
2.1.3 Outlook in Emerging Markets

Developing Countries have recently benefited from strong private capital flows, thanks to low interest rates, some progress in economic reform in many markets, and a growing investor appetite in industrialized countries for emerging market assets. The increase in capital flows to the developing world in 1996 took the total to a new high of \$285 billion according to the World Bank. Prospects are good for this figure to have been matched, if not exceeded, in 1997.

Latin America experienced the biggest turnaround among international investors. Recovery has become well established in the region and performance overall is improving. The region's financing system remains woefully inefficient in mobilizing domestic savings and channelling them to productive uses, and fiscal problems continue to plague many Latin American countries. Canadian exports are expected to recover from this near-term weakness to average close to 9% growth per annum over the planning period.

In Asia, after several years of rapid economic growth, serious imbalances were becoming apparent in several Asian economies by 1997. In response, a number of Asian economies have introduced reforms aimed at addressing these structural problems. In Thailand, the Philippines, Indonesia and South Korea, financing and technical assistance were sought from international financial institutions (International Monetary Fund, World Bank and the Asian Development Bank) and several trading partners. On balance, Canadian exports to Asia are expected to average more than 11% growth per annum over the planning period, with some downward risk in the event that financial market turbulence in the region were to slow growth.

In Eastern Europe, output growth was rapid and inflation remained under control in 1997. Over the medium term, improving economic growth will also certainly be sustainable in most of the region. Canada's exports to Eastern Europe and the Former Soviet Union are expected to moderate as a number of large capital projects reach completion.

In spite of its first economic growth since 1989, **Russia** continued to experience political and economic problems. The country remains poised at a critical juncture in its development and, while the prospect of a regression into the chaos that characterized the immediate post-Soviet era has diminished, it has not disappeared entirely.

2.2 Industry Sector Highlights

While all sectors in the Canadian economy are engaged in IBD activities, certain priority sectors receive preferred access to government IBD resources. These priority trade sectors were selected in 1996 on the basis of export performance, export growth potential, importance of government role, the commitment and preparedness of the private sector to participate, and sector competitiveness. The following were designated as priority sectors:

- ▲ **Aerospace and defence:** This sector primarily supplies to niche markets. Products include regional transports, helicopters, executive jets, air-traffic management systems and simulators. Canada ranks fifth in terms of its world exports, preceded by the US, the UK, France and Germany.
- ▲ **Automotive:** This sector is a key component of the Canadian economy. In 1995, direct manufacturing employment totalled 138,755; direct and indirect employment amounted to 501,900. The automotive sector is intensively export-oriented, with 1996 exports totalling \$64.9 billion. The sector includes 14 assembly plants and 554 automotive parts manufacturers.
- ▲ **Electrical power equipment and services:** This sector is comprised of more than 300 manufacturing establishments and 35 consulting engineering firms. Employment is 35,000 and output \$6.8 billion, one-third of which is exported. The sector is regionally concentrated in Quebec and Ontario and is dominated by subsidiaries of foreign-owned multinationals. The consulting engineering segment, on the other hand, is almost fully Canadian-owned.
- ▲ **Environmental industry:** This sector is comprised of 4,500 SMEs, employing 150,000 people, and revenues of \$11 billion. Some 800 firms export, with 10-15% of industry revenues generated from these exports. About 80% of sales are to the US, the world's largest market. Europe and Japan also provide market opportunities. The average annual world growth rate for environmental industries is expected to be 7% until the year 2000. Canadian firms hold a 2.6% share of world markets.
- ▲ **Forest industries:** This sector produces primary products for the most part. It is comprised of more than 4,000 establishments, largely Canadian-owned, spread across the country. Shipments in 1995 amounted to \$57 billion, of which \$41 billion was exported. Imports amounted to \$6 billion. The sector's priority market is the US, followed by the EU and Japan. Canada is the world's largest exporter of manufactured forest products (18% market share in 1990).