

Article

The UK's trade and investment relationship with South America: 2016

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Correction

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A correction has been made to Figure 5: UK foreign direct investment earnings with Brazil (£ billion), 2005 to 2014. This was due to the bars being mislabelled. We apologise for any inconvenience.

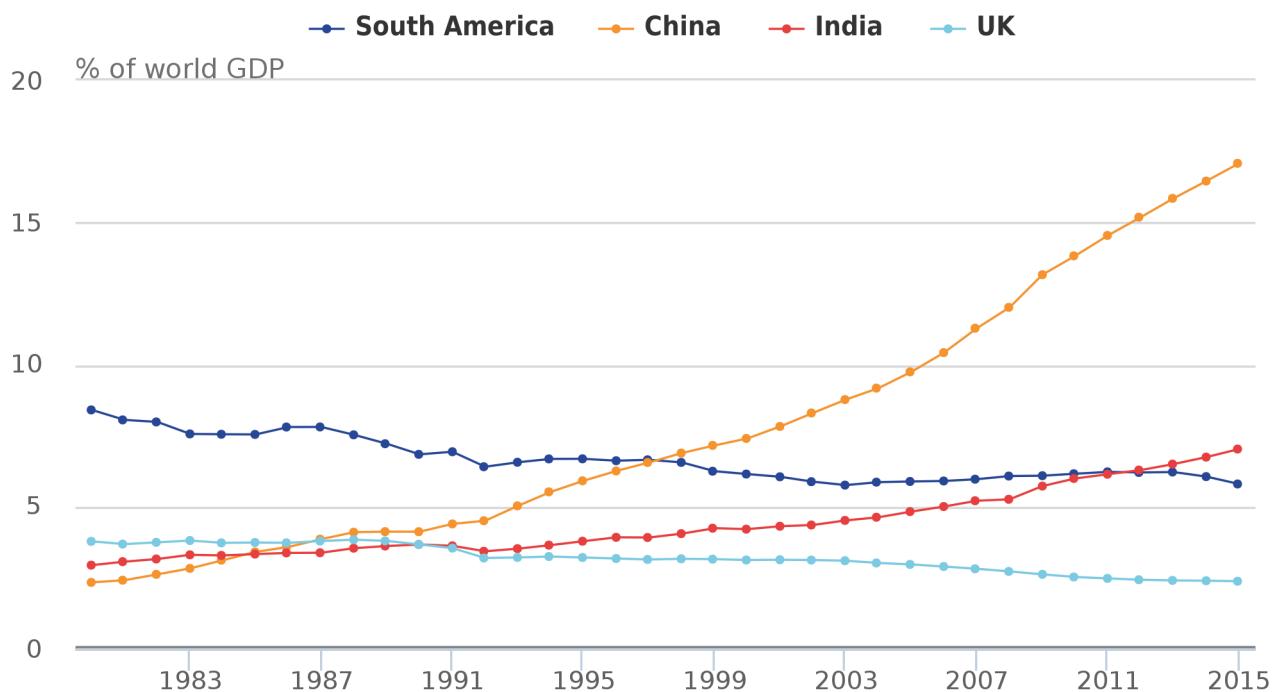
Table of contents

1. [South America accounted for 5.8% of global gross domestic product \(GDP\) in 2015, compared to 2.4% from the UK](#)
2. [The UK has maintained a trade surplus with South America since 2011](#)
3. [UK investment in Brazil has more than doubled since 2010](#)
4. [Since 2010, FDI earnings generated by UK investors in Brazil have generally been above £1.0 billion](#)

1. South America accounted for 5.8% of global gross domestic product (GDP) in 2015, compared to 2.4% from the UK

In 2015, South America accounted for 5.8% of world gross domestic product (GDP)¹, compared with 2.4% from the UK. Both South America and the UK have experienced a steady decline in their share of global GDP since 1980, which can be partly explained by faster growth in emerging economies such as China and India. However, South America's share has remained relatively constant over the past 10 years from 2005 to 2015 due to more buoyant growth. In contrast, the UK's share has fallen by 0.6 percentage points over the same period.

Figure 1: South America, UK, China and India share of World GDP (PPP)¹, 1980 to 2015



Source: International Monetary Fund (IMF)

There are 12 countries which make up South America: Brazil is the largest, accounting for 48.6% of South America's GDP in 2015, with the next 4 largest economies (Argentina, Colombia, Venezuela and Chile) accounting for 39.2%; see Table 1. Brazil's share of global GDP has traditionally been higher than the UK's, with Brazil accounting for 2.8% of global GDP in 2015, compared with 2.4% from the UK.

Table 1: Top 5 largest economies in South America by share of World GDP (PPP), 2015

| Country | Rank | Percentage Share of South America | Percentage Share of World GDP |
|-----------|------|-----------------------------------|-------------------------------|
| Brazil | 1 | 48.6% | 2.8% |
| Argentina | 2 | 14.8% | 0.9% |
| Colombia | 3 | 10.2% | 0.6% |
| Venezuela | 4 | 7.8% | 0.5% |
| Chile | 5 | 6.4% | 0.4% |

Source: International Monetary Fund

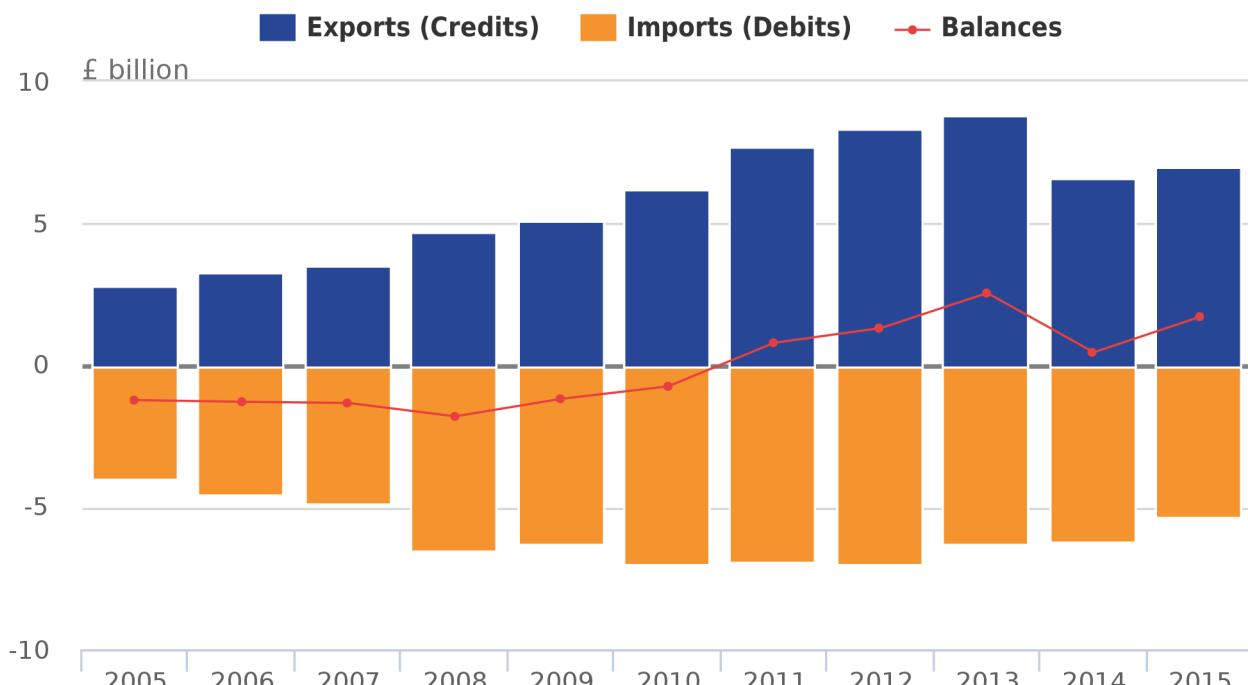
Notes:

1. Adjusted for Purchasing Power Parity

2. The UK has maintained a trade surplus with South America since 2011

The UK has maintained a trade surplus with South America since 2011, having run a trade deficit between 2005 and 2010. This surplus peaked at £2.5 billion in 2013, before falling to £0.5 billion in 2014; see Figure 2. This decline can be partly attributed to a reduction in the value of exports, which fell by £2.2 billion between 2013 and 2014, with Brazil accounting for £0.7 billion of this reduction.

Figure 2: UK trade balance with South America 2005 to 2015

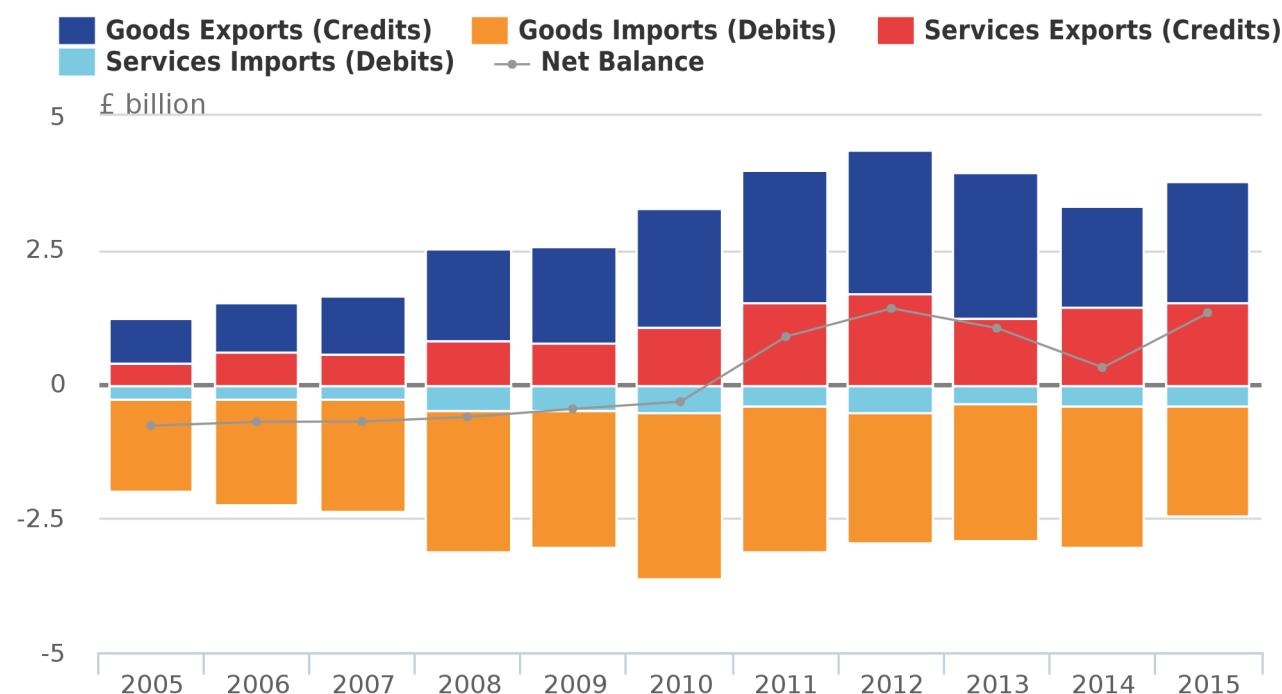


Source: Office for National Statistics

Brazil is the UK's largest trade partner in South America, with goods accounting for 69.1% of total trade between the two regions in 2015. In terms of goods, Brazil is the UK's 27th largest export partner and the 32nd largest import partner.

The UK had a trade in goods and services deficit with Brazil from 2005 to 2010. However, the UK began recording a trade surplus, following an increase in the services exported and a decrease in the goods imported by the UK in 2011. This surplus continued to increase, reaching a peak of £1.4 billion in 2012, but declined in the subsequent years due to a fall in exports of UK goods and services.

Figure 3: UK trade balance with Brazil, broken down into goods and services, 2005 to 2015



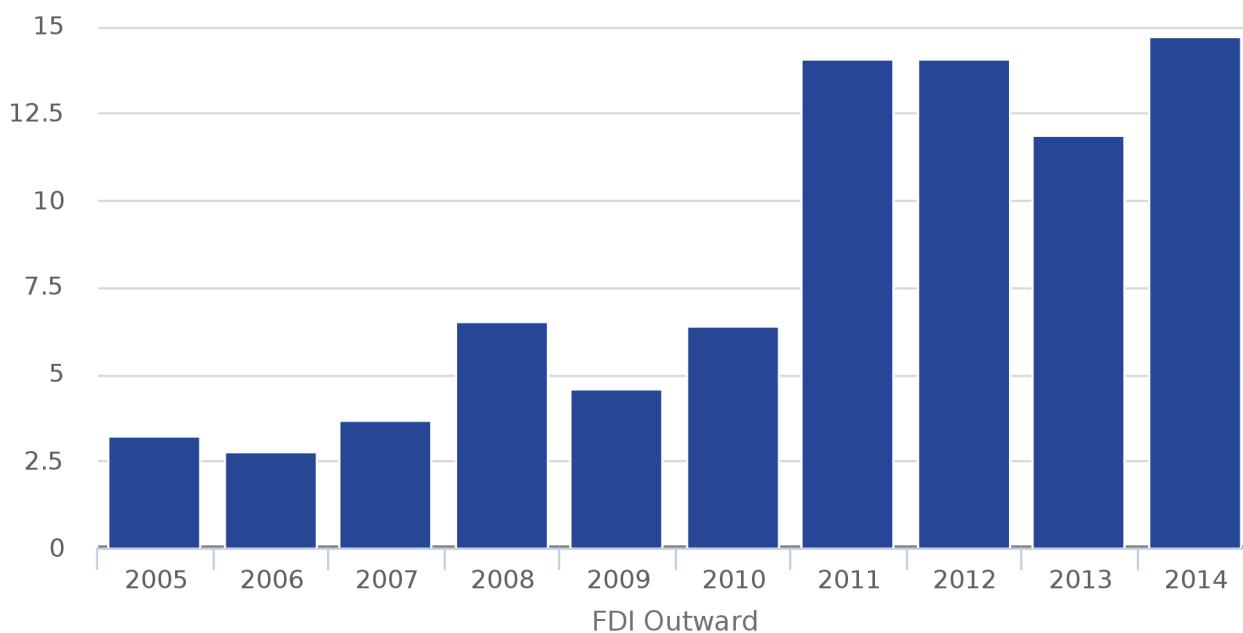
Source: Office for National Statistics

3. UK investment in Brazil has more than doubled since 2010

In 2014, UK investors held £14.7 billion of foreign direct investment (FDI) assets in Brazil; this is considerably larger than the £15 million held by Brazilian investors in the UK. The assets held by UK investors in Brazil more than doubled between 2010 and 2011 from £6.4 billion to £14.1 billion respectively; see Figure 4.

Figure 4: UK foreign direct investment positions with Brazil (£ billion), 2005 to 2014

£ billion

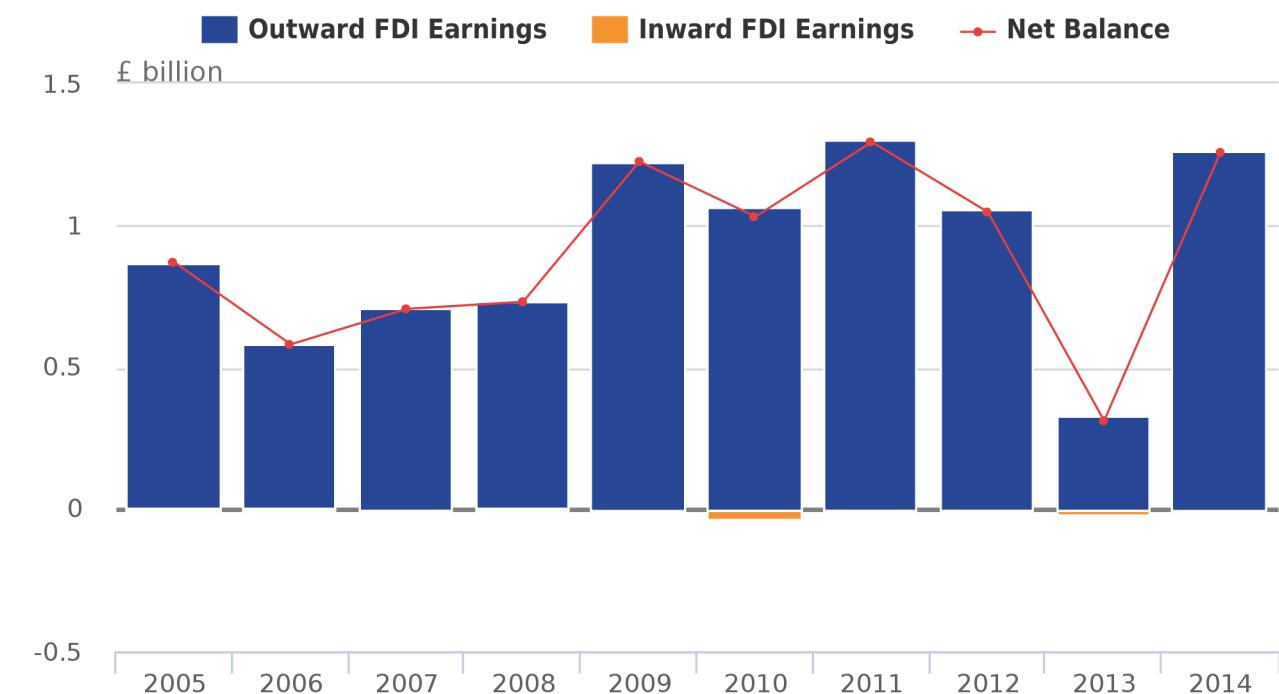


Source: Office for National Statistics

4. Since 2010, FDI earnings generated by UK investors in Brazil have generally been above £1.0 billion

UK investors' nominal earnings from assets held in Brazil increased from £0.9 billion in 2005 to £1.3 billion in 2014. In contrast, FDI earnings generated by Brazilian investors in the UK have traditionally been much smaller, due to the large difference in the stock of assets held. This has not exceeded £0.1 billion over the past decade and as such the UK's FDI earnings balance with Brazil continues to remain in surplus.

Figure 5: UK foreign direct investment earnings with Brazil (£ billion), 2005 to 2014¹



Source: Office for National Statistics

Notes:

1. Latest data available, inward FDI earnings in 2009 are disclosive