

INVESTMENT, PARTNERSHIP AND S&T COOPERATION

Investment

Several factors have influenced U.K. patterns of foreign direct investment (FDI) in recent years: 1) the pressure to rationalize production in Europe and the attendant shift towards mergers and acquisitions; 2) the enlargement of the EU market; and 3) the diversion of FDI resulting from the gradual opening of the EU market towards Eastern Europe and the rapid growth of Asian markets and production capabilities.

Notwithstanding these factors, the U.K. remains second only to the United States as a source of FDI in Canada. U.K. investors recognize the *quality* of the work force in Canada, the highly favourable environment for conducting research and development, and the availability of advanced technology. Some U.K. SMEs choose Canada over the U.S. because of its more welcoming environment and better quality of life.

U.K. FDI in Canada rose to \$16.5 billion in 1995. The main sectors are finance and insurance; food, beverages, and tobacco; energy; and chemicals. These four sectors accounted for almost 75 percent of U.K. FDI in 1995 (see Table 4).

While challenges are few, they are formidable. The largest by far is the prevailing attitude that the United States is the sensible location to cover the NAFTA market and the fierce competition from other jurisdictions for U.K. manufacturing investment. Not surprisingly, Britain's excellence in leading-edge technologies is the very reason the world is vying for U.K. investment. Perceptions of Canada's competitiveness are favourable, but concerns remain regarding the flexibility of labour and the perceived level of higher taxes relative to the U.S.

The typical U.K. investor to Canada is either a transnational corporation in search of a North American location for preferential access to

NAFTA and, more often than not, world mandate manufacturing; or a high-tech SME in search of a gateway to NAFTA and access to technology. The former includes companies like Messier Dowty for landing gears or Glaxo Wellcome for bio-pharmaceuticals, both attracted by the cluster of Canadian excellence in their respective industries. SMEs tend to gravitate around the service or IT industries where Canadian competence in selling to the United States creates a strong incentive.

Opportunities also exist to raise U.K. venture capital for Canadian high-tech industries through the community of Canadian investment dealers. In the words of a Canadian investment dealer in London, "leading-edge technologies are one of Canada's most sought-after assets." Interested Canadian companies can obtain a list of these dealers from the Canadian High Commission in London.

Science and Technology

British expertise in science and technology is internationally recognized, whether in basic research or applied technological development. Extensive collaborative links at the researcher level exist between the two countries in a wide range of fields, from marine sciences and bio-pharmaceuticals to space technology. Significant opportunities exist for Canadian research and technology-oriented companies in Britain to acquire commercially proven best-practice technologies; enter into strategic alliances and technology partnerships with British companies; and use linkages with U.K. researchers in private and public sector organizations to access R&D projects under the European Union's Framework Program for R&D by virtue of the Canada-EU Science & Technology Agreement.

While U.K. investors remain bullish about Canada, Canada has to counter the prevailing attitude that the United States is the more attractive NAFTA location.
