## *Economic Relations*

- The commercial relationship with the United Kingdom is the most extensive Canada has in Europe. More than one-quarter of Canada's exports to the European Union are sold in the United Kingdom, which is a major market for Canadian primary products, manufactured goods and services, with trends showing a steady shift toward value-added products and services.

- Bilateral merchandise trade increased by three per cent in 1997, reaching $10.2 billion. Canadian exports to the United Kingdom for 1997 totalled $3.8 billion, while Canadian imports increased to $6.4 billion.

- The composition of Canadian exports to the United Kingdom has changed significantly since the beginning of the decade. Natural resources remain the most important items in Canada's export profile, with metals, minerals and forest products accounting for 46 per cent of exports to the United Kingdom. This is down from a 62 per cent share of exports in 1990. At the same time, Canadian exports of machinery have soared from $500 million in 1990 to $1.1 billion in 1997, a jump from 15 per cent to 28 per cent of total exports to Britain. Significant growth rates were also experienced in the chemicals, consumer products and transport equipment sectors — by 56 per cent, 43 per cent and 37 per cent, respectively. Clearly, the profile of Canadian exports to the United Kingdom is shifting from commodity trade to value-added products.

- The United Kingdom is second only to the United States as a source of foreign direct investment in Canada, accounting for eight per cent. British direct investment in Canada increased to $15.6 billion in 1997, with two-fifths of it in finance and insurance. There are over 650 British subsidiaries in Canada.

- Canadian direct investment in the United Kingdom at the end of 1997 stood at $21.7 billion, ranking Canada eighth as a source of investment with more than 400 firms established there. Canadian earnings from investment income in the United Kingdom, including retained earnings, were $1.6 billion in 1996, while British earnings from investment in Canada were $5.2 billion. Forty-five per cent of Canada's investment in Europe is in the United Kingdom.