

7th Edition

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**CROSS
CHANNEL
INSTITUTE**
*for the promotion of Franco -
British sustainable prosperity*

Barometer of Franco-British Economic Relations

*2023: A Record Year
for Franco-British Trade*



**FRANCO
BRITISH**
Chamber



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Foreword



*Olivier Campenon,
Chairman of the Cross-Channel Institute,
CEO, Group Lefebvre*

The Franco-British economic relations are pivotal to both countries' success and, more broadly, to the successful development of Europe. As such, they represent a reliable gauge of economic health in our continent.

This is the purpose of our barometer. Published by the Cross-Channel Institute*, it is a unique tool for monitoring the evolution of trade between France and the United Kingdom.

Over the past 7 years, our Franco-British Economic Relations Barometer has become an indispensable resource for key economic players in our two countries. It provides not only a snapshot of the current situation but also aids our members and partners in their decision-making strategies concerning business location, as well as economic and industrial development on both sides of the Channel.

At a glance, the Barometer shows a new record of €121 billion (£105 billion) in trade between the two countries in 2023, up 9% from 2022. Note that 2022 had been an exceptional year, with a 13% increase in economic trade levels between France and the UK compared to 2019, the previous record year for trade between our two countries. This was achieved amidst an uncertain, complex, and unstable geopolitical environment, marked by climate change, electoral turmoil, and conflicts in Europe and the Middle East.

Continuing the trend from last year, France has a surplus in goods exports, while the UK remains the leader in services. These figures are particularly encouraging. Notably, inflation is returning to suitable levels, and energy costs are declining, both factors which had previously significantly impacted results.

This year, Mr. Chantana Sam – Economist at HSBC Continental Europe and active member of the Franco-British Chamber – provides a forward-looking analysis. His valuable expertise offers a comprehensive insight into mid-term economic trends and projected challenges for our businesses in the coming months. It covers key topics such as cybersecurity and cyber resilience, securing our energy supplies, and the development of artificial intelligence.

This publication does not claim to exhaustively cover all the issues affecting our two countries. However, it helps provide a reliable information base that is crucial for maintaining a favorable environment for cross-Channel trade development.

* The Cross-Channel Institute is the independent and apolitical think-tank of the Franco-British Chamber.

Notes and references

- 1 Data source is UK Office of National Statistics

Services

<https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktradeinservicesservicetypebypartnercountrynonseasonallyadjusted>

Goods exports

<https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradecountrybycommodityexports>

Goods imports

<https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradecountrybycommodityimports>

Goods & Services

<https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/uktradegoodsandservicespublicationtables>

- 2 The latest data include trade between January 2022 and December 2023.
- 3 All figures are reported in current prices (not adjusted for inflation), unless otherwise stated.
- 4 Annual percentage change (%) is calculated on a nominal basis and is non-seasonally adjusted.
- 5 As this report is presented to a predominantly French audience, the methodology adopted converts UK trade data from pounds sterling (£) to euros (€) using the average annual exchange rate for the year as published by the European Central Bank (ECB).
https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-gbp.fr.html

AER	2019	2020	2021	2022	2023
GBP1 = EUR	1.13925	1.12397	1.16333	1.17266	1.14970
Variations		- 1.3%	3.5%	0.8%	-2%

6 Following a decade of relatively low inflation, in 2022 and 2023 the post-Covid economic recovery and energy crisis caused by Russia’s invasion of Ukraine have fed through to higher prices.

Moreover, trade statistics have seen high levels of volatility since the implementation of the UK-EU Trade and Cooperation Agreement (TCA), global supply chain disruptions (e.g. shortage of semi-conductors).

This makes it challenging to disentangle price/mix/volume effects on trade. As such, caution is needed when interpreting these data sources.

Headline and core inflation figures* are shown in the table below:

		2019	2020	2021	2022	2023
UK	Headline	1.8	0.9	2.6	9	7.4
	Core	1.7	1.4	2.4	5.9	6.2
France	Headline	1.1	0.5	1.6	5.2	4.9
	Core	0.8	0.6	1.1	3.8	5.1

7 The ranking of UK total trade partners (page 21) and the Quarterly trade in goods data (page 22) is published and presented in pounds sterling (£).

8 Trade definitions:

- **UK imports** – Goods and services that were produced or sourced in the UK, which were sold to France (from the UK to France).
- **France exports** – Goods and services that were sold to the UK, which were produced or sourced in France (from France to the UK).
- **Total or ‘bilateral’ trade** – The value of total trade between France and the UK (imports plus exports).
- **Trade balance** – the difference between exports and imports, calculated by France exports minus UK imports.
- **Trade surplus** – the amount by which the value of a country’s exports exceeds the value of its imports.
- **Trade deficit** – the amount by which the value of a country’s imports exceeds the value of its exports.
- Statistics are given on a balance of payments (change of ownership) basis.

***Headline** inflation concerns all commodities, services, and goods in the economy, whilst **Core** inflation excludes volatile fuel and food prices. The surge in headline inflation in 2022 largely reflects the inflationary effects of high energy prices feeding through to higher food and commodity prices, and more generally, throughout the economy.

Evolution of Bilateral Trade

Bilateral trade



€121 =£105 Bn

Billion in 2023*

of goods and services were traded between France and the UK in 2023, representing a nominal increase of 9% compared to 2022.

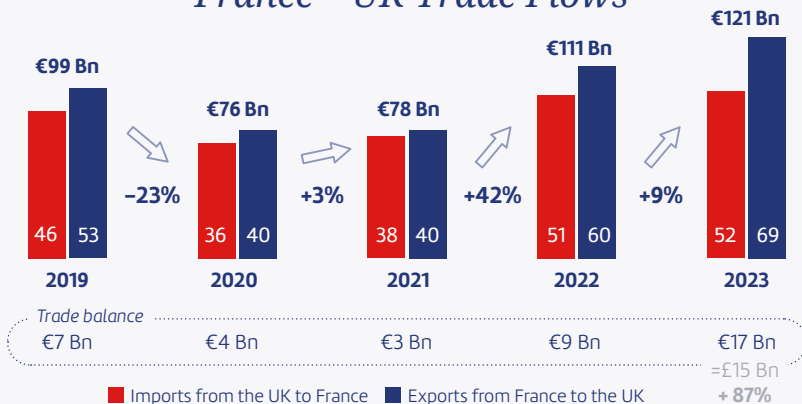


Imports from the UK
to France in 2023 (+ 2%)



Exports from France
to the UK in 2023 (+15%)

France – UK Trade Flows



In 2023, bilateral trade pursued its pre-covid growth trajectory, up 9% year on year, illustrating the strength of the historical trading relationship. With exports from France showing stronger overall growth than imports from the UK, the French trade surplus reached a record €17 billion (+87%).

***Note:** Unless otherwise indicated, this report refers to percentage (%) increases on a “nominal” basis (i.e. without adjustment for the effects of inflation, exchange rates etc.).

2023: Exchange of Goods and Services



Goods

€75 Bn = £65 Bn

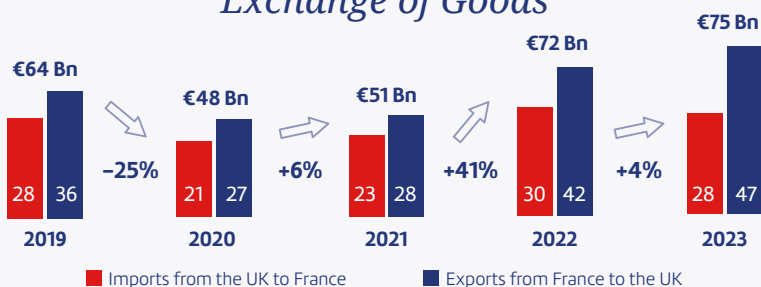


Services

€46 Bn = £40 Bn

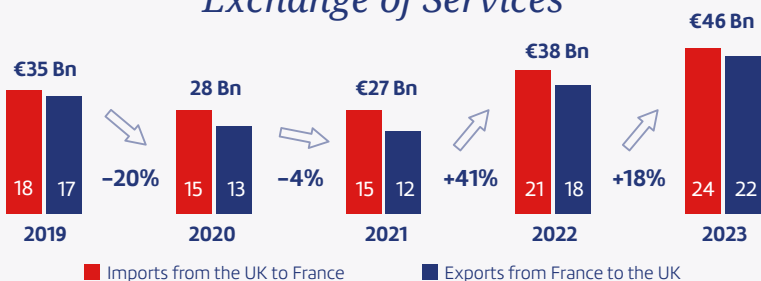


Exchange of Goods



France extended its lead in trade of goods, with exports rising to €47 billion in 2023, up 12% on a nominal basis, generating a trade surplus of €19 billion. Imports of goods from the UK fell by 7% to €28 billion, primarily due to lower exports of energy as markets recovered from the 2022 energy crisis. Excluding energy trade, UK goods imports increased by 4%.

Exchange of Services



Bilateral exchange of Services grew by 18% on a nominal basis to €46 billion, driven by strong demand across all sectors. UK service imports to France rose 12%, confirming the UK's dominance in this field, however, service exports from France to the UK grew by 22% to €22 billion, narrowing the UK surplus to less than €2 billion.

2023: Main sectors of **trade in goods**



€75 Bn =£65 Bn

Trade in goods
in 2023

+ 4%
versus 2022



Machinery and transport equipment
including aeronautics and automobiles.



€31.2 Bn
↑ +24%



Chemical products
of which pharmaceutical products,
cleaning products...



€10.6 Bn
↑ +1%



Miscellaneous manufactured articles
of which jewellery, clothing and
accessories, furniture...



€8.9 Bn
↓ -1%



Agriculture & Livestock
including cereals, fisheries,
dairy products...



€7.6 Bn
↑ +5%



Material Manufactures
of which steel, iron, paper, leather...



€6.6 Bn
↓ -7%



Energy
of which oil, electricity, gas...



€4.5 Bn
↓ -29%



Beverages & Tobacco



€4.1 Bn
↑ +1%



Others
of which crude materials, animal and
vegetable oils and fats, miscellaneous...



€1.5 Bn
↓ -3%

↑ Change from 2022

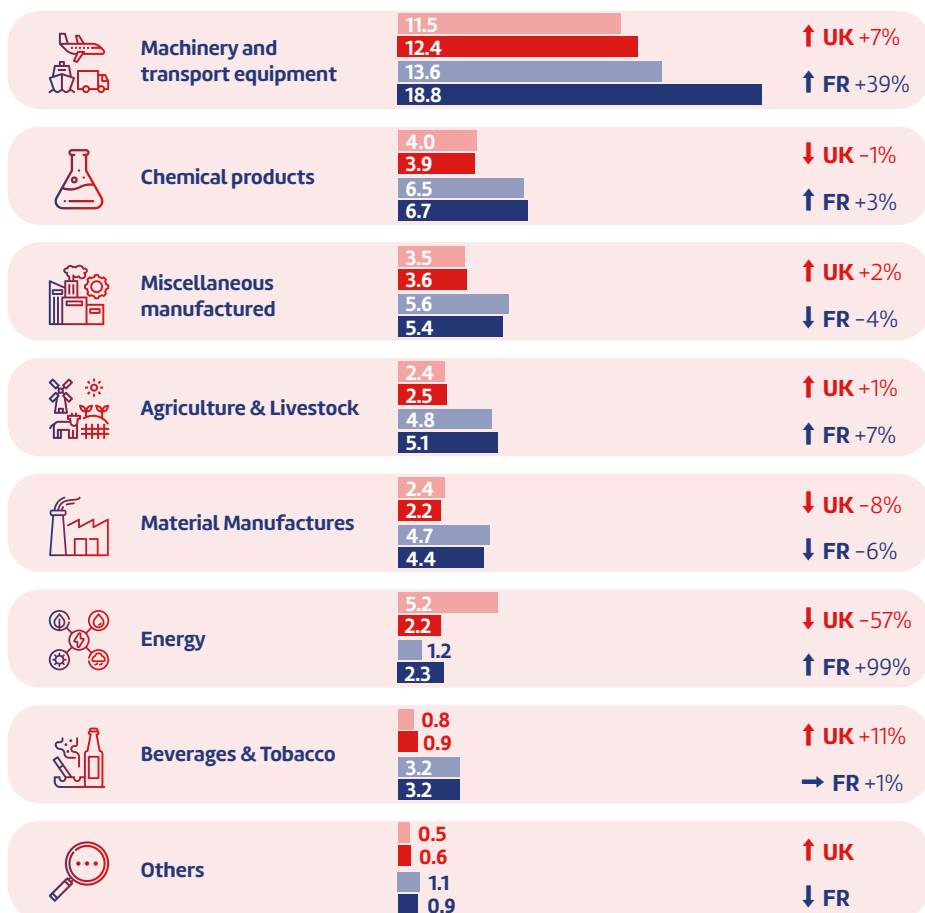
■ Imports from the UK to France (in € billions)
■ Exports from France to the UK (in € billions)

Evolution of trade in goods in 2022 and 2023

Despite the drop in energy trade, overall trade grew by 4%, as manufacturing recovered and supply chains adjusted to the prior year supply shocks, including the shortage of semiconductors.

Imports of Goods from the UK to France fell by 7% to €28 billion, primarily due to lower exports of energy as French nuclear power production recovered and electricity pricing fell back to pre-crisis levels. Excluding trade in energy, UK goods imports increased across most sectors, including beverages. France is now the largest European importer of beverages from the UK.

Exports of Goods from France to the UK increased to €47 billion in 2023, up 12% versus 2022, driven by strong growth in trade of Machinery & Transport equipment (+39%), which is benefiting from France's favourable industrial policy and capital investment.



Imports from the UK to France (in € billions) ■ 2023 ■ 2022
 Exports from France to the UK (in € billions) ■ 2023 ■ 2022

2023: Main sectors of **trade in services**


€46 Bn =£40 Bn
 Trade in services
 in 2023

+ 18%
 versus 2022



Business services

including management consulting, legal services, accounting, advertising, R&D, etc.



€13.1 Bn

↑ +17%



Travel and tourism*

Including business travel and tourism

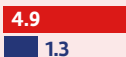


€11.5 Bn

↑ +36%



Financial services



€6.2 Bn

↓ -8%



Technology

including telecommunications and computer services



€4.1 Bn

↑ +1%



Transport services

Maritime, air or rail



€3.6 Bn

↑ +31%



Intellectual property



€2.6 Bn

↑ + 22%



Pensions and insurance



€2.4 Bn

↑ + 70%



Miscellaneous

including manufacturing, maintenance & repair, construction, personal & recreational, and government services.



€2.4 Bn

↑ + 20%

↑ Change from 2022

■ Imports from the UK to France (in € billions)

■ Exports from France to the UK (in € billions)

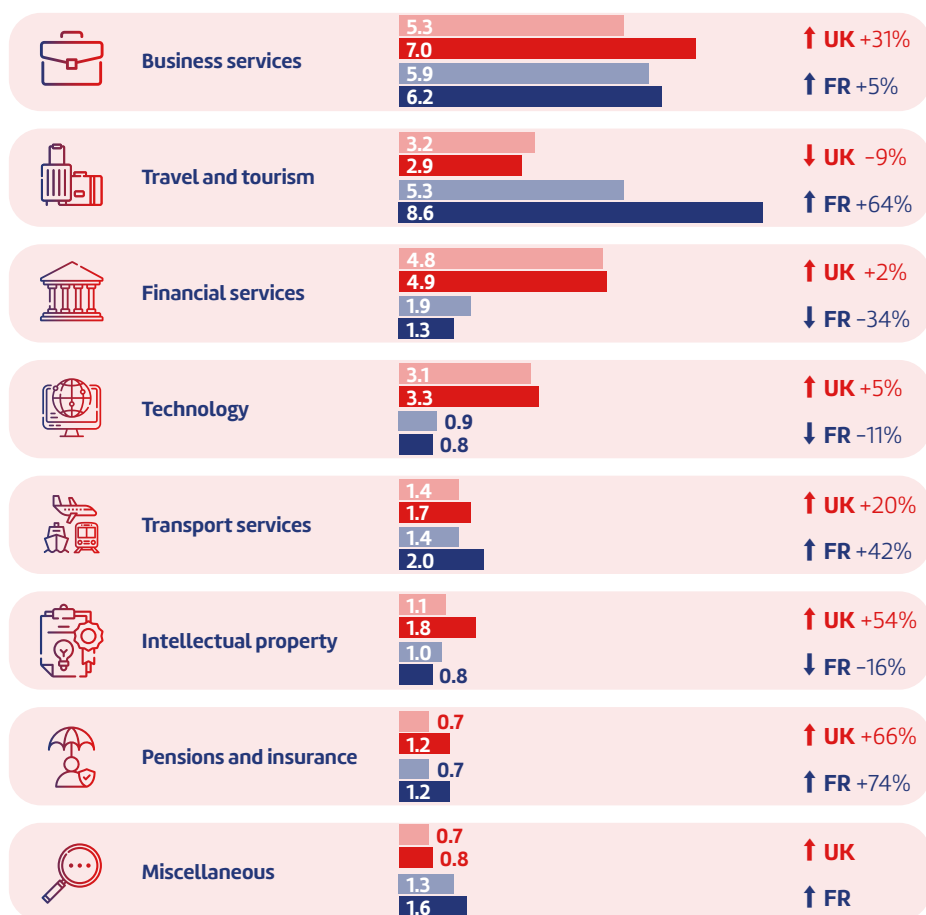
* Travel "receipts" or exports cover the goods and services (excluding international transport) that non-resident visitors acquire in France, including during day trips (border crossers, transit passengers, etc.) and for any reason (business, pleasure, secondments and posted work, international studies, medical care, second homes, etc.). Likewise, travel "payments" or imports cover purchases by French residents while abroad.

Evolution of trade in services in 2022 and 2023

Trade in services totalled €46 billion in 2023, up 18% versus 2022, with growth across virtually all sectors, reflecting the creation of a new economic trade dynamic. UK service imports to France rose 12%, reflecting the UK's dominance in this field, however, French service exports to the UK grew by 22% to €22 billion, narrowing the UK's lead.

The UK's strength in financial services, technology and telecommunications, and other business services, reflect its position as the world's second largest services exporter after the US. In 2023, services represented 46% of imports from the UK, the highest level over the last five years.

The growth in service exports from France to the UK was primarily driven by a record level of travel and tourism, up 64% to €8.6 billion. At the same time transport services grew by 42% and business services increased by 5%.



Imports from the UK to France (in € billions) ■ 2023 ■ 2022
 Exports from France to the UK (in € billions) ■ 2023 ■ 2022

Sectors in surplus for France



Machinery and transport equipment

€ 31.2 Bn

Imports: € 12.4 Bn ↑ + 7%

Exports: € 18.8 Bn ↑ + 39%

Surplus: € 6.4 Bn ↑ + 214%

Machinery & Transport equipment is the largest trading sector, making up 26% of total Franco-British trade. Exports from France, which almost doubled in 2022 to €13.6 Bn, continued to grow in 2023, reaching €18.8 Bn (+39%), benefiting from France's favourable industrial policy and capital investment. Aircraft, road vehicles, power generators and mechanical machinery were the largest export segments, generating a French surplus of €6.4 Bn, up 214%.



Travel and tourism*

€ 11.5 Bn

Imports: € 2.9 Bn ↓ - 9%

Exports: € 8.6 Bn ↑ + 64%

Surplus: € 5.7 Bn ↑ + 176%

2023 saw a huge recovery in Travel & Tourism to €11.5 Bn, most notably of receipts (exports) from UK visitors to France, up 64% versus 2022. Receipts from French visitors to the UK (imports), which had seen strong growth in 2022, fell back by 9%, but were still well above historic levels. This was driven by a drop in business travel, while personal travel remained stable.



Chemicals and pharmaceuticals

€ 10.6 Bn

Imports: € 3.9 Bn ↓ - 1%

Exports: € 6.7 Bn ↑ + 3%

Surplus: € 2.8 Bn ↑ + 9%

Overall trade in Chemicals & Pharmaceuticals grew by just 1% to €10.6 Bn, with imports from the UK down 1% to €3.9 Bn and continued growth in exports from France up 3% to €6.8 Bn. France remains a major exporter of chemicals to the UK.



Food & live animals

€ 7.6 Bn

Imports: € 2.4 Bn ↑ + 1%

Exports: € 5.1 Bn ↑ + 7%

Surplus: € 2.7 Bn ↑ + 13%

In 2023, overall trade in Agriculture & Livestock reached €7.6 Bn, up 5% versus 2022. The decline in exports of fruit and vegetables, fish, and livestock due to the application of UK-EU border checks was more than offset by strong growth in exports of meat preparations, sugar, tea, coffee and cocoa. Total exports from France increased by 7% to €5.1 Bn, generating a surplus of €2.7 Bn.



Beverages & Tobacco

€ 4.1 Bn

Imports: € 0.8 Bn ↑ + 11%

Exports: € 3.2 Bn ↓ - 27%

Surplus: € 2.3 Bn ↓ - 36%

With the exception of a slight dip in trade in 2020, the Beverages sector has seen constant growth in trade. In 2023, imports from the UK grew by 11% to reach €0.9 Bn, making France the largest European importer of beverages from the UK.

↑ Change from 2022

■ Imports from the UK to France (in € billions)

■ Exports from France to the UK (in € billions)

* Travel "receipts" or exports cover the goods and services (excluding international transport) that non-resident visitors acquire in France, including during day trips (border crossers, transit passengers, etc.) and for any reason (business, pleasure, secondments and posted work, international studies, medical care, second homes, etc.). Likewise, travel "payments" or imports cover purchases by French residents while abroad.

Sectors in surplus for the UK



Financial Services

€ 6.2 Bn

Imports: € 4.9 Bn

↑ + 2%

Exports: € 1.3 Bn

↓ - 34%

Surplus: € 3.6 Bn

↑ + 27%

With €4.9 Bn of imports to France, Financial Services are a traditional and major surplus sector for the UK, making up 21% of all UK services exported to France. In 2023, UK imports to France rose 2%, while exports from France decreased by 34% on a nominal basis to €1.3 Bn, reversing the prior year surge. The UK trade surplus increased to €3.6 billion.



Technology & Telecommunications

€ 4.1 Bn

Imports: € 3.3 Bn

↑ + 5%

Exports: € 0.8 Bn

↓ - 11%

Surplus: € 2.4 Bn

↑ + 9%

Following the strong sector growth in 2022, overall trade in Technology & Telecommunications was broadly flat in 2023, at €4.1 Bn. However, the UK continued to benefit from a rise in activity, up 5% to €3.3 Bn (14% of UK service imports), whilst exports from France fell back by 11% to €0.8 Bn.



Intellectual Property

€ 2.6 Bn

Imports: € 1.8 Bn

↑ + 54%

Exports: € 0.8

↓ - 16%

Surplus: € 1.0 Bn

↑ + 428%

The UK is a leading provider of Intellectual Property services and imports rose by 54% in 2023 to €1.8 Bn, generating a surplus close to €1 Bn. The rapid advances in generative AI technology have driven growing demand for IP protection.



Other Business Services

€ 13.1 Bn

Imports: € 7.0 Bn

↑ + 31%

Exports: € 6.2 Bn

↑ + 5%

Surplus: € 0.8 Bn

↑ + 247%

Generating €13.1 Bn of bilateral trade in 2023, other Business Services, which includes management consulting, technical and trade related services, is the largest service segment, making up 30% of UK service imports and 27% of French service exports. Imports of UK business services grew by 31% to €7 Bn, reversing the French surplus of 2022, and generating a UK surplus of €0.8 Bn.

↑ Change from 2022

■ Imports from the UK to France (in € billions)
■ Exports from France to the UK (in € billions)

Focus on Energy



2022 saw severe disruption to the energy markets due to three factors, the post-covid economic recovery which drove a strong demand growth for energy, economic sanctions on Russian energy following its invasion of Ukraine, and unplanned nuclear power stoppages in France. All these factors drove energy prices to record levels. Instead of being a net exporter of electricity to the UK, France needed to import electricity at high market rates, and so energy imports from the UK more than tripled. The recovery of French nuclear power production in the autumn, and market price normalization, has seen a reversal of this effect in 2023.

Global analysis



Chantana SAM
Economist, HSBC Continental Europe

2023: A Record Year for Franco-British Trade

2023 has been a difficult year for global trade. Global trade (defined as the sum of global imports and exports) fell by 2% in value terms, after a rise of 13% in 2022. It was the first annual decline since 2020, the year marked by the onset of the pandemic. This decline has been mainly driven by trade in goods (-5% in 2023, after 13% in 2022) while trade in services has been more resilient (rise of 9% after 15% in 2022). If we exclude the impact of global inflation (about 6% in 2023, from 8% in 2022), the picture on trade in goods has not been very different: global trade volumes fell by 1% in 2023, after a rise of 4% in 2022. This contraction reflected in large part the rotation in consumer spending from goods to services, due to the post-pandemic reopening trend. This evolution also led global businesses to reduce their inventories of merchandises, which has contributed to the decline in global goods trade volumes. This weakness has not been offset by the recovery in services consumption as it is generally less trade-intensive than goods consumption.

Europe has not been spared by these disappointing trends. European trade (i.e. the sum of imports and exports) was flat in value terms in 2023, after having risen by 11% the previous year. Here again, trade in goods (-4% in 2023, after 12% in 2022) was the main culprit. In contrast, services trade remained quite resilient (increase of 10% after 11% in 2022)

The evolution of **French trade** has been relatively close to the trends seen at the European level. French trade fell by 1% to €1,992Bn in 2023, reflecting flat exports and lower imports (-2%). Trade in goods dropped by 4%, due to a sharp decline in imports (-7%). Trade in services was more resilient, rising by 2% on the back of a surge in import services (+11%).

In the end, the French trade deficit fell to € 56 Bn in 2023, after the record level of € 74 Bn reached the previous year. This lower deficit reflected lower imports (-2%, due to the sharp drop in goods imports) and relatively stable exports.

In detail, the deficit for trade in goods dropped markedly, even if it remained elevated at € 100 Bn (after € 156 Bn in 2022). It reflected in particular a lower deficit on energy, due to the gradual normalisation in French electricity production. Exports of material transports also picked up markedly (especially for the aircraft sector) but it was also the case for imports, especially of electric vehicles.

Meanwhile, the surplus for trade in services markedly declined, from € 46 Bn in 2022 to € 11 Bn in 2023. It reflected in large part a sharp decline in the trade balance for transport services (- € 3 Bn, from € 28 Bn in 2022) due to lower exports and higher imports. This trend probably reflected the resumption of international travel to more regions in 2023, especially to Asia. Beyond transport services, French imports of business services also increased markedly.

Franco-British bilateral trade has tended to be more dynamic than the general trend seen for Europe, which underlines the strong trade relationship between both economies.

Indeed, in 2023, Franco-British trade of goods and services continued to expand and **reached a new record high of € 121 billion**, up 9% compared to 2022. Exports from France to the UK were especially dynamic, increasing by 15% over the year and reaching € 69 Bn. Imports to France from the UK rose more moderately, by 2% to € 52 Bn. As a result, French trade surplus rose by 87% to a record € 17 Bn, reflecting a higher surplus for trade in goods (€ 19 Bn, up by 63%). Balance on services trade remained in deficit, but that deficit actually declined by 45% over the year, to € 1 Bn.

If we dig into the details, the rise in exports from France to the UK was driven both by goods (up by 12%) and services (up by 22%).



Goods exports were supported especially by **machinery and transport equipment exports**, which were up by 39% over the year on the back of strong contributions of road vehicles and aircraft (both items explained about 70% of the rise in exports in the sector). Exports of aircraft were supported especially by telecom satellites, but other items such as helicopters and aircraft parts also contributed to the strong rise in exports. As for road vehicles, the strength in exports was relatively broad-based and concerned both cars, trucks and tractors.



The strength in transport equipment exports was a feature seen for the totality of French exports, not only those to the UK. It mainly reflected two factors. First, the supply constraints which emerged during the pandemic, particularly the shortages of some key components like chips, have markedly eased. Second, the negative impact of the energy crisis on industrial production has receded, given the sharp fall in gas and electricity prices. These factors also supported imports of machinery and transport equipment to France from the UK, but to a lower extent as these imports rose by about 10%.



Outside transport equipment, the normalisation of energy trade exchanges was also an important driver in the rising trade surplus of France on goods trade with the UK. Indeed, in 2022, the multiple issues hampering French electricity production (the maintenance and repair operations on a large part of the 56 nuclear reactors located in the country) led to a surge in energy imports from other countries, including the UK. The gradual return to normal of French electricity production led to more normalised trade flows in 2023. Exports of fuels from France to the UK almost doubled over the year on the back of strong contributions of oil products and electricity. Meanwhile, imports of fuels to France from the UK fell by about 56%, due to oil products, gas and electricity.



Regarding services, the rise in exports from France to the UK was largely driven by **travel and transportation services** (up by respectively 64% and 42% over the year). This reflected the ongoing normalisation of travel from the UK to France (both for tourism and business reasons) after the pandemic disruption. Hotel overnight stays in France from British customers topped 12 million in 2023, up by about 46% relative to 2022.

Trade in the other direction, however, saw imports to France from the UK increase for transportation services (up by 20%) but decline for travel services (down by 9%). Visits to the UK from French residents increased by about 12% over the year (topping 3 million) but spending by French residents rose less rapidly (by 4%), pointing to lower spending by trip.

Overall, the surplus on French trade with the UK for travel services rose by 176% to about € 6 Bn. This represents the highest sectorial trade surplus of France with the UK in services.

Looking at other services sectors, construction and insurance/pensions also contributed to the increase in exports from France to the UK. However, this may have reflected some pricing effect, given the marked rise in construction costs and in insurance premiums for businesses.

The increase in imports to France from the UK was also supported by the insurance and pensions sector but the biggest contributor to the rise (a bit more than half) was by far “other business services” (up by 31%) which includes R&D, accounting and consulting. This sector was representing a trade surplus for France in 2022 but it turned into an important surplus for the UK in 2023. French imports were also supported by intellectual property (up by 54%) and by computer and information services (up by 5%).

The rise in imports of financial services has been more limited but this sector still represents the largest sectorial trade deficit of France with the UK (about € 4 Bn, up from € 3 Bn in 2022). The second largest deficit is technology and telecommunication services (about € 2 Bn in 2023).

These developments confirm the comparative strength of the British economy in business services (especially financial services) and in the digital sector. Indeed, even if France remained the first FDI destination in Europe for the fifth consecutive year in 2023 according to the Attractiveness barometer published by EY, the UK still attracted more projects in financial services and in the digital sector. The top position held by France on FDI projects was mainly driven by industrial sectors, including industrial services (transports and warehousing, business services).



Indications and expectations for 2024

In 2024, global trade is expected to rebound modestly. It would be mainly driven by goods, reflecting a pick-up in consumer demand (due to rising real wages), a reversal in the rotation in spending from goods to services and some inventory replenishment by businesses following the recent wave of destocking. First available data for Q1 2024 on trade in goods have tended to support this general outlook. Goods exports have surged in several trade-oriented economies, like Taiwan or South Korea, a trend favoured by the increase in investments in the digital sector, especially thanks to the development of AI.

That said, there are also risks to watch out for in the coming quarters. Geopolitical conflicts could lead to rising disruptions on global trade, as seen currently in the Red Sea. Higher trade tensions between developed economies and China represent also a risk and this topic could gain in importance during the year as we approach the US elections. Nevertheless, for the time being, the outlook on global trade remains rather constructive despite these risks.

The improvement in global trade, if it is confirmed, would represent good news for exports prospects of European economies, in particular the ones more dependent on the industrial sector like Germany and Italy.

France would also benefit from such a trend. Trade statistics for Q1 were relatively encouraging: French exports rose by 1.2% in volume and 0.7% in value, supported by agri-food, transport equipment and other industrial products like chemicals and pharmaceutical products. In addition, French imports rose by 0.4% in volume (due to refined oil and transport equipment) but fell by 0.9% in value, due to lower prices.

More generally, some of the trends seen in 2023 are likely to extend into 2024. Indeed, production and exports of French transport equipment are still far below their pre-pandemic levels, both for motor vehicles and aircraft. As an illustration, production of aircraft (as measured by the volume index on industrial production) was still 25% below its pre-pandemic level of 2019, while exports (in value) were still down by about 13%. Even if there is still some uncertainty on the equilibrium level after the pandemic, production and exports of transport equipment still have room to recover, given that supply constraints are continuing to recede.





On energy, latest trends are also set to continue given that a full return to normal for French nuclear-generated electricity production is not expected before the end of 2024. At the end of the first quarter of 2024, only 38 of 56 nuclear plants were fully operational, with 17 others being partly operational and one being halted. The rise in electricity production during the year should support French exports of energy to the UK and conversely, reduce imports of energy going in the other way.

More generally, the higher levels of FDI in France, most notably for industrial projects, is a factor that could favour a wider trade surplus on goods over the coming years. This reflects the various measures taken by the French government to support the reindustrialisation of the country, which include multiple cuts in taxes on production and the recent incentives (via the so-called “green industry” bill) aimed at encouraging the creation of new sites in various sectors like green hydrogen, batteries, wind power, heat pumps and solar panels. Such efforts are set to be reinforced by the French government in the coming years.

On the UK side, it will be interesting to monitor the industrial policy of the government that will be set up after the general elections planned on July 4th. For example, the Labour party has advocated for more investment in the green transition and for the creation of a public clean energy company. That said, fiscal constraints are likely to limit the room for manoeuvre of the next government.

Regarding travel services, the strong performance in exports from France to the UK seen in 2023 is not likely to be repeated in 2024. Indeed, the trend of post-pandemic normalisation has already lost some steam and in the first quarter of 2024, hotel overnight stays in France from British customers were only up by about 10% relative to the first quarter of 2023. Granted, the Paris Olympic games could provide a temporary boost in the summer 2024 but it’s worth highlighting that in 2023, trips of British residents have also been supported by the Rugby World Cup held in France.

In the other direction, visits to the UK from French residents could also continue to rise but the potential of improvement seems to be relatively limited. Indeed, in 2023, these visits were only down 3% relative to their 2019 levels.



For other services sectors, bilateral trade exchanges in the insurance and pensions sector could remain dynamic, boosted by higher insurance premiums. This would reflect some second-round effects related to past inflation but also more structural reasons like the higher frequency of natural disasters caused by the climate change. In contrast, in the construction sector, inflation on production costs has already markedly fallen, which suggests that the price effect in 2024 on bilateral trade exchanges should be more limited.

Finally, the comparative strength of the UK over France in financial services and in the digital sector is not set to be reversed in 2024. Granted, over the recent years, France has attracted more financial jobs as major banks have chosen to expand their operations in Paris, following the decision of the UK to leave the EU. However, the City of London has retained its position as top financial centre in Europe.

Interestingly, financial regulators from the EU and the UK have recently resumed talks to potentially improve financial services cooperation. It is still too early to consider talks of a better access from the City of London to EU financial markets but both blocs could identify fields where they can work together, such as financial stability, the development of green finance or the impact of the AI transformation. Such a greater cooperation would obviously benefit markedly to bilateral trade between France and the UK on financial services.



Foreign direct investment in 2023

Foreign Direct Investment (FDI) reflects a country's attractiveness for foreign investment.

According to the UNCTAD World Investment Report*, global FDI fell by 12% in 2022 to \$1.3 trillion, due mainly to global crises including the war in Ukraine, high food and energy prices, and soaring public debt. This decline was mostly felt in developed economies, with Europe recording negative FDI of \$107 billion. However, both France and the UK bucked this trend, recording positive inward investment of \$36.4 billion and \$14.1 billion respectively. The UK recorded outward investment of \$129.6 billion, up 53% year on year, while outward investment from France totalled \$48.0 billion, up 7%.

In the 2024 Attractiveness Survey, published by EY**, which provides an annual ranking of European countries by their ability to attract FDI, France ranked #1 for the fifth consecutive year, with 1,194 FDI projects (-5% compared to 2022), and the UK ranked #2 with 985 FDI projects, (+6% compared to 2022). In terms of job creation, FDI projects created over 52,000 new jobs in the UK (+ 11%) and close to 40,000 new jobs in France (+4%).



According to the survey, investor sentiment in France remains relatively high, with 76% believing that the attractiveness of France will improve over the next 3 years. France is the most attractive European destination for industrial projects and jobs, with leading positions in 11 out of 15 sectors including automotive, industrial equipment, logistics, pharmaceuticals, and electronics.

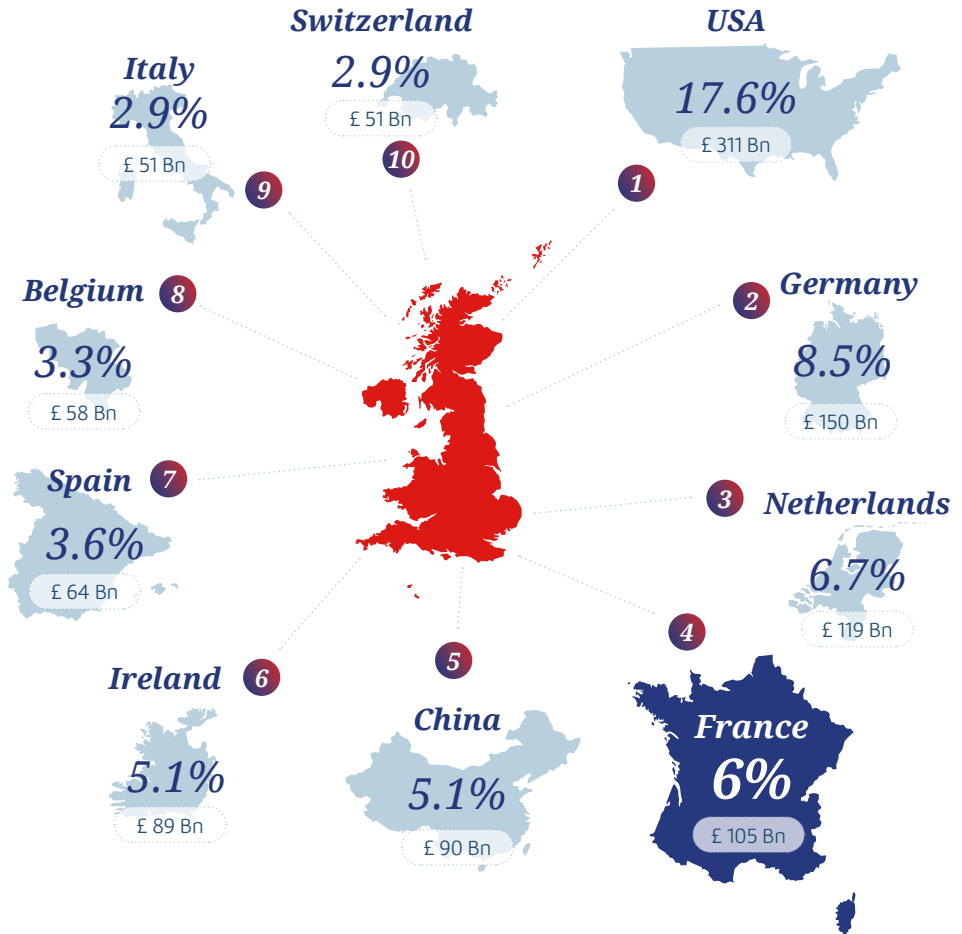
Over the last 5 years, the UK has secured the largest number of new projects, driven by a resurgence in tech investment and impressive annual growth in sectors such as business services. This is reflected in the growing share of services as a proportion of total exports from the UK.

* UNCTAD World Investment Report, published July 2023 - <https://unctad.org/publication/world-investment-report-2023>

** 2024 Attractiveness Survey, published by EY - https://www.ey.com/en_uk/news/2024/05/uk-foreign-direct-investment-project-total-grows

France, a key global trading partner

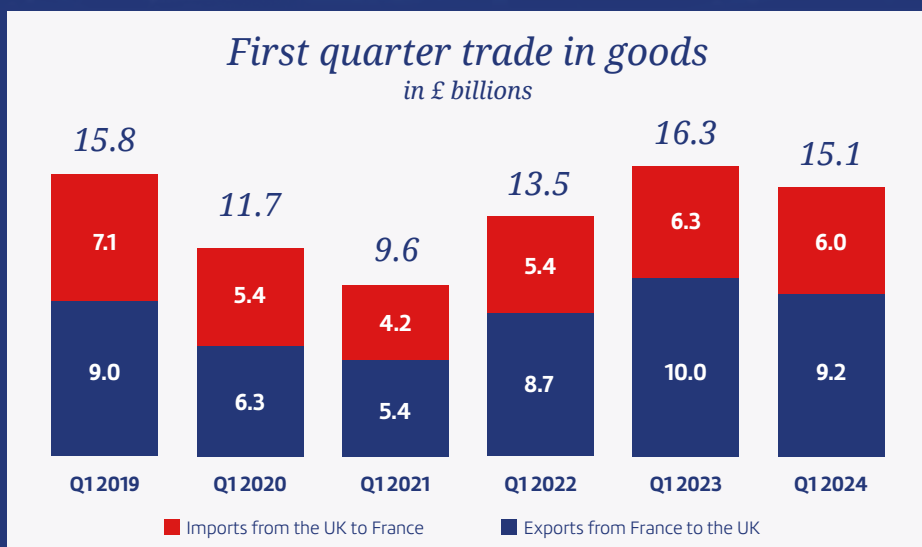
Ranking of United Kingdom's trading partners



#4

France is the UK's 4th largest trading partner and accounts for 6% of UK's total trade. In 2023, as trade with France grew by 11% (in UK £) and dropped with China by 20%, France regained its 4th place ranking.

Q1 2024: A cautious start to the year for trade in goods



Trade in goods during the first quarter of 2024 slipped by 7% year on year, as energy trade returned to more normalized levels. Excluding energy, goods imports from the UK to France increased slightly by 2%, while exports from France to the UK declined by 9%, most notably in the miscellaneous manufactures (11%), chemicals (-13%) and machinery & transport equipment (-7%) segments. Nevertheless, trade in these segments can be affected by large movements and quarterly data should be viewed with caution. It remains to be seen whether these trade figures reflect a temporary dip or an early indication of a slowdown in these sectors.

Note: The data above only provides an indication of the outlook for 2024. The ONS recommends to focus on year-on-year comparisons.

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