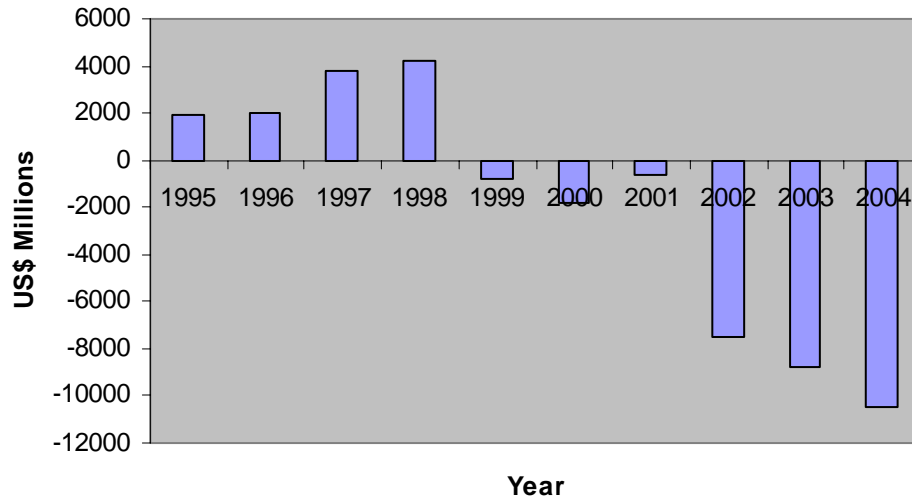


Figure 5. US Trade Balance with UK (1995-2004)

4.6 Trade with Mexico

In 2004, exports to Mexico totaled £629 million and imports were at £408 million. This represented a trade surplus of £221 million.

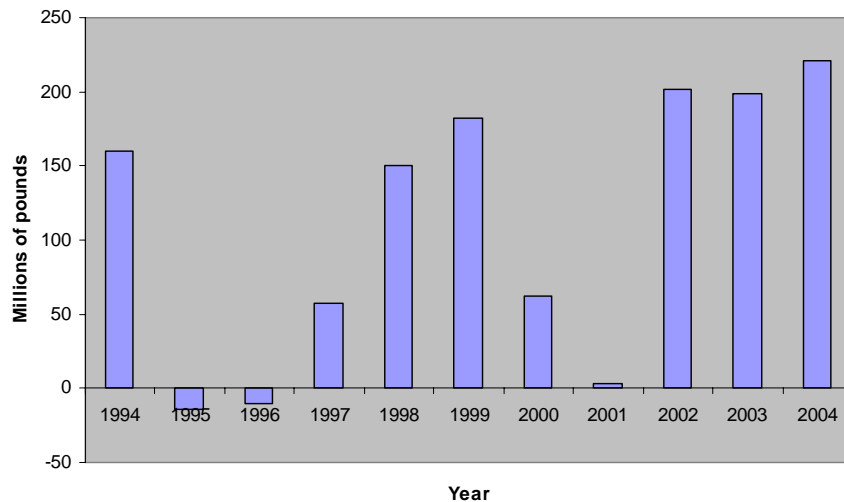


Figure 6. UK Trade Balance with Mexico

4.7 Canadian Direct Investment in UK

Canadian direct investment abroad (CDIA) in the UK increased by more than three-fold over the last decade, from \$CDN 15 billion in 1994 to \$CDN 44 billion in 2004. The UK attracts more than 35% of all Canadian investment in the EU and now ranks as the largest European recipient of CDIA. There are approximately 500 Canadian companies with operations in the UK.³⁷ Canadian businesses continued to choose the UK as their preferred European investment location in 2004/2005. The UK is second in terms of volume, for

³⁷ http://www.dfait-maeci.gc.ca/canada-europa/united_kingdom/tradewithUK-en.asp

Canadian direct investment, following the US (Appendix 2). In 2004, the highest concentration of CDIA stock in the UK was in finance and insurance (50.7%), followed by all other industries (16.6%).³⁸

Welcoming these figures, David Reddaway, British High Commissioner to Canada said: "These figures demonstrate the extent to which Canadian and other international players see the UK as one of the best places in the world and as the best entry point to the wider European Union market – thanks to our strong economic and financial performance; emphasis on innovation and technology; skilled, flexible workforce; good communications; open and diverse society."³⁹

The main Canadian companies engaging in FDI in the UK are: Bombardier⁴⁰, Crown Corrugated, DMR UK, Newbridge Communications, Alcan Aluminium, Northern Telecom, Bell Northern Research, Labatt, Champlain Industries, Eicon Technology, Moore, Cominco, McCain Foods.⁴¹

4.8 UK Direct Investment in Canada

According to Statistics Canada, the UK's FDI into Canada has risen from \$CDN 15.3 billion in 1999 to \$CDN 29.5 billion in 2004. The UK ranked as the largest European investor in Canada and the second largest investor overall, just after the US at the end of 2004. There are approximately 650 UK companies with operations in Canada, employing more than 70,000 in 20 different industries with annual sales of over \$15 billion.⁴²

In 2004, the highest concentration of UK FDI stock in Canada was in finance and insurance (45.2%) and in energy and metallic minerals (21.6%). While all other industries' share of UK total investment in Canada declined by 11.6 percentage points over the last decade, finance and insurance and energy and metallic minerals increased by 2.3 and 13.1 percentage points respectively.

The main UK companies engaged in FDI in Canada are: GlaxoSmithKline, AstraZeneca, B.A.T Industries, Royal Insurance Holdings plc, Scottish Insurance Corp, Imperial Chemical Industries, GEC, the Guinness family, British Steel plc and Cadbury-Schweppes plc.⁴³

4.9 Capital Flows

December 31, 2004, the UK stock market was valued at £1,480 billion. The history of the UK stock market saw its value increasing until 1999 when it dropped for a few years and has since slowly started increasing. The UK is the third largest stock market in terms of market capitalization, measuring \$2,576,992 USD at the end of 2000.

Approximately one third of the UK's shares are held by those outside of the country. Insurance companies, pension funds, and individuals own the next largest amount of shares (Appendix 3).

³⁸ Canada-UK Chamber of Commerce Newsletter Oct-Nov 2005, <http://www.canada-uk.org/NewWeb/news/oct2005.pdf>

³⁹ http://www.uktradeinvestcanada.org/news/stories/june_29_05.jsp

⁴⁰ http://www.fdimagazine.com/news/fullstory.php/aid/1257/Canada_has_an_edge.html

⁴¹ <http://www.bcctc.ca/conn19-4/britain.htm>

⁴² http://www.dfait-maeci.gc.ca/canada-europa/mundi/country_uk_c-en.asp

⁴³ <http://bcctc.ca/conn-19-4/britain.htm>

Some of the UK's largest publicly traded companies include: British Petroleum, HSBC Holdings, Vodafone Group, GlaxoSmithKline, Royal Bank of Scotland Group, Shell Transport and Trading Company, Barclays, HBOS, AstraZeneca, Lloyds TSB Group.⁴⁴

4.10 Trade Disputes

The UK is involved in several trade disputes, although a large number of them are general disputes by or against the EU, rather than the UK alone. All but one of the disputes listed with the WTO involved the UK encompassed within the EU.

A few examples of disputes brought before the WTO with the EU/UK as the complainant include:

- The issue of measures reducing exports of retreated tyres from European Community countries to Brazil.⁴⁵
- The issue of countervailing duties by Argentina on the imports of olive oil, wheat gluten, and canned peaches from European Community countries.⁴⁶
- The failure of Canada to remove retaliatory measures following the removal of measures by the EC in the EC-Hormones case.⁴⁷
- The failure of the United States to remove retaliatory measures following the removal of measures by the EC in the EC-Hormones case.⁴⁸

A few examples of disputes brought before the WTO with the EU/UK as the respondent include:

- Norway's concerns regarding the EC's safeguard measure against farmed salmon imports.⁴⁹
- Chile's concerns regarding the EC's safeguard measure against farmed salmon imports.⁵⁰
- The EC in response to the US's anti-dumping duties of 125.77% against UK steel bars.⁵¹

4.11 UK's Trade Policy

The UK is a strategic geo-political heavy-weight on the international scene. It is the world's fourth largest economy and is also a major trading power and overseas investor. Therefore, the promotion of UK economic interests in an open and expanding global economy remains a policy priority and is key to the consolidation of its power. The UK values foreign trade policy in order to promote UK trade and two-way investment in goods and services to enhance its prosperity and competitiveness. It also seeks to promote sustainable economic and employment growth, to remove barriers to investment, to minimize financial

⁴⁴ <http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/facts/index57.aspx>

⁴⁵ http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds332_e.htm

⁴⁶ http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds330_e.htm

⁴⁷ http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds321_e.htm

⁴⁸ http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds320_e.htm

⁴⁹ http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds328_e.htm

⁵⁰ http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds326_e.htm

⁵¹ http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds319_e.htm

instability and to support an open, fair and sustainable multilateral system of world trade based on the World Trade Organization.

The UK takes a broad approach to supporting international trade and investment, which incorporates the promotion of inward investment alongside supporting UK businesses to develop their capability to operate internationally. In line with trade promotion, the UK boasts export credit agencies called Export Credits Guarantee Department (ECGD). The ECGD's aim is 'to benefit the UK economy by helping exporters of UK goods and services win business and UK firms to invest overseas, by providing guaranteed, insurance and reinsurance against loss, taking into account the Government's international policies.'⁵²

The Government's lead provider of international trade and investment support to business is UK Trade & Investment. The UK Trade & Investment operates as the international trade arm of the Regional Development Agencies, with staff based in the RDAs, Business Links and in some instances, co-located with chambers of commerce. This ensures that there is a consistent and coherent approach in taking forward regional international trade activity as part of the wider regional business support agenda and the Regional Economic Strategies. This coordination between UK Trade & Investment and the RDAs provides companies with a direct link to their target markets overseas through a single, local organization. Similarly, it provides a direct link for companies thinking of investing in the UK and those parts of the UK best suited to their needs.

The Foreign and Commonwealth Office (FCO) also helps the British Government to implement its trade policy objectives. The FCO aims to:

- Drive forward internal economic reform in the EU to boost growth, jobs and competitiveness
- Support international cooperation and exchange of good practice in science and technology, education, health, creative industries, legal services and other wealth creating sectors
- Help UK companies win contracts in foreign markets and lobby against regulatory and political barriers
- Promote the UK as an attractive place to do business and provide high quality services to potential inward investors⁵³

4.12 UK in the European Union

As a Member State of the European Union, the UK is bound by the various types of European Community (EC) legislation and wider policies that are based on a series of treaties since the 1950's.⁵⁴ 2003 marked the 30th anniversary of UK membership in the EU and the UK assumed the EU presidency in the second half of 2005 (July-December). The four key areas of its agenda under EU presidency were EU's revenue-raising and spending plans for 2007-2013, economic reform, external relations and EU's commitments on enlargement.⁵⁵

⁵² Ensuring the UK benefits from Globalization, White paper, DTI

⁵³ FCO Strategy

⁵⁴ <http://www.direct.gov.uk>

⁵⁵ <http://www.fco.gov.uk>

4.13 UK's Position in the WTO Doha Round

In November 2001, a new round of global trade talks was launched at the WTO meeting of the world's trade ministers in Doha, the capital city of Qatar.⁵⁶

The UK along with other EU member states was represented in the WTO by the European Commission and its chief trade negotiator Pascal Lamy, Director General for trade. UK officials and politicians therefore devoted much of their energies to negotiating and agreeing the EU position on WTO questions. Within Whitehall, the Department for Trade and Industry (DTI) led on the WTO and Baroness Symons is the minister with responsibility for WTO affairs. However other ministries, such as DFID (development) and DEFRA (agriculture and environment) also played important roles in their respective areas of interest. The UK's contribution to the WTO budget for 2001 was \$4.6 million (about seven per cent of the total).

4.14 Assessment of UK Trade Performance (Present State vs Future)

With a minimal level of protectionist policies, the UK's trade policy is stable. As a member of the European Union, the UK uses mostly non-tariff barriers and export subsidies as the tools for its trade policy. The country's trade policy will therefore most likely remain stable as it follows the policies set out by the EU.

In terms of capital flows and foreign direct investment, the UK has very low barriers to entry. Furthermore, foreign businesses are treated in the same way as domestic businesses. In particular, the UK is one of the most frequent countries in the EU to receive FDI, drawing in approximately one quarter of the FDI in the region.

A moderate level of government intervention in the economy, a stable monetary policy with a very low level of inflation, a stable banking and finance system with a very low level of restrictions, and a stable level of wages and prices are the main factors resulting in the UK's favorable trade performance and environment.⁵⁷

While GDP growth is slowing, this is mainly due to a leveling in housing prices and a slowing in consumer spending. There is little reason to believe these should be a problem as they are changeable with alterations to monetary policy. The high price of oil will not be damaging to the UK, as it is a net exporter of this commodity.⁵⁸

4.15 Opportunities and Outlook for Trade Expansion

The UK is an ideal partner for Canada as we seek out new trade, investment and S&T partners and markets. The challenge is to ensure that British business is fully aware of Canadian expertise and the many opportunities that Canada has to offer. Some businesses still have an outdated image of Canada. Efforts are underway to increase Canada's presence and profile in the various regions in the UK. UK Regional Development Agencies (RDAs) are playing an increasing role in trade and investment activities and are increasing their presence in Canada.

⁵⁶ http://www.cafod.org.uk/policy_and_analysis/policy_papers/rough_guides/wto

⁵⁷ <http://www.heritage.org/research/features/index/countryFiles/pdfs/UnitedKingdom.pdf>

⁵⁸ http://en.wikipedia.org/w/index.php?title=Economy_of_the_United_Kingdom&printable

5 Conclusion

The UK economy faces both familiar and unfamiliar problems. Competitiveness and the credibility of government anti-inflationary policy remain a familiar problem. Electoral pressures and its impacts on government-backed social services and taxation remain a permanent issue for any future government. Eastern Europe and the Far East pose new threats as well as potential opportunities for trade and growth. The globalization of capital markets and the greater integration in the European market will make it difficult for any future UK government to conduct macroeconomic policy in isolation. Macroeconomic cooperation and coordination of policy remains an important but untried issue. Greater integration into Europe raises issues of sovereignty.

While the 7/7 London bombings had an immediate impact on retail sales in downtown London, it is predicted that the attacks will have little macroeconomic significance for the country as a whole. The greatest immediate challenges for the UK economy come from greater European integration and the threats from international competition. Whether there is political will to forge a stronger political union in Europe and whether the new Europe is to be a trade fortress or relatively open as regards trade is an issue which needs to be addressed. The next few years are likely to be interesting ones for the economic well-being of the UK.⁵⁹ According to OECD projections, strengthening investment and exports should lift growth from below 2% in 2005 to around 2.4% in 2006 and 2.7% in 2007.⁶⁰

⁵⁹ Holden, K. , Matthews, K. , Thompson J. , "The UK Economy Today", Manchester University Press, 1995

⁶⁰ OECD Observer, No. 252/253, November 2005,
http://www.oecdobserver.org/news/printpage.php/aid/1734/United_Kingdom.html