

For the medium-term, the reforming Latin American economies continue to offer bright prospects to exporters.

Over the course of 2002, a bottoming out of the technology cycle and a rebound in the U.S. should stimulate a rapid increase in East Asia trade flows. China continues to be an increasingly important pillar for growth in that region. Indeed, as China's growth becomes increasingly based on domestic demand, it provides an ever stronger support for growth in the region and globally. The weakest link is Japan, which continues to have difficulty implementing microeconomic reforms and has been deeply affected by the global technology stock meltdown. Canadian exports to Japan are unlikely to show any increase in 2002 and indeed could continue to decline as Japan's GDP is widely expected to contract in 2001 and 2002. Exports to the newly industrialized countries are likely to rebound as the technology cycle moves back into an upswing. Meanwhile, exports to the ASEAN-4³ are also likely to increase only marginally in 2002.

Latin America

The widespread recovery in economic activity in Latin America in 2000 resulted in substantial gains in Canada's exports to most major countries in the region.

Canada's merchandise exports to Central America increased by 8.7%, while exports to South America increased 12.3%. Canadian exports to Canada's free trade partners all grew significantly – Mexico (26.5%), Costa Rica (25.2%) and Chile (23.6%). Overall, the major Latin American economies (including Mexico) absorbed 1.15% of

Canada's merchandise exports in 2000, an improvement over 1.13% in 1999, but still substantially below that of 1.7% posted in 1997.

In 2001, economic growth stalled in many of the major Latin American economies, reflecting a combination of slower growth in their own exports and increased difficulty in accessing international capital markets. Already experiencing a sharp reduction in industrial production, Mexico is expected to be the most affected by the U.S. downturn. However, Mexico also stands to benefit the most as the U.S. economy begins to recover in 2002 and beyond. Since most of the small economies of Central America also depend heavily on U.S. demand, they will feel the impact of the U.S. downturn. With stronger ties to Europe, the bigger economies of South America may be somewhat cushioned from the U.S. slowdown.

For the medium-term, the reforming Latin American economies continue to offer bright prospects to exporters. These prospects will be significantly boosted as a result of the Free Trade Agreement of the Americas initiative.

Argentina's crisis is not apparently spilling over on the regional economy or on other emerging markets. Insofar as the peso depreciation and associated reforms resolve an underlying competitiveness problem, this may help restore growth in this important regional market after four years of recession.

³ Indonesia, Malaysia, Philippines and Thailand.