

the longer term, the level of investment will be critical to securing a broad base for sustained improvement. With this in mind, the present government is aiming to reduce public sector expenditures as a percentage of GDP in order to relieve pressure on capital markets and facilitate access to finance for the private sector.

The fall of inflation from 20 per cent in 1980 to 5 per cent in 1983 has been a substantial achievement that the U.K. government will wish to consolidate. Another positive feature has been the rapid rise in labour productivity, especially in manufacturing. However, unemployment, currently over 12 per cent, is a major concern. Many observers feel that there is little prospect that it can be reduced in the near term. The central policy issue is to achieve non-inflationary growth consistent with reducing unemployment over the medium term.

3. Trade Policy and Characteristics

Foreign trade is within the competence of the European Economic Community (EEC). Therefore, when the U.K. joined the EEC in 1973, although it continued to be a contracting party to the General Agreement on Tariffs and Trade (GATT), the EEC assumed responsibility to speak on the U.K.'s behalf for trade policy matters.

Prior to engaging in any multilateral or bilateral trade negotiations, the EEC must first obtain agreement from member states on a negotiating mandate. Within the EEC, the objective is removal of all trade barriers, but as there are still non-tariff barriers, this goal has not yet been achieved. Tariff levels applying to Canadian exports to the U.K. are those of the Common External Tariff established by the EEC.

In effect, Canadian products now enter Britain at the same rates as those applied to products from the United States, Japan and Australia. In contrast, products from members of the Common Market enter the United Kingdom free of duty. Industrial products from other European countries benefit from duty-free entry into the U.K. where those countries have agreements with the European Economic Community.

In addition, there are a range of products which enter the United Kingdom from less developed countries under the general preferential scheme for such countries, or through the latter's membership in the Lomé Convention.

British import duties are for the most part assessed on an ad valorem basis that includes freight, insurance, commission and all other charges to the port or place of importation. The invoice price if negotiated under open market conditions is usually accepted as the normal price for establishing dutiable value. Duties are payable in British currency at the rate of exchange prevailing at the time the goods are entered for British consumption.

Despite the loss of preferential access, many Canadian products remain competitive in the United Kingdom. In 1981, for example, Canadian exports to the

United Kingdom reached an all-time high of \$3.4 billion, up from the \$1.3 billion exported in 1972, the year prior to Britain's entry into the Common Market. The decline in Canadian exports in 1982 and 1983 was attributable mainly to depressed economic conditions rather than to market access conditions.

Membership in the Common Market has resulted in the reorientation of the United Kingdom's trade relations. In 1973, for example, Britain's two-way trade with the other nine EEC countries represented 33 per cent of its entire trade. While the absolute values of both imports and exports have risen significantly over the above period, Britain's imports from the other members of the Community have risen from 25 per cent to 40 per cent of U.K. total imports, whereas exports to the EEC have remained essentially unchanged at 40 per cent.

The U.K. has traditionally been a strong supporter of the open, liberal multilateral trading system. However, during the recent recession and emerging recovery, there have been strong protectionist pressures particularly from declining industry sectors that are facing a period of severe structural adjustment.

Some restrictions of a non-tariff nature are still specific to the U.K. These concern primarily animal and plant health regulations and certain quantitative controls, mainly affecting textiles from low-cost supplying countries. Informal international industry-to-industry restraints, as distinct from Community action at the government level, are also in effect against such items as Japanese automobiles. Exporters when confronted with various national standards and approval boards, especially in the electrical and electronics field, as well as health and safety regulations, often experience difficulty competing with domestic U.K. suppliers.

The U.K.'s balance of trade has been in surplus since 1980 but moved into deficit in 1983. The strengthening surplus on invisibles, and the important boost from North Sea oil exports have, to a large degree, compensated for the reduced volume of manufactured exports. Imports of passenger cars, capital goods and chemicals are up sharply, reflecting the improving economic conditions. An annual increase of 5 per cent in exports to 1985 is anticipated, while imports are expected to grow at the rate of 4 per cent over the same period.

4. Foreign Investment Policy

Britain abolished foreign exchange controls during 1979 and British residents are free to acquire foreign exchange for direct and portfolio investment abroad. In general, the government welcomes both inward and outward investment (1981 — U.K. overseas investment, excluding oil companies was £9 billion; foreign investment in the U.K. was £3 billion).

Foreign companies investing in the U.K. are subject to the same restrictions that apply to domestically owned companies. However, the government retains the right to block the take-over of any company considered important to the national economy or security.