For Canada, these trends indicate the importance of encouraging more SMEs to explore export opportunities, particularly in the area of technical, engineering, commercial and professional services; and the critical importance of working with TNCs to leverage more investment in Canada, particularly in R&D. Canada's forecast growth by industry sector is found in Chart 1.

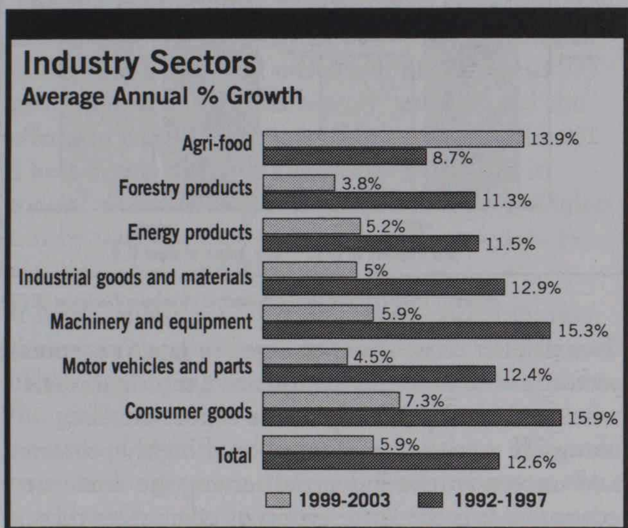


**Chart 1**
*Source: Export Development Corporation*

Canada's exports are expected to grow by approximately 6 percent in 1999 and 5.9 percent per year over the planning period. This growth is dampened somewhat by an anticipated continuation of weak commodity prices and slower economic growth in the U.S. A summary of our export forecast by geographic region is found in Chart 2.


**Chart 2**
*Source: Export Development Corporation*

## 2.1.2 Outlook in Industrialized Countries

*The world economy is expected to grow at a moderate rate – around 2 percent – in 1999, as Asia begins its recovery, North America moves to a more sustainable growth path, the expansion in Western Europe gains force and international capital and commodity markets stabilize. However, potential threats to global expansion include the possibility of reform fatigue in Asia, speculative attacks on key emerging markets, an overshooting of an equity market correction leading to a slump in consumer spending in the U.S., and the inter-connectedness of world markets themselves – with the ongoing risk of negative chain reactions.*

Following a year of better-than-expected export growth of 7.4 percent in 1998, Canada's exports are expected to increase by at least 6 percent in 1999. Steady U.S. demand, an improving West European economy and gradual recovery in Asia should contribute to an average annual export growth of 5.9 percent over the remainder of the planning period.

Canada's exports to the **United States** are forecast to grow by 6.4 percent in 1999, and the average annual growth rate over the planning period is anticipated to be 5.8 percent. The U.S. expansion is headed into its ninth year, and most key macroeconomic indicators continue to show a healthy economy. With the U.S. now accounting for over 82 percent of Canada's international sales, this strong market has been the mainstay of Canada's export growth. The expansion is expected to continue over the planning period for two reasons: sudden shifts in fiscal or monetary policy are unlikely, and U.S. business continues to demonstrate that it can achieve strong growth with moderate inflation. However, the pace of expansion is expected to slow as rising unit costs exert pressure on profit margins and a cooling economy slows sales growth. The U.S. has enjoyed the strongest investment boom in recent history. The run-up in the U.S. stock market since 1994 injected an extra $10 trillion to the U.S. economy – which fuelled a boom in new industrial capacity, because companies have been able to finance their plant and equipment more cheaply. This increased competitiveness of U.S. products resulting from the new investment in machinery and equipment, might put competitive pressure on Canadian products exported to the U.S. in the near-term.