

## The fundamentals are sound

This chapter focuses on some of the EC sectors that show particular promise for Canadian firms. These are sectors in which Canadian companies are internationally competitive and have shown substantial development capabilities. While some of these sectors are experiencing difficulties at present, their medium- to longer-term prospects are good. Current economic difficulties are not specific to a particular sector or region, they are a global phenomena and one that only makes it more important for Canadian businesses to find international partners that can help them to enhance their international competitiveness.

While short-term prospects for the EC economy are less favourable than they appeared last year, the fundamentals remain healthy. The U.K. and Spain are now in recession, but the German economy is still forging ahead. Other EC economies such as France and Italy are growing, although more slowly than previously.

In 1990, the EC's GDP is estimated to have increased by about 3% in real terms. In 1991, EC economic growth may slow to about 2.25%. This slowing is due to internal factors that were aggravated by the Persian Gulf War, the depreciation of the dollar, and current problems in the American economy. The growth of the EC economy is expected to rise to 2.5% in 1992.

### GDP at constant prices (% change)<sup>1</sup>

	1988	1989	1990*	1991*	1992*
Canada	4.4	3.0	0.9	-0.3	3.6
Belgium	4.3	4.0	3.5	2.3	2.8
Denmark	-0.4	1.3	0.9	1.0	1.8
Greece	4.0	2.6	1.2	1.0	1.5
France	3.3	3.6	2.5	2.5	2.8
Germany	3.7	3.3	4.3	3.3	2.0
Ireland	3.7	5.9	4.5	2.3	3.8
Italy	3.9	3.2	2.6	2.3	2.8
Luxembourg	4.3	6.1	3.2	3.0	3.3
Netherlands	2.7	4.0	3.4	2.0	2.5
Portugal	3.9	5.4	4.2	3.3	3.8
Spain	5.0	4.9	3.5	2.5	3.3
U.K.	4.1	2.2	1.5	0.8	2.5
EC	3.8	3.3	2.9	2.3	2.5
U.S.	4.6	2.5	1.1	0.3	1.3
Japan	5.7	4.9	6.0	4.3	4.0

\* Provisional forecasts October 1990

<sup>1</sup> GNP for U.S. and Japan from 1989 onwards.

Source: EC Annual Economic Report 1990 and Conference Board of Canada.

Employment is still growing, but this will slow in 1991 and unemployment is expected to rise to 8.75%. Because EC currencies have been appreciating in value relative to other currencies, the EC has not been hit as hard as other economies by the inflationary effects of oil price increases. Nevertheless, inflation is increasing and might reach 5.25% in 1991.

Longer-term prospects look positive. The EC has a solid industrial infrastructure and the imminent achievement of a single internal market will provide an extra boost. Opportunities for companies in R&D should expand as government, private industry and the European Commission encourage a wide range of cooperative research programs. There should also be opportunities in public procurement, which represents about 16% of the EC's GDP — particularly for those Canadian firms that are subcontracting or partnering with EC firms. German unification is having a positive effect and companies in the EC will also be able to take advantage of new East European markets.

Liberalization and harmonization of the EC markets and increasing European cooperation is creating new opportunities in a number of emerging industrial sectors, especially telecommunications, pharmaceuticals, civil aerospace, and the food and beverage industry.

It should also be remembered that in difficult economic times, international competitive pressures only increase. More than ever, corporations need to spread their markets over North America, Europe, and Asia, though expensive strategies such as acquisitions and greenfield investment will be more difficult to sustain. Strategic alliances, on the other hand, offer less expensive ways to expand into important markets such as the EC.

In difficult economic times, companies also have to find more subtle ways of enhancing their position. Efficiency is not enough to guarantee success. Factors such as quality, design, innovative marketing and timely distribution become crucial ingredients in the formula for success. On the other hand, maintaining R&D commitments remains just as important as ever. Companies that cut back on investing in their technological future run the risk of losing their competitive position. In the words of the international business analyst, Professor Jordan Lewis, "In an economic downturn, firms that cut back lose their positions. Lost positions are very difficult to regain. Forming an alliance with another company can cut its costs, reduce investment and yet maintain its competitiveness by drawing on the resources of a partner."