Developing markets to lead future export growth

by Stephen S. Poloz, Vice-President and Chief Economist, Export Development Canada

Developing economies almost always grow more quickly than mature economies. It therefore makes sense that Canadian companies would spend their marketing energy trying to capture even a small piece of those rapidly growing markets.

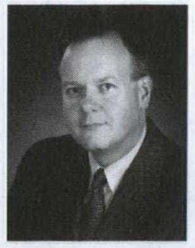
Yet Canada's trade continues to be highly focused on the United States. Fully 83% of our export sales are to the U.S. An even higher percentage of our exports of goods are U.S.-bound, but this is offset a little by our exports of services, which are much more diversified around the world.

Our concentration on the U.S. is part natural, given that they are right next door; part cultural, due to shared language and a similar business context; part institutional, given our free trade relationship; and part cyclical, since the U.S. has been the leader of global economic growth in recent years, while many developing markets have been faltering.

Emerging markets

Indeed, with developing markets stumbling from one crisis to another since 1997, it is hardly surprising that they buy only about 6% of Canada's total exports — about $27 billion in 2001, versus over $400 billion sold to the developed world. Dealing in those markets is perceived to be risky by Canadian exporting companies, who asked EDC to facilitate $11 billion of their developing market transactions in 2001, a figure representing one quarter of EDC's total business volume.

Events of the past year have not been kind to emerging markets. Many carry a high debt load, and need a strong world economy to remain afloat, so all have suffered through the global slowdown. Presently, the level of turmoil is greatest in South America, notably Argentina, Venezuela and Brazil.



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But most forecasters are expecting 2003 to see a return to steady growth in the world, with the U.S. playing more the role of follower than leader. This would see growth in Asia, Eastern Europe and, with a longer lag, Latin America move above the global average — a situation that should cause the share of Canada's trade with developing countries to rise.

Canadian exports

Canada's export performance in the last few months has shown a gradual improvement, although at this rate it will take most of 2002 to recover back to the peak level of exports seen in early 2001. For January-June, compared to the same period last year, Canada's exports are still down by 8.5%. Our weakest markets this year include South America, the Middle East, China, Japan and the major European countries.

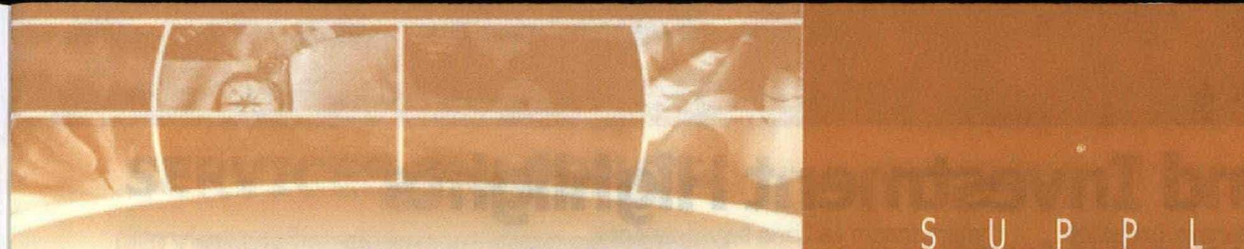
Our U.S. sales are running at the average, but our stronger markets include Mexico, Central America, the newly industrialised economies of Hong Kong, Singapore, South Korea, Taiwan and, especially, Eastern Europe. As the world economy heals over the next year, we can expect positive overall growth to return, and developing markets are likely to be among the leaders.

Positive signs

In the longer term, Canada's trade with developing markets is likely to be boosted by four key changes in the global marketplace.

- First, China's accession to the WTO will lead to a steady opening of that market at the consumer level, while promoting continued strong demand for foreign capital goods.
- Second, increased efforts by eastern European countries to align their economies with core Europe will spur foreign investment and growing demand for Canadian capital goods.
- Third, the Free Trade Area of the Americas will foster a significant increase in north-south trade beginning in about two years' time.
- And fourth, efforts to bring Africa back into the global economy through debt relief and targeted trade liberalisation should be the catalyst to increased export sales there.

The bottom line? Canadian exporting companies will always see the U.S. economy as their core market. But growing their business over time will require that they put an increasing share of their marketing effort into the faster-growing developing economies. Although they will always constitute a relatively small proportion of Canada's overall international business, their above-average growth should provide a good source of fuel for Canada's economy.



SUPPLEMENT

CanadExport

Canadian Trade Review

A Quarterly Review of Canada's Trade Performance

Second Quarter 2002

This trade and investment quarterly review reports on Canada's economic growth in the second quarter of 2002, and highlights our trade and investment performance in key sectors and markets.

Continued Economic Growth Fuels Strong Employment Expansion in the Second Quarter

The Canadian economy continued to outpace the U.S. economy and other G7 countries during the second quarter. Canada's real gross domestic product (GDP) increased by a robust 4.3% (on an annualized basis[1]) in the second quarter of 2002, whereas U.S. GDP expanded by a more modest 1.1% over the quarter.

Increased business investment, strong consumer spending and the rebuilding of inventory were the main contributors to Canadian economic growth over the quarter. The economic expansion fuelled increased imports, while export growth was hampered by the slow recovery in the United States and elsewhere. Consequently, Canadian exports grew more slowly than imports.

Table 1: Canada's Economic and Trade Indicators

Percent Change at Annual Rates Second Quarter 2002 over First Quarter 2002	
Real GDP (*annualized*)	4.3
Employment (*quarterly increase, level*)	134,000
Rate of Unemployment (*quarterly average*)	7.5
Consumer Price Index (*second quarter 2002 over second quarter 2001*)	
All Items	1.3
Core (*excludes food and energy*)	2.2
Canadian $ in U.S. funds (*quarterly average, level*)	0.6432
Exports of Goods and Services (*annualized, current dollars*)	9.1
Imports of Goods and Services (*annualized, current dollars*)	12.4

Source: Statistics Canada

In the first quarter, manufacturing reversed five quarters of decline in this sector, and, in the second quarter, manufacturing has registered continued growth, led by the construction and automotive sectors.

Job creation has continued, with a net increase of 134,000 jobs, and has helped to reduce the average in the unemployment rate to 7.5% from the 7.8% registered last quarter.

The Consumer Price Index (CPI) for all items increased by 1.3% in the second quarter compared to the price level recorded in the same quarter a year earlier, but was slightly down from a 1.5% increase in the previous quarter of this year. The four-quarter increase in the CPI for core items (excluding food and energy) was 2.2%, up from the 2.0% recorded for the previous quarter. Thus, inflation—the rate of change in the CPI—remained comfortably within the Bank of Canada's target range of 1% to 3%. The Canadian dollar appreciated vis-à-vis the U.S. dollar over the second quarter—from US$0.6271 to US$0.6432.

1 To make quarterly data comparable to annual data, the quarterly figures for trade in goods and services are adjusted for seasonality and are expressed at annual rates by raising them four times, i.e. seasonally adjusted annual rates - s.a.a.r. All figures, with the exception of investment figures, are expressed on a s.a.a.r basis, unless otherwise noted.

Prepared by the Trade and Economic Analysis Division (EET)

Department of Foreign Affairs and International Trade | Ministère des Affaires étrangères et du Commerce international

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