



# ANIMAL SPIRITS AND THE ECONOMY

Global Export Forecast

Fall 2011

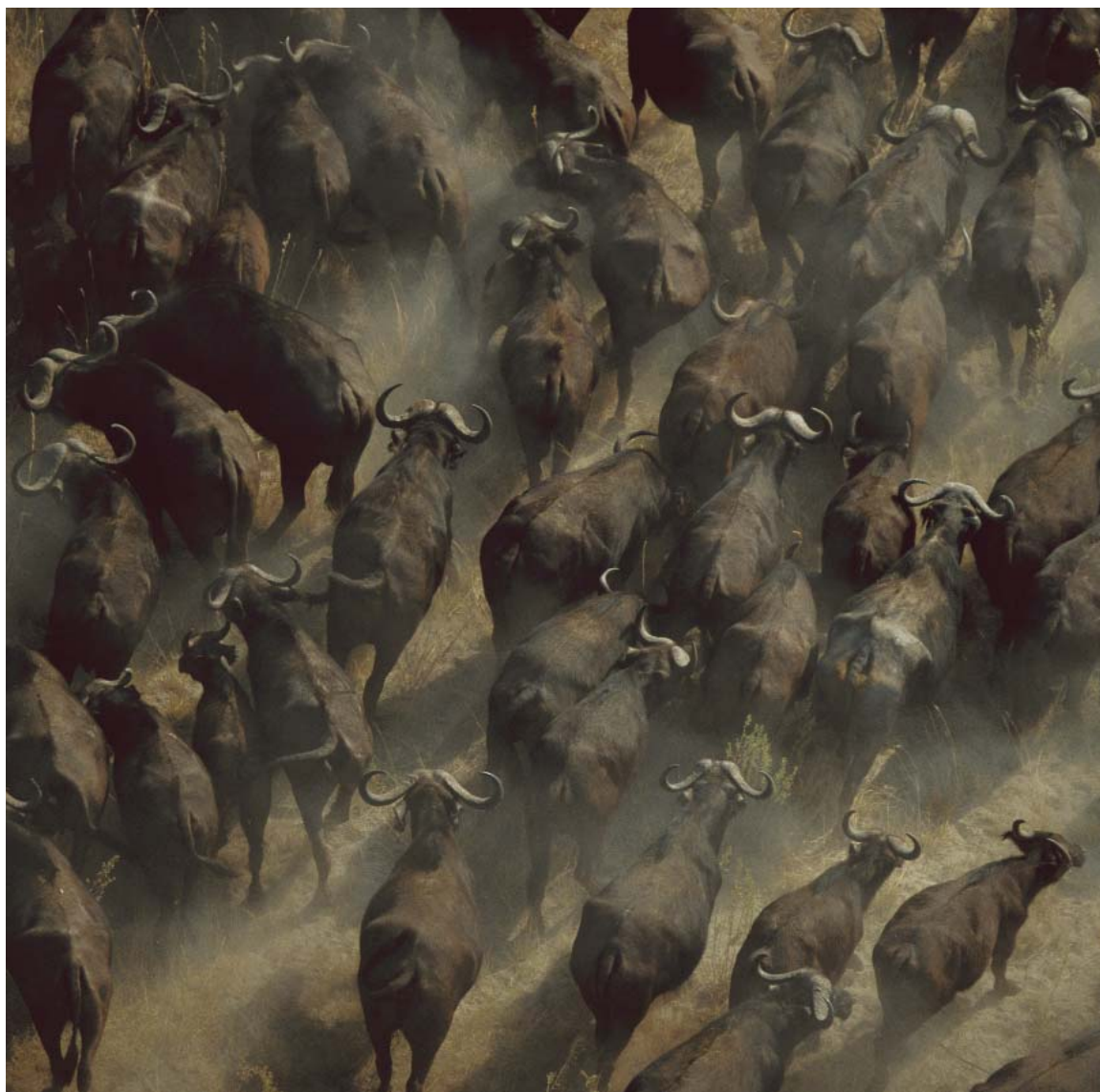


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## EDC Economics

**Peter Hall, Vice-President and Chief Economist**

***Tina Drew, Administrator***



### Economics and Political Intelligence Centre

Stuart Bergman  
John Bitzan  
Jérôme Bourque  
Hendrik Brakel  
Susanna Campagna  
Catherine Couture  
Nadia Frazzoni  
Andrea Gardella  
Barbara Grinfeld

Salim Hammad  
Todd MacDonald  
Indika Joy Rankothge  
Jorge Andres Rave  
Richard Schuster  
Geoff Stone  
Ian Tobman  
Peter Whelan

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Uncertainty is again plaguing the world economy. The momentum that was building earlier in the year was lost as spring turned into summer, and as businesses push onward to year-end, there is a palpable fear of the dreaded double-dip. Stock markets plunged toward the end of the summer, and have since been at the mercy of daily data releases, reacting dramatically to both positive and negative news. Bond markets have likewise been roiled by the news, as nervousness has precipitated a general flight to quality. Currencies have swung wildly in the mayhem. Lower expectations for developed and emerging market growth have felled commodity prices. Does any of this turmoil make sense?

***The Global Growth Cycle***

It is better understood when taken in context. For well over a year now, the world economy has struggled in vain to generate decent growth. Performance has been flat, perplexing markets, businesses and consumers alike, none of whom react particularly well to flat conditions. Economies travel sideways about as smoothly as elevators do. But flat is probably the best we can do for a while. The global economy generated a gigantic pile of excesses at the end of the last growth cycle, and we are still working the pile down. Stimulus created the illusion of a true recovery part way through the process, but that six-month growth flash is now a distant memory, and we have since resumed the laborious task of dealing with the excesses. The good news is that we are making progress, and we are getting closer to the balance point that will usher in true recovery.

***Beset by Shocks***

The sobering reality is that we still have a distance to go, and the journey is likely to be turbulent. An unhappy reality of a sideways economy is that it is particularly vulnerable to shocks. Two major developments have been especially disruptive this year. First, with little or no warning, political turbulence hit North African nations early in the year and quickly spread to the Middle East. Oil production was put at risk, and prices soared, an untimely hit to consumers and businesses everywhere. Second, from the opening weeks of the year, a sequence of natural disasters has plagued world growth. The most serious was the devastating earthquake and tsunami in Japan, which arrested critical supply chains in the automotive, machinery and high-technology industries. Widespread floods, droughts and storms have further compromised the global food supply and delivery of key industrial commodities. These are temporary setbacks, supply shocks that in more normal conditions would merely delay growth. But in today's tentative economy, these disruptions can actually precipitate a more serious and pervasive demand shock – the most recent worry that is gripping markets.

***...and Then There's Europe***

Current turmoil would be bad enough on its own, but there's obviously more to fret about. The sovereign debt crisis in peripheral Europe has worsened as a result of the unforeseen political and environmental shocks, and yields on both short- and long-term bonds have widened to unthinkable levels. Default is a virtual certainty in Greece, and Portugal's situation has deteriorated considerably. The European Central Bank had to intervene to stave off flight from Spanish and Italian bonds. For the latter, austerity measures were tabled a bit late for the market's liking, sending Italian 10-year yields ahead of Spain's as traders contemplated Italy's ability to finance its swollen debt. Even France was briefly pulled into the fray, as weak fundamentals for its top three banks sparked speculation of a possible loss of its coveted AAA sovereign rating.

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Economic progress has been further complicated by distortions that have muddled the picture. Stimulus had a huge positive impact on growth in the fourth quarter of 2009 and the first quarter of 2010, but the effects quickly wore off even though programs had just begun. The trouble was that they were very quick to get up to peak spending levels, at which point lots of money was being spent, but it was no longer generating dramatic growth. This was confusing enough, but now we are into the period where stimulus programs are winding down, with their exit now threatening to be as dramatic as their entry – to the detriment of world growth. As if this were not enough, OECD economies have come under significant pressure to cut even more deeply into government spending. Lavish spending on stimulus and collapsing revenues caused public debt to rise to unthinkable levels in the world's largest economies. Faced with debt downgrades, many are fully into austerity mode. The onset of fiscal tightening coincided almost perfectly with the end of the Fed's second round of quantitative easing, and the economic weakening related to temporary factors mentioned earlier. It is hardly surprising that concurrently, stock markets are in a tailspin, commodity prices are collapsing, emerging market bond spreads are rising and confidence is in freefall.

Markets might be confused enough by this untimely confluence of events, but there is more to digest. Amid today's gloom, there are key signs that the temporary restraints on global growth appear to be loosening. Japanese production and exports seem to be emerging from their post-tsunami collapses, and trade data of other nations corroborate this. And through the 2011 turbulence, factory orders everywhere have been rising aggressively, a trend that extends into the second half of this year. It is still too early to determine whether these trends will continue, but they suggest that fundamental growth is perhaps not as weak as some of the more dramatic indicators would have us believe.

Mixed signals are confusing at the best of times; currently, they seem to be feeding the volatility. Highly uncertain of the economy's next move, markets, in an attempt to protect assets or capitalize on movements, can take positions that undermine activity, with potentially serious consequences. Irrational actions can undermine a perfectly solvent financial institution, food supply or perfectly viable financial instruments, if those actions gain enough momentum – a phenomenon that John Maynard Keynes referred to in the 1930s as “animal spirits.” He used these to characterize the means by which a depressed economy could restart itself, but it applies equally well to negative reactions in an abjectly nervous economy. Precariously indebted sovereign states are at present vulnerable to these same forces – and with these states, the countries and the financial institutions most closely linked to them. In short, animal spirits pose a huge threat to short-term global growth.

***New Normal, or Not?***

Will we make it? Many are resigned to the notion that the near collapse of financial markets in late 2008 and the public debt crisis that followed have condemned the world to permanently slower growth. But other indicators suggest a more standard cycle. Consumers are deleveraging, and setting themselves up for more normal spending patterns. Housing markets are slowly healing. Banks are less tight with lending. Production may be vulnerable to low confidence, but nonetheless appears to be increasing. Those lamenting low employment growth and stingy business investment forget that these indicators are followers, and always respond with a lag to a rise in basic activity.

Our research suggests that rising momentum in key leading sectors, and the healing process that is definitely underway, will bring the global economy into a greater state of balance by the latter half of 2012. We should have already arrived at this point, but have been delayed by the serious shocks the world has sustained, and the accompanying uncertainty.

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The current outlook expects that the world economy will capitalize on the current increase in underlying activity, and continue to find remedies for the shocks and weaknesses that beset near-term growth, tiding the economy through to better times. Momentum is forecast to increase throughout 2012, lifting growth in developed markets from 1.6% in 2011 to 2.6% next year. The US economy will take the lead, with a decent contribution from Japan as reconstruction boosts 2012 growth. Austerity will confine Western Europe to the back seat. Emerging markets will continue to outperform, and will ride the increase in OECD growth to rack up gains of 5.9% this and next year. Consequently, global growth is forecast to accelerate modestly from 3.7% in 2011 and 4.3% in 2012 – decent performance, all things considered.

Throughout the global turmoil, Canada has been blessed with relatively strong domestic demand. Vibrant performance in the commodity sector has helped, but other areas of business have also rebounded handily from 2009 lows. It hasn't hurt that Canada's fiscal policy was well managed going into the recession, and that the banking sector has remained solid through the downturn. Temporary factors will keep 2011 growth to 2.3%, but Canada will be able to ride US momentum next year, and post a moderate increase to 2.4% in 2012. Exports will make a key contribution, with gains of 10.6% and 6.6% this year and next, respectively.

Commodity price volatility is going to result in a mixed performance in exports by industrial sector. Shipments of oil, gas and metals will be negatively affected by lower commodity prices in 2012, although volume shipments will maintain a healthy growth pace. Continued momentum in the US economy will see exports in the auto sector growing at a double-digit pace next year. Delayed orders have suppressed shipments in the aerospace sector this year, but we expect companies to make good on those commitments in 2012, and barring any unforeseen negative developments, exports should increase by 22%.

Exports by province will reflect their individual industrial characteristics. Growth will be strongest in Saskatchewan, thanks to the performance of fertilizer and agri-food sectors. Alberta, which has a greater dependence on the energy sector, will see growth moderate in 2012, while Ontario will generate growth in the middle of the pack.

***The Bottom Line***

Volatility is becoming today's norm, and with good reason. Underneath the chaos, there is a world economy that is righting itself, and if it is able to continue to withstand the inevitable shocks that accompany a period of flat growth, and the animal spirits that are roiling markets, we should all be getting on with building the next global growth cycle in the latter half of 2012.

**1.1 Supply Shocks: Temporary or Permanent?**

In the first half of 2011, just as global economic growth was gathering momentum, two massive supply shocks resonated around the world with incredible speed and intensity. Political upheaval in the Middle East sent oil prices soaring, exacerbating inflationary concerns in many emerging markets while putting a dent in consumer spending and business operating margins. The massive destruction caused by the earthquake and tsunami in Japan reduced global production because of supply-chain losses in the automotive sector. The extent to which the global economic slowdown can be attributable to these two significant, and for the time being, temporary, events provides some indication of the underlying strength of the economy, and the bounce-back impact that can be expected as their effects dissipate.



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The first supply shock was the direct result of events in Tunisia, Egypt and then Libya, referred to as the Arab Spring. The loss of Libyan oil output led to the fear of a severe interruption of global production given the possibility of contagion to other countries, particularly Saudi Arabia and other key OPEC countries. The price of West Texas Intermediate crude rose from USD 79/bbl on average in 2010 to a high of USD 114/bbl in April. Various estimates suggest that if the price of a barrel of WTI rises by USD15 on average, then global GDP growth slows somewhere in the range of 0.25 to 0.5% for the year depending on a country's energy intensity. Thus, the oil shock could have subtracted nearly 0.5% annualized growth from the global economy during the 5-month period that prices were elevated.

The second supply shock came in March as the earthquake and tsunami in Japan caused massive damage to infrastructure, energy-generating capacity and manufacturing facilities. The resultant disruptions in the global auto, machinery and high-tech industries were acute due to the interconnectedness and the just-in-time nature of supply chains. The interruptions to supply chains caused global automobile production alone to drop an estimated 30% on a y/y basis in April and May. According to the most recent IMF World Economic Outlook, the tsunami caused a drop in US second quarter GDP of 0.5 to 1%.

Prior to these two supply shocks, the US and Europe were beginning to show promising signs of recovery; in the final quarter of 2010, the US economy was growing at 2.4% (SAAR) and the Euro area economies were expanding at a rate of 1.2% (SAAR). However, things had taken a sharp downturn by the second quarter of 2011, with the US economy slipping to 1% and Euro area slowing to 0.6%. The slowing came at a bad time as concerns around public sector debt levels limited the potential for a second round of stimulus and the negative economic news damaged already-frayed investor and consumer nerves. However, there is reason for optimism as late-breaking indicators suggest that the global economy is beginning to recoup the lost output that resulted from these two significant events.

Now, the price of oil has eased back sharply from its peak and will likely post only an average USD 15/bbl rise for 2011. This will give an unexpected cash boost to businesses and consumers, which should result in increased spending in the coming months. Also, manufacturing activity in the automotive sector is fast returning to pre-shock levels in the US and Canada. Other signs of recovery are seen in the US international trade and factory orders figures. Moreover, the volume of all freight carried by trucks, railroads and containers at ports across the US is rising. Industrial production growth for the US and the Eurozone is trending upward.

Not all indicators are as upbeat: consumer and business surveys across the US and Eurozone continue to reflect weak confidence levels. The political deadlock in the US over increasing the debt ceiling and the subsequent downgrade of the US sovereign rating is partially to blame. The escalating debt crisis in Europe is having a much greater and more protracted impact on financial conditions and investor and consumer confidence. These threaten to turn 2011's two big shocks into a more serious demand shock. Recovery from these setbacks seems to have come just in time to avert a more serious outcome, so while fragile consumers and business sentiment will remain, the fading impact of the 2011 supply shocks will translate into a boost in growth for the global economy in 2012.

## 1.2 US Recovery: Not Now, but Not Never

It has now been two-and-a-half years since the US recession officially ended in June 2009, yet unemployment remains stubbornly high, confidence is weak and economic growth is disappointing. At this point in a normal cycle, the economy should be experiencing a period of robust growth with recovery taking and an economy lurching back toward full employment. Not this time. After reasonably solid 3% growth in 2010, US GDP has weakened to the point where the risk of a "double-dip" recession has increased

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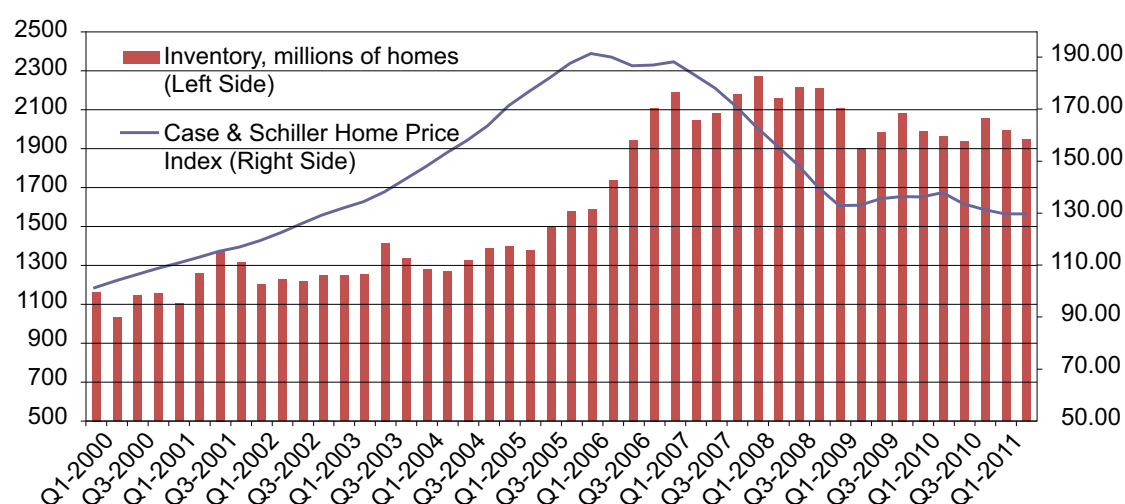
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**Figure 1: US Home Inventory Prices**



At the same time, American business has never been in better shape: corporate profits reached an all-time record high of USD 1.9 trillion in the second quarter, and corporate balance sheets are flush with over USD 2 trillion of cash. Access to credit is also vastly improved, with the Federal Reserve survey reporting six consecutive quarters of loosening credit standards. Commercial and industrial loans grew by USD 34.3 billion in the second quarter of this year, and USD 22 billion in August alone; at the current rate of growth, business loans will be back to pre-crisis levels in just over a year. Talk to the average US consumer, and their take is wildly different. Surveys report that confidence levels are heading back to the lows seen in the depths of the financial crisis, and since the crisis, confidence has only once tried to emerge from recessionary levels. Why is the US consumer so glum?

US consumers took on unprecedented levels of debt financed by a housing boom and an endless stream of consumer credit, which was abetted by reckless lending standards. When the financial crisis hit, the market value of real estate held by US households fell by USD 6.56 trillion or 29%. Three years later, over one-quarter of US homes are still under water, with a mortgage worth more than the property. The ratio of housing stock to the number of households now suggests that a return to equilibrium in the residential construction market will not occur before 2013; however, there are promising signs of recovery.

Affordability measures are at their best levels since the 1970s and with mortgage rates hovering at 30-year lows and rental property vacancy rates falling, homeownership is becoming increasingly attractive. Also, construction of new homes is in better shape as new builds take place in regions where demand is in better shape. In fact, there is a 6.6-month supply of new homes at current sales rates, still significantly above the 10-year average of 4.5 months, but a vast improvement over the peak of 12.2 months back in 2009. This is key to EDC's forecast of 850,000 housing starts in 2012, up smartly from 600,000 this year.

Balance in the consumer segment of the economy, however, is imminent; US consumers have reduced their debt from a peak of 130% of their disposable income down to 115% in Q2 2011. At the current rate of deleveraging, with a personal savings rate above 5% and disposable income rising at its current rate, debt should fall below 100% of disposable income in Q2 2012. This is a much more rapid pace of belt-tightening than initially expected, and the record-low debt servicing cost will buttress growth in consumer spending. Consumer confidence is susceptible to dour news, but is expected to react positively to the benefits of deleveraging. Consumers with lower debt loads and more money in their pockets eventually will start to spend.

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In sum, the US corporate sector has never been stronger and American banks are now well capitalized and prepared to lend again. Consumers may soon be lining up: as consumers' debt loads return to sustainable levels they will start spending again. As consumption represents 70% of US GDP, meaning that 12 cents out of every dollar of global output is traceable to US consumers, their reawakening will provide the global economy with a much-needed boost. This is great news for Canadian exporters. Despite the delay in the housing sector recovery, exports to the US will post healthy gains both this year and next.

**1.3 Don't Get BRIC'd In**

While the US continues to account for the bulk of Canada's exports and investment, there is a growing shift toward emerging markets as Canadian exporters adapt to a strong currency and weaker demand in developed markets. In recognition of the growing opportunities for Canadian business in non-traditional emerging markets (i.e. beyond the better-known markets of Brazil, Russia, India, China (aka: BRICs), EDC developed a list of emerging markets where there is potential for the Canadian trade footprint to grow. The assessment focused on several areas, including the political environment, economic and demographic trends, the investment environment and current Canadian presence in the market. The countries identified are Colombia, Ghana, Indonesia, Mongolia, Nigeria, Panama, Philippines, Poland, Qatar, South Africa, Thailand, Turkey, Uruguay and Vietnam. Individually, these smaller emerging "building blocks" offer a mixed bag of risk and reward, but collectively, they stack-up handsomely against some of the BRICs, with a combined GDP already half that of China's.

The main political indicator used is the World Bank's "Worldwide Governance Indicators," which rate countries on factors including political stability and rule of law. The country's political system (e.g. full or partial democracy or autocracy) was also considered as another critical determinant of political stability. Uruguay, Poland and Qatar all scored highly on the governance indicators and their respective regime types – full democracy in the cases of Uruguay and Poland and full autocracy for Qatar – have proven to be, based on historical evidence, the most stable. For the rest of the building block countries, most of them fall within the middle of the pack on governance indicators. Vietnam is in the mid-range; however, it receives an additional boost from its regime type (full autocracy) which should provide a degree of political and policy continuity. And while Mongolia also earns some points for its regime type (full democracy), its rating on four of these six governance indicators has decreased over the past several years, a deteriorating trend worth monitoring. Indonesia faces some governance challenges; however, it has made remarkable gains in all six indicators in recent years.

There are a plethora of economic and demographic indicators available; size of the market, in terms of population and economy, is a good starting point. Two-thirds of the countries have populations that represent over 0.5% of global population and over half of the selected countries have economies that account for over 0.5% of global GDP; two standouts are Indonesia and Turkey. Consumer purchasing power is another key consideration when looking at export potential and GDP per capita measures individuals' buying power within each country. Qatar, Uruguay, Turkey and Poland are all close to or above the threshold for a "high-income" country as defined by the World Bank. Unsurprisingly, none of our building blocks are considered "low income."

The business environment within a country is another important consideration, and to measure this, the Global Competitiveness Index and the World Bank "Doing Business" reports were examined. By this measure, four of the fourteen building block countries fall within the top third, with Qatar being a standout, ranking 14th of 143 countries. With the exception of South Africa, which ranks a surprising 50th, the African countries perform poorly in this area. Qatar and Thailand also make the top third on the "Doing Business" ranking, and were joined by South Africa and Colombia.



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The existing level of Canadian exports and investment activity in these markets is the final factor examined. Six of these countries (Indonesia, Turkey, Thailand, Colombia, Philippines and South Africa) imported over \$500 million in goods from Canada in at least one of the last five years. Uruguay, Vietnam and Mongolia did not meet this threshold, but each recently had impressive export growth rates. There's more good news: Canadian export growth to each of these countries is well ahead of average growth during the 2001-08 timeframe, and in most cases, average annual growth is well into the double digits. We are already diversifying into these exciting markets. On the investment front, seven of these countries have received over \$500 million in Canadian investment in at least one of the last five years, with Indonesia, Turkey, South Africa and Thailand all having received over \$1 billion. Further evidence of growth potential was found in the growth rates of Canadian investment into seven of these countries, which exceeded 100% in the five years prior to the global slowdown.

With the ongoing uncertainty in developed economies, Canadian exporters and investors will increasingly focus their efforts on increasing their market share in emerging markets. The 14 identified building blocks are those which, according to economic, political and investment environment indicators, will continue to provide solid opportunities for Canadian companies doing business abroad.

**1.4 India**

The past year has been a difficult one for the Indian government as corruption scandals have erupted one after the other, among which the 2G Telecom licences sales, Commonwealth Games, the "Cash for Votes" and the Karnataka mining scandals featured prominently. The scandals have harmed the government's standing and nearly paralyzed the day-to-day operations and the parliamentary process due to sustained opposition protests. As a result, the approval of mega projects as well as crucial land, tax and other reforms have been delayed.

But beyond the cries of foul play from the opposition, it now looks like India has reached a pivot point with respect to tolerance for corruption. This was highlighted recently when activist Anna Hazare began a hunger strike to push for more stringent anti-corruption legislation, which grabbed headlines around the world. And with a very active and open press, more headlines are likely in the future. Entrenched corruption can take decades to reverse, and being a large and evolving democracy, Indian policy making can at times be cumbersome. Yet strong signs of popular demands for change should ensure that the process moves forward.

Despite the current situation, EDC's long-term view of India remains strongly positive. Economic growth will exceed 8% per year over the next decade, driven by favourable demographics, an expanding industrial base, a growing middle class and substantial infrastructure development. These developments will offer numerous opportunities for Canada, both in the long-term and the more immediate future. While opportunities exist in nearly all sectors, prospects in the ICT, automobile, agriculture and renewable energy sectors are particularly bright. There are recent tangible examples where EDC is providing buyer financing to manufacturers, and key contracts in the aerospace sector.

India's rapid growth over the past 23 years has lifted millions out of poverty, with its middle class now exceeding 274 million according to a 2010 Asian Development Bank report, with that number expected to reach over 600 million in the next 10 years. This achievement is all the more remarkable when considering the tremendous challenges faced by India's aspirational class – those aspiring to leave the ranks of the poor and improve their economic well-being. These challenges include remnants of India's sclerotic political structure, rigid caste system, poor infrastructure, an under-resourced public education system, limited financing and of course, high levels of corruption. For India to reach its full potential, these bottlenecks need to be addressed.

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Canadian companies looking to tap into these opportunities will often face important economic, political and operational risks – such is the reality of doing business in India. Even so, for the most part these risks are manageable. Canadian companies will also need to adjust their products and business models to Indian realities. For example, while exports of Canadian farm equipment to Russia and the CIS have been a great success story as the terrain, crops and weather all share similarities with our own Prairies, in order to penetrate India's market, Canada's farm equipment will have to be adapted: fields are smaller, roads are narrower and the climate is very different.

To encourage and assist Canadian companies to capitalize on current and long-term opportunities and mitigate some of the risks of doing business in India, EDC has developed a detailed India Strategy. The Indian market has already become extremely competitive, and its penetration challenging. The current free trade negotiations between the governments of Canada and India, which are set to be concluded in 2013, will make it easier for bilateral trade to flow. EDC will aim to open doors for Canadian companies and help them mitigate risks. Greater emphasis will be placed on sectors where there is a strong alignment between Canadian capabilities and growth opportunities in India, such as automotive, extractive, telecom and, in particular, infrastructure. Also part of this strategy will be an increased focus on enhancing awareness of India's potential to Canadian companies.

In sum, despite the current hurdles, the rationale for EDC to target India as a strategic market remains very compelling. India's political class is responsive to demands for change, and the process through which consensus is built bodes well for longer-term socio-economic stability and for the future of India. At the same time, with our traditional trading partners facing limited growth in the medium term, Canada must look to emerging markets to expand trade, and India offers not only immediate opportunities but also huge long-term potential, particularly in areas where Canadian expertise can be leveraged.

## **1.5 The CAD back below Parity - Is the Loonie Returning To Earth?**

Many exporters were relieved to see the Loonie drop below parity in September, but 2011 has been a particularly volatile year, and this looks likely to continue throughout the forecast horizon. As each day brings new headlines about what is buffeting the Loonie, from a reversal in commodities to panic over the Eurozone debt crisis, the outlook is always top of mind for exporters. So far in 2011, the Loonie has fluctuated between USD1.06 and back down to USD0.96 at the end of September, a huge challenge for exporters trying to plan ahead. Why so volatile?

The most important factor driving the loonie in 2011 has been the price of oil. The first half of the year witnessed a huge spike in oil prices because of concern about production disruptions due to the "Arab Spring" revolutions in Tunisia, Egypt and Libya. The price of oil has recently fallen back to the USD80 range as markets are concerned about weaker demand as macroeconomic data are pointing to a slowing global economy. EDC Economics is expecting the price of WTI oil to average USD94/bbl in 2011 before moderating to USD85/bbl in 2012.

The second important factor has been differences in monetary policy between the US and Canada, particularly the expectations for inflation south of the border. Since September of 2010, the Bank of Canada's overnight rate has remained at 1% while the US is expected to maintain interest rates near-zero until mid-2013 which will continue to attract short-term portfolio flows to Canada. There has also been some concern around the potential for inflationary pressures in the US as the monetary base has almost tripled and a third round of quantitative easing was expected. Such hopes, however, were dashed with the announcement of the Federal Reserve's "Operation Twist" in September which will see the Fed selling short-dated treasuries and buying longer-term ones with no expansion of the money supply. This means that there will be less liquidity available for "carry trade" flows into emerging markets and commodity funds and currencies. Overall, inflation expectations in the US are low which is why long-term bond yields fell below 2% in September.

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Canada's strong performance throughout the crisis, its sound banking system and solid public debt metrics have attracted a great deal of investor interest and have created the 'halo effect' - another factor pushing the loonie skyward. However, recent data show that Canada is not an island. The 0.4% annualized contraction in Canadian second quarter GDP demonstrated that Canada is vulnerable to a global slowdown, and while the economy will certainly return to growth in the third quarter, the Canadian halo has lost some of its luster. Accordingly, the flow of foreign portfolio investment into Canada has slowed somewhat, but remains healthy, reaching \$593.4 billion, an 8.7% increase from a year ago.

The Canadian dollar will continue to be jostled by global volatility but strong support for commodity prices from emerging markets, diminished fears of inflation in the US, and solid demand for Canadian financial assets should keep the Loonie close to parity with the US dollar over the next several years. As a result, EDC is forecasting that the Canadian dollar will average USD1.03 in 2011 before declining to USD0.98 in 2012.



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The global economy has been faced with some significant setbacks this year, and the growth outlook has been revised down to 3.7% for 2011 and 4.3% in 2012. Upside risks exist in the form of the dissipating impact of supply-side shocks and continuing strong demand from emerging markets while downside risks are emanating from the escalating sovereign debt crisis in Europe and the potential for spillover into the financial sector. While the nominal effect of high commodity prices has amplified Canada's foreign sales, the high-flying loonie has had the opposite effect; the dramatic reversal in both these prices mid-way through the year will provide offsetting effects on Canada's trade performance.

In the US, unemployment remains stubbornly high, confidence is weak and economic growth is disappointing. After a reasonably solid 3% growth in 2010, GDP has weakened to the point where the risk of a "double-dip" recession has increased. However, there are some reasons for optimism; the US corporate sector has never been stronger and banks are now well capitalized and prepared to lend again. While the rebalancing in the housing market will be delayed, consumers' debt loads are returning to a sustainable level and spending will resume next year, providing the global economy with a much-needed boost.

The outlook for Western Europe is continued weak growth; market volatility as Greece and possibly Portugal will need further restructuring before 2013; and a strained credit environment as banks contend with impending sovereign debt losses and poor access to market funds. While the EU and the European Central Bank remain committed to avoiding a broader financial crisis, we expect a bumpy road ahead, which will have serious implications for Emerging Europe and Central Asia (EECA) via trade and financial linkages. Despite these challenges, there exist pockets of opportunity for Canadian exporters. The agriculture sector in central Europe and Russia is recovering from the severe droughts and fires of 2010. Higher investment and spending, spurred by record-high agricultural prices, will continue over the forecast horizon. Shale gas activity in the region is also ramping up, presenting another promising opportunity for Canadian expertise.

Despite numerous setbacks to a global recovery, Asia will continue to expand at a rapid pace in 2011 and 2012, although moderating from the stimulus-driven growth of 2010, which reached 6.4%. Limited political and security-related vulnerabilities across the region in 2011 and 2012 will also support growth. The gradual slowdown that is currently underway will continue as pullback from loose fiscal and monetary conditions during the trough of the crisis is now starting to bite. However, strong macroeconomic fundamentals, appealing demographics, and robust domestic demand factors make private investments focusing on resource extraction, manufacturing, telecom and the high-tech sector highly attractive. The internationalization of China's renminbi and its expected appreciation will also contribute to China's continuing transformation into a consumer economy. Finally, discussions with India over a future India–Canada free trade agreement will open the door to greater bilateral trade, offering new opportunities for business with the world's next giant.

In the Middle East and North Africa, a number of countries have adopted policy responses that will reduce the likelihood of major unrest in their midst. The expected drop in oil prices will put downward pressure on the budgets of most oil-producing countries. However, there are some bright spots as the large outlays on social spending and infrastructure projects have already been allocated. This continued spending will present opportunities for Canadian exporters. The bulk of the region's growth will continue to be driven by the energy-exporting GCC countries.

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In Sub-Saharan Africa (SSA), economic growth is being driven by the resource sectors and the rapid rate of movement to the cities. On average, SSA countries have an urbanization rate of roughly 40%, and this is fuelling consumer demand and the continued expansion of the middle class in countries like South Africa and the emergence of this class in other countries such as Nigeria. So too, government-sponsored outlays on ports, roads, energy, water, waste treatment, power and telecommunications to accommodate this urbanization trend is acting as a strong impetus for growth. Generous debt reduction is also playing a role in the region's growth dynamics, as capital has been freed up, creating space for new investment. These countries now have a firmer eye on debt sustainability and work closely with international financial institutions to engage in non-concessional borrowing to expand their infrastructure capacity and lay the foundation for private-sector growth. Given the economic growth story across the continent alongside the uncertainty in many developed markets, EDC Economics believes Canadian engagement with the region will only continue to grow.

**Table 1: Canadian Merchandise Exports by Market**

Top Markets	CAD bn 2010	% Share of Total Exports 2010	2010	Export Outlook (% growth) 2011(f)	2012(f)
<b>Developed Markets</b>					
United States	279.5	74.7	11.3	9	7
Western Europe	35.6	9.5	18.9	12	4
Japan, Oceania and Developed Asia	18.4	4.9	10.6	21	7
<b>Emerging Markets</b>					
Latin America & Caribbean	11.4	3.0	19.7	20	8
Emerging Europe and Central Asia	3.3	0.9	14.7	26	11
Africa & the Middle East	6.3	1.7	-13.9	12	8
Emerging Asia	19.8	5.3	15.1	33	16
<b>Total Developed Markets</b>	<b>333.5</b>	<b>89.1</b>	<b>12.0</b>	<b>10</b>	<b>6</b>
<b>Total Emerging Markets</b>	<b>40.8</b>	<b>10.9</b>	<b>10.5</b>	<b>26</b>	<b>12</b>
<b>Total World</b>	<b>374.3</b>	<b>100.0</b>	<b>11.9</b>	<b>12</b>	<b>7</b>
<b>Source:</b> Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.					

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**Table 2: Global GDP Forecast by Country (Growth)**

Top Markets	Share of World Economy 2009	Global Outlook (% Growth)		
		2010	2011(f)	2012(f)
NAFTA	23.4	3.3	2.0	3.3
United States	19.5	3.0	1.7	3.3
Canada	1.8	3.2	2.3	2.4
Mexico	2.1	5.4	4.0	4.0
Western Europe	18.8	1.8	1.6	1.6
United Kingdom	2.9	1.4	1.9	2.1
Euro Area	14.3	1.8	1.4	1.4
Western Europe non-EMU and Scandinavia	1.6	2.8	2.6	2.4
Japan	5.8	4.0	-0.5	2.5
Australia and New Zealand	1.3	2.6	2.1	3.4
Emerging Asia	23.9	9.5	8.0	7.9
China, P.R.: Mainland	13.6	10.3	9.3	8.8
India	5.5	10.1	7.5	7.6
ASEAN-4	3.2	6.9	5.2	5.4
Other East Asia and Pacific	0.5	7.0	6.1	6.8
Other South Asia	1.1	5.1	4.4	5.1
Asian NIEs	3.9	6.2	4.6	4.4
Emerging Europe and Central Asia	7.9	4.3	3.5	3.8
Russia	3.0	4.0	3.9	4.0
Latin America (incl. Mexico)	8.6	6.1	4.1	4.1
South America	5.9	6.6	4.3	4.3
Argentina	0.9	9.2	5.0	4.1
Brazil	2.9	7.5	4.1	4.3
Central America and the Caribbean	0.6	3.3	2.8	3.5
Middle East and North Africa	5.0	4.4	3.0	4.0
Sub-Saharan Africa	2.1	5.4	4.9	5.4
<b>Industrialized Countries</b>	<b>51.2</b>	<b>3.1</b>	<b>1.6</b>	<b>2.6</b>
<b>Developing Countries</b>	<b>48.8</b>	<b>7.3</b>	<b>5.9</b>	<b>5.9</b>
<b>Total Global Economy</b>	<b>100.0</b>	<b>5.1</b>	<b>3.7</b>	<b>4.3</b>

**Source:** EDC Economics. 2010 is actual data while 2011 and 2012 are forecast. Asian Newly Industrialized Economies (NIEs) are Hong Kong, Singapore, South Korea and Taiwan. ASEAN-4 are Malaysia, Thailand, Indonesia and Philippines.

Note: GDP history growth is based on IMF PPP weights

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**Table 3: GDP Forecast by Country**

Top Markets	% Share of Regional Economy (2010)	% Growth		
		2010	2011(f)	2012(f)
China	40.4	10.3	9.3	8.8
Japan	17.3	4.0	-0.5	2.5
India	16.2	10.1	7.5	7.6
Indonesia	4.1	6.4	6.4	6.3
Thailand	2.4	3.5	3.9	4.5
Pakistan	1.9	2.6	2.4	4.0
<b>Asia</b>	<b>100</b>	<b>6.4</b>	<b>6.2</b>	<b>6.5</b>

**Source:** EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

Note: GDP growth history is based on IMF/WEO Constant prices.



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**Table 4: Canadian Merchandise Exports to Asia, by Sector (2009-10)**

Top 5 Sectors	2009 (CAD mn)	2010 (CAD mn)	Growth (2010/2009)
Agri-food	9,953.1	10,532.9	5.8
Ores	6,090.1	6,922.6	13.7
Forestry	4,375.2	6,363.6	45.4
Energy	4,128.8	4,729.1	14.5
Industrial Machinery	2,370.4	2,235.4	-5.7
<b>Total Goods Exports</b>	<b>33,801.7</b>	<b>38,159.8</b>	<b>0.1</b>
<b>Source:</b> Statistics Canada, EDC Economics.			

***Growth Slower, but Still Strong***

Despite numerous setbacks to a global recovery, Asia will continue to expand at a rapid pace in 2011 and 2012, although moderating from the stimulus-driven growth of 2010, which reached 6.4%. Limited political and security-related vulnerabilities across the region in 2011 and 2012 will also support growth.

The gradual slowdown that is currently underway will continue as pullback from loose fiscal and monetary conditions during the trough of the crisis is now starting to bite. For 2011, China, India and Indonesia will make the greatest contribution to growth with rates of 9.3%, 7.5% and 6.4%, respectively. In the second half of 2011, the resumption of supply chains following the Japan earthquake and tsunami in March will boost growth. In 2012, stronger growth in Japan from reconstruction activity will be offset by weaker growth in China, India and most other important Asian emerging economies. Bucking this trend will be Sri Lanka and frontier markets like Mongolia, Papua New Guinea, Bangladesh, Bhutan and Cambodia, which will put up growth rates of 6% or more this year and next. On balance, we expect real GDP growth of 6.2% for 2011 and 6.5% in 2012.

***Key Risks***

Asia has not been immune to external events in Europe, the Middle East and the US, as highlighted by the movements in currencies, stock exchanges and confidence indexes throughout the region. Deteriorating export demand from the US and EU is a key concern as both face weaker growth prospects and weaker currencies going forward, which makes Asian exports relatively more expensive. However, vulnerability to external shocks is generally limited with sound buffers in place. Only two countries in the region stand out as having heightened risk of an inability to access external liquidity during the forecast period. Pakistan remains reliant on multilateral and bilateral support, and Vietnam's external imbalances will likely trigger another devaluation by the end of 2012.

Inflation is a major regional issue, especially for sensitive food and housing prices. Despite a recent generalized downward growth trend, inflation remains significantly above the comfort zone in a number of countries, including China, India, Vietnam, Bangladesh and Pakistan. Combined, these countries represent almost 3 billion people unhappy about their grocery bill, pressuring authorities to intervene. While price trends seem to be reversing, it will be another 6 to 12 months before the full impact of today's monetary tightening is felt. In Japan, extremely loose monetary policy continues with successive rounds of quantitative easing, pushing inflation into unfamiliar positive territory. With overall inflation still very low and hovering around 0.2 to 0.3% y/y in recent months, a return to deflation is far more likely than hyper-inflation going forward; risk of the latter is greatly exaggerated.

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We have revised our 2012 China forecast down slightly to 8.8%, with the decline driven by weaker export and domestic demand. An important risk going forward is the unwinding of past excesses in the residential real estate sector. Authorities are aggressively tackling this issue with administrative measures and policy adjustments to discourage speculation and tighten access to credit. These steps will put pressure on asset quality and non-performing loans in the banking sector but we believe that the risks will be manageable. On the political front, Chinese leaders are preparing for the once-in-a-decade leadership transition scheduled for 2012-13. Given decelerating growth and upcoming leadership changes, the Chinese Communist Party will make social stability a guiding pillar going into 2012.

In Japan, the impact of the March earthquake and tsunami on economic activity was larger than anticipated, so we have revised our growth projection for Japan for 2011 down to -0.5%. Our 2012 forecast is upgraded to 2.5% given rebuilt supply chains, a return to usual levels of economic activity, and the reconstruction efforts that will sharply boost growth. However, excluding economic activity related to reconstruction, Japan's manufacturing sector is still facing numerous challenges, not least of which is a strong yen. This will bring considerable pressure to bear on exporters, which are also facing the prospects of weak US and EU growth and a slowing Chinese economy. Domestic market sales prospects are not great either because consumer spending is dragged down by high unemployment.

The costs of reconstruction and disaster relief will exacerbate the considerable challenge of stabilizing and reducing the government's massive public debt, which already exceeds 200% of GDP. Japan's new prime minister has made tackling the issue a key priority, and has asked a Tax Commission to present various options to increase tax revenues. However, Prime Minister Nado would not be the first Japanese PM to fail to push through a tax reform package to address the public debt issue. Should the proposal fail, we can expect more changes at the top of Japan's political pyramid.

Political and security risks are high in Afghanistan and Pakistan, and could become high in Thailand if its newly elected government cannot balance competing demands from a divided country. Politicians in Taiwan and East Timor will face the electorate in 2012, as will those in two resource-rich countries, Mongolia and Papua New Guinea. Here, the pre-and-post election periods could be particularly challenging. Both governments have flirted with populist policies. Mongolia is considering revisions to investment agreements and in Papua New Guinea politicians talk about substantive changes to rules governing resources. These overtures to appease local voters will likely continue until elections are held.

### ***Opportunities Abound***

Fortunately and unlike the US and EU, political leaders in the big three emerging Asian economies – China, India and Indonesia – enjoy more flexibility in responding to economic challenges given the relative strength of the ruling parties and mandates that last until 2014. As such, private investment opportunities in Asia for long-term investors will be plentiful. Strong macroeconomic fundamentals, appealing demographics, and robust domestic demand factors make private investments focusing on resource extraction, manufacturing, telecom and the high-tech sector highly attractive.

While governments are prudently cutting back on stimulus spending, sovereigns are not obliged to implement austerity measures as government balance sheets across the region remain healthy. Japan is the main exception, and to a lesser extent India, Vietnam, Philippines and Sri Lanka. This confidence in the region and its longer-term economic potential are reflected in the fact that, according to UNCTAD, nearly a quarter of 2010 global FDI flows came to emerging Asia. The data also show noteworthy structural shifts in FDI such as rising intra-Asian FDI, particularly between China and its neighbours, and the shift toward high-tech sectors for China's FDI inflows.

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The USD 79 billion in FDI into the ASEAN economies, a record high, is particularly remarkable. Preliminary data for the first half of 2011 suggest these trends will carry on, with Indonesia, Malaysia, Singapore and Vietnam showing strong FDI activity. A 30% jump in manufacturing investments into Southeast Asia may also suggest a trend where companies diversify production away from China due to rising production costs. The proliferation of inter-regional and intra-regional international investment agreements such as the India–Japan and ASEAN–China free trade agreements, as well as critical domestic policy reform initiatives like the land reforms programs in India and Indonesia, will bode well for further FDI investments into the region.

Opportunities will also proliferate in public infrastructure projects, as emerging market sovereigns in the region generally have room in their budgets plus important infrastructure shortages that in most cases cannot be filled domestically. As such, infrastructure investment will continue to expand at a rapid pace across the region, although the recent high-speed train and metro accidents in China and the corruption scandals in India will temper the pace of implementation in those two countries. Power generation and distribution, transport, and public utilities will dominate government project lists. Given lofty infrastructure goals, governments may in fact use infrastructure spending as a stimulus should their economies slow down sharply.

The vast array of investment projects will support Canadian exports of machinery and equipment and high-tech equipment in the forecast horizon and beyond, while the emergence of a sizable middle class is opening new demand and opportunities in the consumer goods sector and in service sectors, including financial and banking services, health care, retail, and technology-related services. At the same time, higher commodity prices, notably for agri-food, pulp, coal and fertilizers, will boost exports to the region by 21% in 2011 before slowing to 7% in 2012. The internationalization of China's renminbi and its expected appreciation will also contribute to China's continuing transformation into a consumer economy. Finally, discussions with India over a future India–Canada free trade agreement will open the door to greater bilateral trade, offering new opportunities for business with the world's next giant.

**2.2 Middle East and Africa*****Continued Impact of the Arab Spring*****Table 5: GDP Forecast by Country**

Top Markets	% Share of Regional Economy (2010)	2010	% Growth 2011(f)	2012(f)
Saudi Arabia	16.7	6.5	6.0	4.5
Egypt	13.4	1.2	1.0	3.5
Algeria	6.7	2.9	3.6	4.5
Israel	5.9	4.8	4.0	3.8
UAE	6.6	3.3	4.2	3.5
<b>Middle East and Africa</b>	<b>100</b>	<b>3.7</b>	<b>3.0</b>	<b>4.0</b>

**Source:** EDC Economics. 2010 is actual data while 2011 and 2012 are forecast. Note: GDP history growth is based on IMF/WEO Constant prices.

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**Table 6: GDP Forecast by Country**

Top Markets	% Share of Regional Economy (2010)	2010	% Growth 2011(f)	2012(f)
South Africa	33.5	3.4	3.3	4.0
Nigeria	24.2	6.9	8.0	7.0
Angola	7.0	3.7	8.5	8.0
Sudan	6.1	-0.2	-5.0	4.0
Kenya	4.2	5.3	4.5	5.5
<b>Sub-Saharan Africa</b>	<b>100.0</b>	<b>5.4</b>	<b>4.9</b>	<b>5.4</b>
<b>Source:</b> EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.				
Note: GDP history growth is based on IMF/WEO Constant prices.				

Two factors make it highly likely that the impact of the Arab Spring will continue to be felt in the Middle East and North Africa (MENA) region in the next 2 years. Firstly, the fall of the Libyan regime in August 2011 will reinvigorate popular uprisings such as those in Bahrain, Syria and Yemen that have so far been repressed by the local security forces. Secondly, as countries like Egypt and Tunisia embark on the process of reform, they face significant economic and political challenges.

Despite the political uncertainty generated by these developments, major upheavals are unlikely in countries other than those already in the midst of turmoil. Some countries such as Jordan and Morocco, which saw mass demonstrations earlier in the year, have managed to sap opposition movements of their momentum through modest political reform programs and spending promises. As for the monarchies of the Gulf Cooperation Council (GCC), none of them except for Bahrain are likely to experience any significant social unrest in 2012 and in 2013.

Almost 1 year after the events in Egypt ricocheted across the region, it appears a number of countries have adopted policy responses that will reduce the likelihood of major unrest in their midst. The expected drop in oil prices will put downward pressure on the budgets of most oil-producing countries. However, there are some bright spots as the large outlays on social spending and infrastructure projects have already been allocated. This continued spending will present opportunities for Canadian exporters.

### **Growth Prospects**

The bulk of the region's growth, which the IMF predicts to be 4% in 2012, will continue to be driven by the energy-exporting GCC countries. In an effort to stave off social unrest in the kingdom, Saudi Arabia announced plans to spend USD 130 billion on social projects on top of previous commitments to large infrastructure projects. These funds are certain to raise consumption and present opportunities for Canadian exporters. Viewed as an oasis of stability amidst a turbulent region, Qatar remains an engine of growth due to the hydrocarbons sector and its attractive investment environment. Outside of the GCC, Israel, with its developing off-shore gas sector, presents new potential opportunities for Canadian expertise. In North Africa, in the short term Algeria is likely to avoid the same political fate as its neighbours as the government uses the country's vast hydrocarbon revenues to spend on infrastructure and housing projects – spending which has thus far proven effective in containing social unrest.

Egypt's economy has been hit hard by the revolution due to reduced tourism revenue and the "wait-and-see" approach taken by foreign and local investors, which are holding off on new projects until a new government takes office. While this will take at least a year as the country needs to elect a new parliament and president, expect growth to begin bouncing back from the soft performance this year to 5.5% in 2013. Tunisia, which also saw tourism revenues and FDI flows dry up as a result of internal turmoil alongside the conflict in Libya and a weak Eurozone, will see economic growth go from a contraction of 2% in 2011 to a rebound of 4.5% in 2012.



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Despite the relative lack of political stability and the ongoing violence, Iraq will see an influx of international companies in the oil and gas sector. Additionally, Iraqi government spending on infrastructure development such as housing and electricity, as well as a boost in private consumption will lead to increasing imports, though the timing of this is still a bit uncertain. Libya's recovery will take the longest, with the recovery of oil exports to their pre-war levels expected to take up to 2 years.

### ***African “Lion Kings” Take Centre Stage***

Asia has for years boasted about its “tigers and dragons” with growth averaging over 6% annually, yet Sub-Saharan Africa can point to its very own “Lion Kings.” This term was coined by The Economist Magazine and according to its analysts, over the next 5 years (2011-15), seven of the world's ten fastest-growing economies will be in sub-Saharan Africa. A few notable “Kings” include Nigeria, Ghana, Ethiopia and Tanzania. These rapid growth projections are also in line with those of the IMF – lending more credence to the claim – while media coverage is also picking up on this still untapped potential.

Sub-Saharan Africa (SSA) consists of 49 countries, with the newest addition being South Sudan which came into being in July 2011. According to the IMF, the region's combined current dollar GDP of USD 1.2 trillion will reach \$1.6 trillion by 2015. The population base of 465 million is growing at a 2.2% rate annually. Canadian exporters looking to diversify beyond the scope of their traditional markets, or to make strategic investments to leverage supply chains, should understand which opportunities and risks lie in wait for them.

### ***Risks and Opportunities***

These 49 countries differ considerably in terms of political, economic and demographic indicators. For example, country populations range from just under 160 million in Nigeria, to under 1 million in Equatorial Guinea and Djibouti. Also, the business environment is unique to each market, as are the sectors ripe with opportunities, which range from food processing to resource exploration and development. Challenges include heightened levels of political risk in certain countries and limited appetite for lending to some SSA governments due to previous or ongoing debt sustainability concerns. Through interaction with other exporters and investors, and institutions like EDC, Canadian companies can manage these challenges by identifying and in many cases mitigating these risks.

### ***Growth Drivers***

At the moment, growth in many SSA economies is largely commodity-driven. Ghana's 7% annual average GDP growth over this time period is linked to the recent start-up of oil production. Historically high growth rates can also be attributed to a rapid rate of movement to the cities. On average, SSA countries have an urbanization rate of roughly 40%, and this is fuelling consumer demand and the continued expansion of the middle class in countries like South Africa and the emergence of this class in other countries such as Nigeria. So too, government-sponsored outlays on ports, roads, energy, water, waste treatment, power and telecommunications to accommodate this urbanization trend is acting as a strong underpinning for growth.

Finally, for many countries growth is the result of generous debt reduction over the past decade which freed up capital and created space for new investment. These countries now have a firmer eye on debt sustainability and work closely with international financial institutions to engage in non-concessional borrowing to expand their infrastructure capacity and lay the foundation for private-sector growth.

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To be sure, Sub-Saharan Africa's share of global output remains small at 1.5%. Nonetheless, Canadian exporters and investors are active with companies already prominent in Madagascar, Eritrea, Tanzania, Mauritania, Ethiopia, Guinea, DR Congo, Côte d'Ivoire, and South Africa. Given the economic growth story across the continent alongside the uncertainty in many developed markets, EDC Economics believes Canadian engagement with the region will only continue to grow.

**2.3 Americas*****Sustainable Growth: Regional Imbalance***

Latin America's growth profile is challenged by fears of slower global growth and rising risks to a balanced recovery. However, current growth trajectories suggest that momentum in the region's economic activity will be upheld. Strong domestic demand, favourable terms of trade and flexible macroeconomic policies support EDC's forecast of 4.1% growth this year and following year, as Latin American economies move toward more sustainable growth.

**Table 7: GDP Forecast by Country**

Top Markets	% Share of Regional Economy (2010)	2010	% Growth 2011(f)	2012(f)
Brazil	34.0	7.5	4.1	4.3
Mexico	24.4	5.4	4.0	4.0
Argentina	10.1	9.2	5.0	4.1
Venezuela	5.5	-1.5	1.1	2.5
Peru	4.3	8.8	6.1	5.6
<b>Latin America</b>	<b>100</b>	<b>6.1</b>	<b>4.1</b>	<b>4.1</b>

**Source:** EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

Note: GDP history growth is based on IMF/WEO Constant prices.

**Table 8: Canadian Merchandise Exports to Latin America, by Sector (2009-10)**

Top 5 Sectors	2009 (CAD mn)	2010 (CAD mn)	Growth (2010/2009)
Wheat Farming	1,298.7	1,186.7	-8.6
Chemicals	642.6	1,128.0	75.5
Oilseeds and Pulse	783.0	1,050.8	34.2
Metals	651.2	949.0	45.7
Advanced Technology	611.8	763.1	24.7
<b>Total</b>	<b>9,529.5</b>	<b>11,390.7</b>	<b>19.5</b>

**Source:** Statistics Canada, EDC Economics.

Even so, favourable aggregate growth prospects obscure the different levels of performance within the region. For example, many economies in Central America and the Caribbean rely on remittances, tourism and export receipts; they will also need a durable recovery in the US to boost growth. Here, larger public spending to offset depressed growth has been limited by structural weaknesses in public accounts: chronic large budget deficits; low tax intake; and in some cases high public debt. Moreover, government spending has been further constrained by the need to reallocate spending in an attempt to offset higher energy and food prices. On the upside, Panama, Trinidad & Tobago and the Dominican Republic are set to post solid growth numbers over the forecast horizon, supported by strong FDI and private demand. In Mexico, the government has some leeway to invest in public projects if it needs to replace lost business with the US.

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Moving south, Argentina, Paraguay and Uruguay will continue to benefit from supportive export prices of soft commodities like meat products, cereals, and soy seeds. Most importantly, these countries will stand to gain from their trade linkages with their neighbouring economic power hub, Brazil, which is on track to post growth of approximately 4% in 2011 and 2012. The Andean region will be led by above-average growth in Chile and Peru, supported by high metal prices, deepening private consumption and greater integration with Asia. In Colombia, buoyant domestic demand may soon eclipse the positive impact of Colombia's recent return, after 12 years, to investment grade status.

China's investment across the region increased by as much as 150% in 2010, and the country will play an ever stronger role as an investor, financier, trading partner and a provider of grants and aid. Latin America is expected to absorb one-third of China's total foreign investment in 2011, with Argentina, Brazil, Ecuador, Peru and Venezuela as the main beneficiaries.

### ***Canadian Exports Looking Up***

In terms of Canadian trade performance, the growth impetus in the region has translated into a steady rise in merchandise exports of industrial goods, oilseeds, pulp and metals, although wheat and chemicals exports have turned in disappointing performances so far this year. A number of elements align in favour of continued strong import growth across the region, which leads EDC Economics to maintain its positive export forecast from the spring. First, the dynamic credit environment, fuelled by increased financial sector intermediation in Brazil and Argentina, as well as strong credit growth across sectors in Colombia, Peru and to a certain extent Uruguay, will provide a stronghold for domestic demand. Second, the large interest rate differentials with advanced economies will continue to strengthen currencies, which augurs well for procuring abroad. Finally, a robust private-sector demand coupled with limited industrial capacity, most notable in Brazil, will push companies to counter supply shortfalls with imports. Against this backdrop of private-sector demand, some countries may have to rein in some momentum in public procurement activity to avoid growing budget deficits or the risk of overheating.

EDC Economics anticipates the payment experience in the region to be mitigated by relatively moderate levels of external indebtedness, strong external liquidity positions and supportive economic conditions. The accumulation of international reserves in many of the region's economies are expected to help alleviate potential sudden reversals in capital flows, thus preventing transfer and conversion blockages for trade-related payments and other foreign investment liabilities. In the current context of global risk aversion, exporters and investors should anticipate some currency volatility, especially for commodity-based currencies, as in the case of Chile. In the event of a stronger deceleration in growth, payment delays and import restrictions are most likely to manifest themselves in those countries that suffer from pressures on their balance of payments, namely Ecuador, Argentina and Nicaragua.

### ***Social Issues Behind Potential Political Risk Events***

Different components of country risk suggest that while the region may be experiencing broader political stability and is better equipped to face adverse changes in investor sentiment, the potential for political risk events remains. The prospective for social unrest remains high in countries with significant levels of income inequality or those where governments persistently fail to integrate large disadvantaged segments of the population. Recent years have shown that the business environment in countries with good prospects for energy projects can be undermined if the proposals become politicized and subject to community opposition. In some cases, governments have responded to social concerns by changing the rules of the game, which spurs unpredictability and legal instability. Indigenous and grassroots protests have also led to the repeal of foreign investment-friendly legislation or the cancellation of operation permits, compromising future and existing projects. As such, the most successful countries will be those that can meet their constitutional responsibilities to be inclusive and adhere to international obligations while maintaining an attractive environment for investment.

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Of concern is the disconnect between the relative effectiveness and convergence of macroeconomic policies on the one hand and difficulties in addressing labour disputes and populist expectations on the other. In addition, weak rule of law and disregard for contracts constrains the commercial environment in many countries. Entrenched high levels of corruption exist in parts of Central America and the Caribbean, as does an increase in criminal violence and security risks that have discouraged business. Frequent changes in the regulatory environment, weak judicial systems and high levels of government interference act as impediments to doing business in countries like Argentina, Ecuador, Venezuela and the Dominican Republic. As well, high levels of inflation in these countries, with the notable exception of Ecuador, make investment more difficult and can disrupt commercial contracts along various supply chains.

### ***Free Trade Agreements and Business Opportunities***

Despite these challenges, EDC Economics expects that Canadian exporters stand to benefit from agreements with Chile, Colombia, Costa Rica, Honduras, Peru and Panama. In addition, rising investment destined to address the region's transportation infrastructure needs and power generation capability will continue to offer a host of opportunities for Canadian companies. In the Caribbean, opportunities for public-private partnerships exist in the extractive, infrastructure and energy sectors, just as preferential tax regimes are being rolled out to attract foreign direct investment. The region's established and growing middle class offers a multitude of prospects for Canadian businesses, particularly in housing, retail and financial services. At the same time, increased competition from Chinese and Brazilian firms, combined with growing "South-South" trade and investment dynamics, are issues that Canadian companies will need to anticipate and address.

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**Table 9: GDP Forecast by Country**

Top Markets	% Share of Regional Economy (2010)	2010	% Growth 2011(f)	2012(f)
Germany	27.7	3.6	2.6	2.0
France	20.1	1.4	1.5	1.7
Italy	16.8	1.3	0.8	1.1
Spain	12.9	-0.1	0.6	1.2
Netherlands	6.4	1.6	1.3	1.7
<b>Total Euro Area</b>	<b>100</b>	<b>1.8</b>	<b>1.4</b>	<b>1.4</b>

**Source:** EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

Note: GDP growth history is based on IMF/WEO Constant prices.

**Table 10: GDP Forecast by Country**

Top Markets	% Share of Regional Economy (2010)	2010	% Growth 2011(f)	2012(f)
Russia	37.9	4.0	3.9	4.0
Turkey	16.5	8.9	3.8	3.2
Ukraine	5.2	4.2	4.0	4.8
Romania	4.3	1.3	1.5	3.5
Kazakhstan	3.4	7.3	2.2	4.5
<b>Emerging Europe and Central Asia</b>	<b>100</b>	<b>4.3</b>	<b>3.5</b>	<b>3.8</b>

**Source:** EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

Note: GDP growth history is based on IMF/WEO Constant prices.



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Canada's exports to Western Europe are forecast to rise by an impressive 12% this year, driven partly by soaring metal prices, especially gold. However, the risks of doing business in some of the EU's troubled markets have never been greater. In fact, the Eurozone's sovereign debt crisis is a threat to the currency union's survival and the viability of the international financial system. The EU and the IMF have deployed a €750 billion rescue package to prevent disorderly default among the smaller countries of the Periphery such as Greece, Ireland and Portugal, yet these countries still rank among the world's riskiest sovereigns. More importantly, the crisis has moved into a treacherous phase as the largest members, including Italy, Spain, and to a lesser extent even France, are under pressure from capital markets deeply skeptical about government finances.

The Eurozone faces two key problems in resolving the crisis: a governance challenge, given that each rescue package must be ratified by 17 member-states, which can derail or delay implementation; and the prevailing, albeit incorrect, view that the only cause of the crisis was excessive spending and so austerity is the only solution. Accordingly, EU governments continue to reject debt write-downs or growth plans and rely instead on massive spending cuts and tax increases. This has depressed EU growth rates, which fell to just 0.2% in the second quarter. Consequently, debt levels have been rising in the Periphery and will continue to climb so long as growth stagnates. Rescue packages so far have only delayed the inevitable restructurings while triggering a fundamental loss of confidence in European sovereign bonds.

So the outlook for Western Europe is continued weak growth; market volatility as Greece and possibly Portugal will need further restructuring before 2013; and a strained credit environment as banks contend with impending sovereign debt losses and poor access to market funds. While the EU and the European Central Bank remain committed to avoiding a broader financial crisis, we expect a bumpy road ahead, which will have serious implications for Emerging Europe and Central Asia (EECA) via trade and financial linkages.

***Woes Spread East***

The German manufacturing engine, a key growth driver for many eastern European countries, has stalled. Combined with sluggish GDP growth in Western European economies, growth in many EECA countries slipped in the second quarter. While fiscal austerity, tight credit conditions and weak consumer spending in the West will translate into weaker demand for exports from emerging European countries, the impact will vary. For countries enjoying healthy domestic demand, lower demand for their exports is weakening external account positions; the starkest example is Turkey where soaring consumer credit fuels import demand, export growth languishes, and the current account deficit explodes. Resource-rich countries such as Russia and Kazakhstan are partly shielded from this effect, but they are becoming ever more at risk of a commodity price correction. For those relying on an export-led recovery, such as Ukraine, Hungary, Romania and Serbia, the outlook has dimmed. With all three growth models vulnerable to an escalating crisis in Europe, the region will, once again, underperform other emerging markets with an uninspiring growth forecast of 3.5% GDP growth this year, followed by a slight deceleration to 3.8% in 2012.

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In addition to trade links, many emerging European countries have significant financial links to the Eurozone, where banks have been bearing the brunt of escalating fears of a sovereign debt crisis. The eastern European banks have minimal direct exposure to Eurozone sovereign debt. However, risks abound in the form of cross-border interbank exposures, contagion across sovereign debt markets, and currency volatility. Of concern are nascent signs of financial market difficulties, including reduced private-sector access to credit and lower inter-banking activity in markets such as Russia, Hungary and Turkey. Inflationary concerns have ceded to worries over deteriorating external conditions, so the direction of monetary policy in the region has turned. Central banks are mainly focused on stabilizing money markets and easing liquidity tightness; the Turkish central bank lowered interest rates in August and the Russian central bank followed suit in September. Also, despite rebuilt foreign exchange reserves and fatter capital buffers, high refinancing needs over the next few years and still-recovering banking sectors for several in the region could be problematic if faced with Eurozone financial market weakness into the medium term.

### ***Opportunities Still Exist***

In the midst of the Eurozone crisis, we still see pockets of opportunity for Canadian exporters as export growth to the region will outpace that of developed markets. The agriculture sector in central Europe and Russia is recovering from the severe droughts and fires of 2010. Higher investment and spending, spurred by record-high agricultural prices, will continue over the forecast horizon. Shale gas activity in the region is also ramping up, presenting another promising opportunity for Canadian expertise.

Moreover, despite current Eurozone woes, attaining EU membership is expected to remain a key driver of regulatory reform in the region and ERM-II, the antechamber of euro-adoption, has been a reliable policy anchor for the likes of the Baltics and Poland throughout the crisis. However, as the Euro area wrestles with its current crisis and the growth outlook worsens, the attractiveness of membership in the currency union is diminishing and could lead to waning resolve on structural reforms. In the short term, EPIC expects that EU ambitions will continue to shape reform agendas in Croatia, Macedonia, Montenegro and Turkey. EU member countries such as Hungary, Romania and Bulgaria also stand to benefit significantly from EU transfer funds.

The IMF's presence in the region has also increased during the crisis. While the balance of payment (BOP) crises have passed, the Fund remains to offer policy advice in Bosnia, Georgia, Romania, Serbia and Ukraine. This will serve as a buffer against foreign investor skittishness. On the political side, while both Russia and Poland will see elections later this year, we expect continued policy stability on both fronts. In Poland, the current Civic Platform (PO)-led government is well placed to win upcoming October 2011 elections, thereby ensuring policy continuity with reform and privatization efforts. In Russia, while preparations for December 2011 legislative and March 2012 presidential elections will likely translate into little headway in terms of progress with the current government's modernization agenda, we expect these efforts will resume steam and policy continuity will be the mainstay of government focus in the event of the expected return of current Prime Minister Vladimir Putin to the presidency. Also, progress on WTO accession is still expected by early 2012, which would bring immediate impacts in terms of tariff rates on specific products, while the ancillary benefits of ameliorating the business climate and the protection of intellectual property rights will be much more gradual.

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The first half of 2011 was a challenging time for global trade with volatile markets, supply chain disruptions from a tsunami and a weaker-than-expected global economy. Nevertheless, Canadian exports have performed well in 2011 and are set to continue their upward trajectory next year. EDC is forecasting that exports will increase by 12% in 2011 and a further 7% next year, ending 2012 well above pre-crisis levels. While gradually improving global growth prospects will benefit almost all Canadian exporters, there will be significant variation among export industries, with some flourishing amid booming global demand while others struggle with the headwind of a highly valued currency in a hyper-competitive global environment.

**Table 11: Key Forecast Variables**

	2009	2010	2011(f)	2012(f)
Canadian dollar	0.88	0.97	1.03	0.98
Petroleum, WTI — USD/bbl	62	79	94	85
US GDP	-3.5	3.0	1.7	3.3
World GDP	-0.7	5.1	3.7	4.3

**Source:** Bloomberg, EDC Economics. 2009 and 2010 are actual data while 2011 and 2012 are forecast.

Canada's **energy** sector will benefit from higher prices and production of petroleum products and coal, with exports rising 20% higher in 2011, with no gain on tap for 2012 as slight gains in natural gas and electricity offset price corrections. The first half of this year witnessed significant volatility in prices; concern over production disruptions due to the Arab Spring drove prices up sharply early in the year. More recently, markets have become preoccupied with the deteriorating demand environment as macroeconomic data for the second quarter revealed a sharply slowing global economy and the spectre of a US double-dip recession re-emerged.

Canada's **agricultural** exports will perform well in 2011 despite challenging weather conditions as soaring prices more than compensate for disappointing yields. EDC Economics is forecasting a 15% gain in 2011 and a further 6% increase in 2012. This year's hopes for a recovery in export volumes were dashed by water-saturated soils in the Prairies, but the next 2 years should be very positive overall for the Canadian agri-food industry because of soaring demand.

The **aerospace** industry continues to be affected by the lagged impact of the global financial crisis as delayed and cancelled orders that occurred during the recession are translating into another weak export performance this year. However, orders have resumed and, given the lag between orders and deliveries, will result in a healthy rebound for the sector in 2012. In order to adjust to a moderate pickup in new orders, production rates will continue to be adjusted accordingly. In line with the Spring 2011 forecast, EDC Economics expects exports of aircraft and parts to post no growth this year and then surge 22% next year.

Canada's exports of **metals** will be a key growth driver for Canadian trade, rising 16% this year and 3% in 2012. Prices for base metals and industrial goods remain very high by historical standards, fuelling investment in new mines and expansions of current facilities. Revisions to the Spring outlook have been necessary as weaker-than-expected US economic growth will translate into lower sales volumes for Canadian producers. However, extraordinary financial and monetary conditions are now expected to persist through next year and with emerging markets continuing to post healthy growth rates, metal prices likely will remain high over the forecast horizon.

The **automotive** industry is challenged by difficult macroeconomic conditions in the US, which are taking their toll on consumer confidence. As a result, EDC's outlook for US vehicle sales has weakened to 12.5 million units in 2011. This, combined with the supply disruptions from the disaster in Japan earlier this year, which put a dent in North American automotive production, has led to a downward revision in the export outlook for this year. Next year, improving employment conditions and significantly deleveraged households will combine with rising vehicle replacement rates and population growth to fuel a sales rate of 14 million units.

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EDC Economics is now forecasting a slight contraction in exports of **advanced technology** (AT) in 2011 due to weak US procurement activity, lacklustre growth in Western Europe and steadily declining prices. The softer global growth profile will continue to impact upstream demand for Canadian AT exports throughout the year while a strong Canadian dollar will impede the industry's cost competitiveness. Accelerating growth in the US next year will offer an opportunity for a modest rebound as utilization, deployment and expenditure on advanced technologies pick up.

Weaker-than-expected demand during the first half of this year has resulted in falling foreign sales of **chemicals and plastics**; however, we expect US economic activity to pick up in the second half of 2011 and into next year. There are no anticipated changes to Canadian capacity over the short term; therefore, the outlook is shaped by shifts in international prices and demand. Exports of chemicals and plastics will rise 6% this year and 9% in 2012 with growth to emerging markets persistently outpacing that of developed markets.

The **fertilizer** industry continues to benefit from soaring food demand which is driving the need for ever-higher yields, and the accompanying rising prices that have given producers the profit margins to invest in their crops. In line with our Spring GEF outlook, Canada's fertilizer exports are on track to continue climbing 27% in 2011 and a further 15% in 2012 on much stronger prices and moderate volume increases.

EDC's forecast for **consumer goods** exports has been revised downwards to grow 3% this year and next. US consumers continue to deleverage, and rising saving rates have driven overall household debt to personal disposable income (PDI) ratios down from their peak of 130% in 2007 to 113% early this year. Conditions in the housing market remain dismal, however, and the rating downgrade on the US government has deflated consumer confidence, leading us to a downward revision from our 2011 Spring outlook. As employment conditions begin to improve next year and debt loads return to manageable levels, consumer spending will rebound.

**Forestry** sector exports are forecast to expand by 4% in 2011 and accelerate to 17% in 2012, even though the sector continues to face significant challenges. The strong Canadian dollar, overcapacity, high input costs, and increased overseas competition pose a hurdle to companies within the Canadian forestry industry. However, surging demand from emerging markets, particularly from China, is breathing new life into the wood products and pulp industry, while the outlook for printing and writing paper is less promising as the ever-growing penetration of electronic media and advertising increasingly erodes demand.

**Industrial machinery and equipment** (M&E) exports will post healthy gains both this year and next. Despite the downward revision to the US growth outlook this year, investment activity in the private sector is driving export demand as record-high cash levels, improving business confidence and accelerated tax deductions for capital investment fuel higher spending by US businesses. Sales to emerging markets, though still a small share of overall sales, will continue to outpace those to developed markets throughout and beyond the forecast period.

Canadian exports of **services** have fully recovered from the recession, exceeding 2008 levels during the first half of this year. Moderate, steady growth of 4% is expected over the next 2 years, although downside risks are increasing in tandem with rising concern around the sovereign debt crisis in Europe and a slowing US economy. Given that the strong gains in the merchandise trade sector last year will be followed by another double-digit growth rate this year, the share of services exports in total trade has fallen back slightly to approximately 15%.



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**Table 12: Canadian Exports by Sector**

Export Forecast Overview	CAD bn	% Share of Total Exports	Export Outlook (% Growth)		
	2010	2010	2010	2011(f)	2012(f)
Agri-food	39.2	8.8	1.3	15	6
Energy	94.7	21.2	16.1	20	0
Forestry	26.8	6.0	9.8	4	17
Chemical and Plastics	32.5	7.3	5.8	6	9
Fertilizers	6.7	1.5	27.7	27	15
Metals, Ores and Other Industrial Products	62.4	14.0	28.6	16	3
Aircraft and Parts	10.2	2.3	-10.1	0	22
Advanced Technology	14.2	3.2	-7.3	-2	1
Industrial Machinery and Equip.	23.9	5.4	-5.1	11	8
Motor Vehicles and Parts	52.5	11.8	32.0	6	19
Consumer Goods	7.6	1.7	-0.2	3	3
Special Transactions*	3.7	0.8	-41.4	-31	10
<b>Total Goods Sector</b>	<b>374.3</b>	<b>84.0</b>	<b>11.9</b>	<b>12</b>	<b>7</b>
<b>Total Services Sector</b>	<b>71.3</b>	<b>16.0</b>	<b>4.3</b>	<b>4</b>	<b>4</b>
<b>Total Exports</b>	<b>445.5</b>	<b>100.0</b>	<b>10.6</b>	<b>11</b>	<b>7</b>
<b>Memorandum</b>					
<b>Total Volumes</b>		<b>100.0</b>	<b>9.4</b>	<b>5</b>	<b>7</b>
<b>Total Goods Nominal (excl. Energy)</b>	<b>279.6</b>	<b>62.8</b>	<b>10.5</b>	<b>9</b>	<b>10</b>
<b>Total Goods Nominal (excl. Autos and Energy)</b>	<b>227.1</b>	<b>51.0</b>	<b>6.5</b>	<b>10</b>	<b>8</b>
<b>Source:</b> EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.					
*Special transactions are mainly low-valued transactions, and value of repairs to equipment and goods returned to country of origin.					

**3.1 Energy**

Higher prices and increased volumes for petroleum products and coal will drive overall energy exports 20% higher in 2011, while a flat growth is on tap for 2012 as slight gains in natural gas and electricity offset price corrections in oil and coal. EDC Economics is expecting the price of WTI oil to average USD 94/bbl in 2011 – a full USD 18/bbl up from 2010 – before moderating to USD 85/bbl in 2012. The first half of this year witnessed significant volatility in prices; concern over production disruptions due to the Arab Spring drove prices up sharply early in the year. It was fear rather than fundamentals driving the gain, however, as the lost 1.72 mb/d of Libyan oil output was offset by other producers, and OPEC spare capacity remains at 4 mb/d. While the threat of a spread in the Arab uprisings to other OPEC countries has haunted markets and left a near-term upward bias in crude and refined oil prices, the key GCC oil producers remain largely immune to the type of protest and violence that leads to production shut-ins. More recently, markets have become preoccupied with the deteriorating demand environment as macroeconomic data for the second quarter revealed a sharply slowing global economy and the spectre of a US double-dip recession re-emerged. Combined, the improving supply side and deteriorating demand side provide little support for the strong prices seen earlier in the year and lower prices should persist over the forecast horizon.

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**Table 13: Energy Export Outlook by Sector**

Top Markets	CAD bn	% Share of Energy Exports		Export Outlook (% Growth)	
	2010	2010	2010	2011(f)	2012(f)
Petroleum*	70.8	74.7	21.9	25	-3
Natural Gas	15.6	16.5	-2.2	-5	14
Coal	6.3	6.6	22.1	45	7
Electricity	2.0	2.2	-14.7	0	12
<b>Developed Markets</b>	<b>92.1</b>	<b>97.3</b>	<b>15.9</b>	<b>19</b>	<b>0</b>
<b>Emerging Markets</b>	<b>2.6</b>	<b>2.7</b>	<b>24.5</b>	<b>60</b>	<b>6</b>
<b>Total Energy</b>	<b>94.7</b>	<b>100.0</b>	<b>16.1</b>	<b>20</b>	<b>0</b>

**Source:** Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast. \*Includes crude petroleum and refined products.

**Table 14: Price Forecast for Oil and Natural Gas**

	10-Year Average	2010	2011(f)	2012(f)
WTI Crude – USD/bbl	56.1	79	94	85
Natural gas – USD/mmbtu	5.8	4.4	4.25	4.75

**Source:** Haver, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

Canadian exports of crude and refined petroleum products have benefited from both stronger prices and higher demand south of the border. Rig activity (wells drilled and rigs in service) continues to increase and should do so through next year as prices remain supportive and overall activity levels remain below the 2006 peak. The higher activity, along with improving extraction techniques that have resulted in increased well yields, enabled Canadian oil sands producers to increase shipments to the US. It is expected that by 2012, growth in Canadian export volume will ease, though much depends on whether the US economy returns to health and avoids another soft patch. We expect that exports of crude and refined petroleum products will rise 25% overall in 2011 and contract by 3% in 2012 as volume gains are insufficient to offset price effects.

The price of Henry Hub natural gas will average around USD 4.25/MMBtu in 2011, and drift toward USD 4.75/MMBtu in 2012. The upward price pressure will be a result of the expected decline in US drilling activity next year. Currently, prices are being held back due to the upswing in US production over the past few years – an outcome of US law requiring shale producers to bring projects to production within 2 years or risk losing their drilling rights. Canadian production will be static over the forecast horizon; therefore, overall export growth this year will be flat and next year's modest gain will be due entirely to pricing. The outlook over the medium term is considerably brighter as the start-up of Deep Panuke in Nova Scotia and shale and tight gas projects in British Columbia will lift Canadian sales in the years to come.

Flooding in Australia this year has had a significant impact on coal supply, thereby pushing up prices significantly. This transitory effect is dissipating and prices will fall next year. Demand from Canada's traditional export markets have been weak as shipments to Japan were interrupted by the effects of the tsunami, and overall growth in the UK and Eurozone remained flat as fiscal austerity and tight credit conditions weigh heavily on growth. Export growth to Japan, however, should rebound in the second half of 2011 and through 2012 as reconstruction efforts get underway. The US and non-traditional markets like Asia, led by China, Eastern Europe and Africa, have provided a small lift to the market. Overall, we are forecasting a price-driven 45% gain in coal exports in 2011 followed by a 7% gain in sales in 2012 with the impact of weaker prices being more than offset by stronger volumes.

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Exports from the metals complex continue to be, along with the other resource sectors, a key driver of Canadian trade. Despite a deteriorating global growth outlook and mounting fears of a debt and/or financial crisis in Europe, prices for base metals and industrial goods remain very high by historical standards. These resilient and high prices are fuelling investment in new mines and expansions of current facilities, around the world and right here at home. While we expect that demand from emerging markets will remain robust, the US and Western Europe will continue to account for the bulk of our foreign sales out beyond the forecast horizon. Revisions to the Spring outlook have been necessary as weaker-than-expected US economic growth will translate into lower sales volumes for Canadian producers. Extraordinary financial and monetary conditions are now expected to persist through next year and with emerging markets continuing to post healthy growth rates, commodity prices will remain high. As the supply-side response to these high prices begins to materialize in 2013 and market fundamentals no longer remain supportive, prices will correct.

The outlook for iron ore shipments is positive through 2012 and beyond, driven by a combination of stable prices and new supply coming online. The Bloom Lake mine is now in its first full year of production and plans to double mining capacity are progressing.

**Table 15: Canadian Metals Ores and Metal Products Export Outlook by Region**

Top Markets	CAD bn	% Share of Exports	Export Outlook (% growth)		
	2010	2010	2010	2011(f)	2012(f)
Developed Markets					
United States	30.8	54.7	28	13	2
Western Europe	16.4	29.2	50	19	3
Japan, Oceania & Developed Asia	3.1	5.6	27	32	2
Emerging Markets					
Latin America & Caribbean	1.2	2.1	48	19	4
Emerging Europe and Central Asia	0.3	0.5	-14	52	1
Africa & the Middle East	0.6	1.1	-8	-3	2
Emerging Asia	3.8	6.7	4	54	8
Total Developed Markets	50.4	89.6	34	16	2
Total Emerging Markets	5.9	10.4	8	40	6
Total World	56.2	100.0	31	19	3
Source: Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.					

**Source:** Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

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**Gold** prices continue to surge as fears of another US recession stoke speculation of a third round of quantitative easing and the escalating crisis in Europe has investors and central banks flocking to the safety of gold. While volatility is expected, prices will remain high by historical standards through next year. Exploration and development activity in Canada continues; however, due to falling ore grades at many existing mines, actual output will remain flat.

Developed market demand for aluminum will be weaker than expected this year due to supply-chain disruptions in the automotive sector; however, a pickup in production next year will see a corresponding rebound in demand. The political crisis in the Middle East, combined with electricity shortages in China, drove prices up sharply earlier this year but more moderate pricing is expected for the balance of 2011 and 2012.

While construction activity in most developed markets languishes, the copper market is sufficiently tight that even small disruptions to supply are resonating in the spot price. While considerably weaker than earlier in the year, prices remain very high by historical standards and will continue to facilitate the development of high-cost projects. While a small share of Canadian exports, China increasingly dominates the market and its rapid growth and elevated construction activity will increasingly, both directly and indirectly, benefit Canada over the forecast horizon. Nickel production and sales will be up sharply this year thanks to resumption of production at Vale's Sudbury and Voisey's Bay operations.

Conditions in the steel market continue to be challenging and the weak US economic performance has been evident in Canada's sales. Input costs have moderated slightly given weak global growth, however, they remain high. There will be a slight improvement in demand during the second half of 2011 and by next year more robust growth rate is expected.

**3.3 Agri-Food**

Canada's agricultural exports will perform well in 2011 despite challenging weather conditions, as soaring prices more than compensate for disappointing yields. EDC Economics is forecasting a 15% gain in 2011 and a further 6% increase in 2012. This year's hopes for a recovery in export volumes were dashed by water-saturated soils in the Prairies, but the next 2 years should be very positive overall for the Canadian agri-food industry because of soaring demand.

Food prices have surged, well above the crisis levels that grabbed headlines in 2008, to record highs. While there has been some retreat in recent months, upside potential remains significant as structural trends are creating a mismatch between supply and demand. During the 1990s, global demand for grains grew by an average of 1% per year, but beginning in 2000 demand growth accelerated to 2-2.5% per annum. Global supply has been struggling to keep up, because farmers must increase production by 2.5% each year just to keep markets in balance.

The surging demand is actually a side effect of the greatest benefit of globalization: the rise of the emerging market middle class that is lifting millions of people out of poverty. Emerging markets now hold an estimated 2 billion middle-class consumers spending a total of USD 6.9 trillion annually and that spending could rise to USD 20 trillion by 2020. This new-found wealth is transforming their food consumption away from basic staples like rice and bread toward foods with greater caloric intensity, particularly meat.

The second key demand driver is the growing use of biofuels in developed markets. Last year, 40% of US corn was used in the production of ethanol and soaring corn prices caused farmers to shift to this more lucrative crop away from other grains, which pushed up grain prices in tandem with corn. Meanwhile, the EU has established a goal that biofuels will account for 10% of fuel for transportation by 2020, which will double the biofuel industry and require far more grain. As a result, oil prices are now 76% correlated with grain prices, compared with a 21% correlation 10 years ago.



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**Table 16: Canadian Agri-Food Export Outlook by Region**

Top Markets	CAD bn	% Share of Exports	Export Outlook (% growth)		
	2010	2010	2010	2011(f)	2012(f)
<b>Developed Markets</b>					
United States	19.8	50.6	0.0	6	6
Western Europe	2.6	6.6	5.4	33	6
Japan, Oceania and Developed Asia	5.1	13.1	7.6	24	9
<b>Emerging Markets</b>					
Latin America and Caribbean	3.1	8.0	7.4	25	3
Emerging Europe and Central Asia	0.8	2.1	34.6	40	10
Africa and the Middle East	2.3	5.8	-21.9	22	5
Emerging Asia	5.4	13.8	4.2	16	8
<b>Total Developed Markets</b>	<b>27.6</b>	<b>70.3</b>	<b>1.8</b>	<b>12</b>	<b>6</b>
<b>Total Emerging Markets</b>	<b>11.6</b>	<b>29.7</b>	<b>0.1</b>	<b>21</b>	<b>6</b>
<b>Total World</b>	<b>39.2</b>	<b>100.0</b>	<b>1.3</b>	<b>15</b>	<b>6</b>
<b>Source:</b> Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.					

In addition to these demand-side drivers, conditions on the supply side of the industry are also supportive of prices. There is a shortage of arable land in advanced economies while many emerging markets, particularly in the Middle East and North Africa, are struggling with depleted aquifers and soil erosion. This means that global agriculture markets will remain extremely tight and vulnerable to any type of shock, particularly from weather events. European farmers are combating the driest growing conditions in 30 years, while severe drought threatens crops in China.

In Canada, after suffering extreme wet weather conditions in 2010, grain producers had to contend with excessive moisture and cool weather again in 2011, which prevented seeding and raised abandonment rates across much of Western Canada. Overall production of grains and oilseeds is expected to rise by 1% in the 2011-12 season, while exports will remain close to 2010 levels. However, farmers have shifted toward more lucrative crops.

Higher canola production over the forecast period will be a key contributor to export growth, while durum sales will also climb, reflecting much higher prices. Wheat and corn will see increased production, but to a lesser extent, as seeded areas are essentially unchanged. Barley production, which has suffered in recent years due to shrinking global livestock populations, will rebound in response to lower world production and strong prices.

Canada's exports of processed food and beverage will show modest growth, but pricing will increase only moderately. We do expect exports to pick up into 2011 as labour markets improve and household deleveraging tapers off, which will enable consumers to spend more on higher-margin specialty items. However, confidence remains shaky and strained consumers will remain price sensitive at the grocery store, keeping prices in check for some time yet. In addition, restaurant discounts and retail price competition have pressured producers and reduced their pricing power.

The year got off to a good start in terms of prices for key seafood products, with lobster, crab, salmon and various finfish showing strong year-over-year increases. With the nascent economic recovery and the income-supporting measures in the December US fiscal package, greater demand will also support Canadian exports in 2011 and 2012. These developments will be particularly beneficial to the higher-priced lobster and crab segments, which make up the bulk of exports. Salmon is one sector where exports should be quite bearish in 2011, as the recovery of the Chilean farmed salmon industry ramps up exports to the US and tries to regain market share, bringing down prices.

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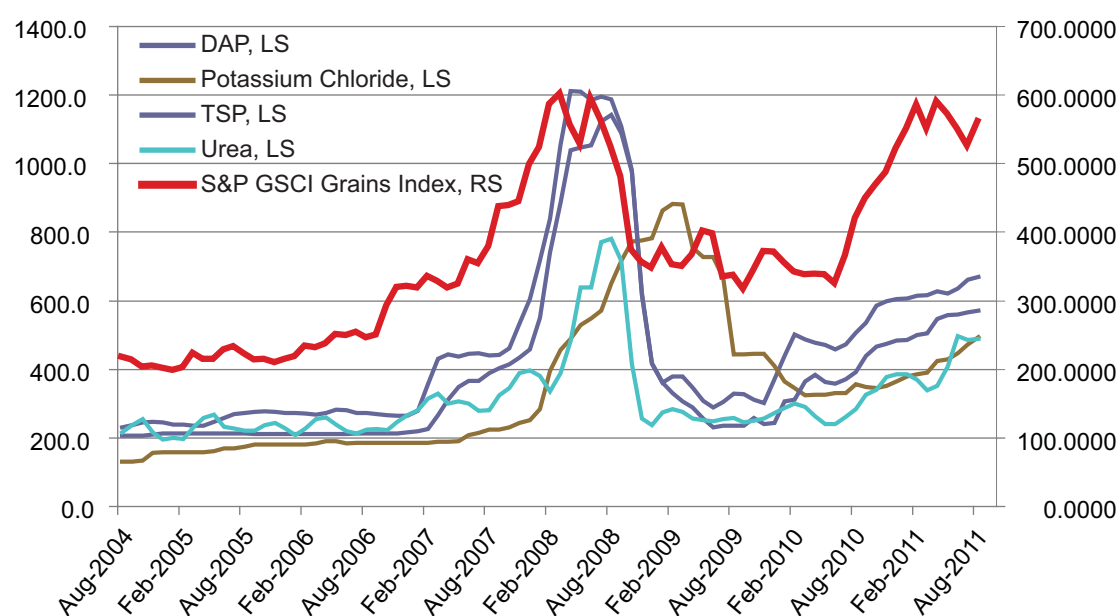
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## 3.4 Fertilizers

Figure 4: Fertilizers (USD/metric tonne)



Source: Haver

The fertilizer industry continues to benefit from soaring food demand which is driving the need for ever-higher yields, and the accompanying rising prices that have given producers the profit margins to invest in their crops. In line with our Spring GEF outlook, Canada's fertilizer exports are on track to continue climbing 27% in 2011 and a further 15% in 2012 on much stronger prices and moderate volume increases.

Despite a deteriorating economic outlook, fundamentals for the fertilizer industry remain extremely favourable. Strong biofuel mandates have pushed up prices, and the resulting pressure across all agricultural commodity prices promotes intensification and higher fertilizer application as farmers strive to increase yields. Global fertilizer demand will continue to grow out beyond the forecast horizon; the UN Food and Agriculture Organization forecasts that worldwide fertilizer consumption will soar from 169.7 million tonnes at end-2010 to 187.9 million tonnes by the end of 2014, a compound annual growth rate of 2.6%. Most of the expected growth in demand will come from emerging markets, notably China, India and Brazil.

Canadian fertilizer exporters have seen accelerating growth in emerging markets and this year is particularly bright, as high food prices mean comfortable profit margins, sufficient to cover discretionary inputs, such as nutrients. Back in 2010, the rise in exports was chiefly fuelled by a surge in pent-up demand from delayed purchases. Emerging market momentum in 2011 is helped along by vastly improved credit conditions for farmers, soaring consumption of grain-intensive meat and milk, and rising demand for biofuels.

Fertilizer prices will likely remain strong through 2011 and 2012, before gradually returning to long-term averages. Fertilizer prices have a strong (75-90%) lagged correlation with grain prices, so we anticipate further strength in pricing through 2011 in line with our agriculture forecast, and stabilization in 2012 as more fertilizer capacity comes on line.

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Nitrogen stands out among nutrients because a great deal of global capacity will be coming online over the next few years. Emerging markets are particularly keen to optimize the use of local resources and reduce dependence on imports, most notably in China, West Asia and Africa. The IFA estimates that 67 new plants will come online by 2015, boosting capacity by 19%. Higher nitrogen production over the forecast period will be concentrated in urea, which will keep pace with rising demand, leaving the market in a modest surplus position, thereby dampening prices after 2011.

Global phosphate capacity will also surge, rising 26% through 2015 as a result of new phosphate mines and an estimated 40 new DAP and TSP facilities, with Africa accounting for roughly half of the growth. Despite the large increases in capacity, the market should remain roughly balanced as global demand absorbs the additional production.

Potash prices enjoy the most bullish outlook over the forecast horizon, as demand soars on a relatively tight near-term capacity. Through 2014, the UN's Food and Agriculture Organization expects that global potash demand will rise nearly 21% to 32.4 million tonnes, with China accounting for approximately one quarter of the total, followed by Brazil (16%) and India (14%). Despite significant investment in production, including over 100 ongoing projects in 25 countries and more than 180 exploration licences in Canada alone, it will be 2013 before most of these new projects come online, thus ensuring robust prices through 2011 and 2012. As sales into Asia firm, demand from Brazil soars and Saskatchewan producers expand capacity, Canadian export volumes will strengthen over the next 2 years.

### 3.5 Forestry Products

Forestry sector exports will grow this year and next, although the sector continues to face significant challenges. The strong Canadian dollar, overcapacity, high input costs, and increased overseas competition pose a hurdle to companies within the Canadian forestry industry. However, surging demand from emerging markets, particularly from China, is breathing new life into the wood products and pulp industry, while the outlook for printing and writing paper is less promising as the ever-growing penetration of electronic media and advertising increasingly erodes demand. After a 9.8% increase in 2010, EDC Economics expects forestry sector exports to expand an additional 4% in 2011 and accelerate to 17% in 2012.

**Table 17: Forestry Export Outlook by Sub-Sector**

Top Sectors	CAD bn	%Share of Exports	Export Outlook (% growth)		
	2010	2010	2010	2011(f)	2012(f)
Lumber and Wood Products	8.7	32.5	17.3	5	34
Pulp	7.0	26.2	38.1	13	14
Newsprint and Other Paper Products	11.1	41.3	-7.0	-2	4
<b>Total Forestry</b>	<b>26.8</b>	<b>100.0</b>	<b>9.8</b>	<b>4</b>	<b>17</b>
<b>Source:</b> Statistic Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.					

**Table 18: Price Forecast for Forestry Price Outlook**

	2009	2010	2011(f)	2012(f)
Lumber, spf, 2x4 (USD/thbf)	261	255	256	269
Market Pulp (USD/tonne)	754	960	991	1,030
Newsprint (USD/tonne)	627	606	645	659
<b>Source:</b> Bloomberg, EDC Economics.				

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A recovery in the US housing sector remains elusive, and the outlook for wood products continues to be clouded by the substantial amount of shadow inventory held by banks, the negative equity position of many US homeowners and the double-dip in housing prices. We have, accordingly, revised down our forecast for US housing starts to 600,000 units in 2011 and 850,000 units in 2012. With the ongoing weakness in the US, export growth this year will be entirely driven by strong demand from emerging markets; China will surge past Japan as Canada's second-largest export market as log exports to China double again this year. Going forward, exports to Asian markets, which now represent 30% of total Canadian exports, will be supported by greater reconstruction activity in Japan following the March earthquake and tsunami, and the construction of 8 million new public housing units in China in 2012. Prices for lumber and OSB will be lower in 2011 as last year's price boost was caused by temporary supply-side disruptions, a repeat of which is not expected over the forecast period.

Emerging markets will increasingly influence conditions in the pulp sector over the forecast horizon, with India and China accounting for the lion's share of new global demand, and additions to production capacity coming from Latin America and Southeast Asia. Canadian exports will also be driven by these factors as China is expected to surpass the US as Canada's main export market for pulp this year. Despite current global overcapacity in hardwood pulp, the impact on NBSK prices in North America has been far more muted than expected, leading us to an upward revision of our price forecast for 2011 and 2012. Under our baseline scenario, we now expect the current soft patch in prices to be rather short-lived and for demand pressures to resume early in 2012, leading to a tightening of inventories and rising prices.

The outlook for paper products differs somewhat by grade, but overall the structural decline in paper consumption in developed economies will accelerate in 2011 and 2012. Higher prices this year continue to be largely driven by supply management, including the permanent and temporary shutdowns by AbitibiBowater, NewPage and White Birch. However, price support will be insufficient to offset lower volumes this year, resulting in falling exports. Next year, higher prices in key paper grades will provide the only source of export growth. Meanwhile, the paperboard sector continues to recover and faces better long-term prospects than printing and writing papers. However, the momentum in paperboard shipments has recently faded, removing the push for additional price increases in the short term.

### 3.6 Automotive Products

Deteriorating macroeconomic conditions in the US are taking their toll on consumer confidence, and our outlook for US vehicle sales has weakened somewhat to 12.5 million units in 2011. This, combined with the supply disruptions from the disaster in Japan earlier this year, which put a dent in North American automotive production, has led to a downward revision in the export outlook for this year. Next year, improving employment conditions and significantly deleveraged households will combine with rising vehicle replacement rates and population growth to fuel a sales rate of 14 million units. After a spectacular performance in 2010, automotive export growth will appear tame over the next few years and overall production levels will remain well below the levels seen early last decade. Soaring raw materials prices and a persistently-strong CAD continue to pose a challenge to the industry. The pricing environment remains weak and the trend toward smaller cars is reflected in a falling overall price index, while over the medium term the increasingly stringent regulatory requirements around environmental and safety features will lead to sustained upward pressure on pricing.

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**Table 19: Automotive Export Outlook by Product**

Top Products	CAD bn	% Share of Exports	Export Outlook (% growth)		
	2010	2010	2010	2011(f)	2012(f)
Passenger Autos	37.6	71.6	39.9	6	21
Motor Vehicle, Parts	14.1	26.9	22.6	2	12
Medium/Heavy-Duty Trucks	0.8	1.6	-41.9	25	36
<b>Total Automotive</b>	<b>52.5</b>	<b>100.0</b>	<b>32.0</b>	<b>6</b>	<b>19</b>

**Source:** Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

**Table 20: Automotive Export Outlook by Region**

Top Markets	CAD bn	% Share of Exports	Export Outlook (% growth)		
	2010	2010	2010	2011(f)	2012(f)
United States	51.0	97.2	32.9	6	19
<b>Total World</b>	<b>52.5</b>	<b>100.0</b>	<b>32.0</b>	<b>6</b>	<b>19</b>

**Source:** Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

US automotive inventories dropped to uncomfortably low levels by mid-year as reduced production schedules drove the number of cars on dealer lots to multi-year lows. Supply chain disruptions have significantly impacted Honda and Toyota with the Alliston and Woodstock plants operating at reduced capacity for a large part of the year. The Detroit 3 will drive growth this year due to their minimal exposure to the Japanese supply and strong demand for the Dodge Charger, the Chevy Camaro and the Equinox. Next year will see double-digit growth in production at Honda and Toyota, as a resumption of activity to above-capacity levels is realized and new vehicle launches (including Honda's CRV and the new Civic) will boost orders. A combination of restocking, normalization of production and growing consumer demand will ensure volume growth accelerates next year. Growth in exports of passenger vehicles this year will be from higher volumes (i.e. more units) as the Canadian dollar cuts into domestic revenue; next year, lower oil prices, a weakening CAD and more favourable demand conditions will lead to upward price pressure.

A weaker-than-expected showing in the first half of 2011 means that the parts sub-sector will continue to underperform the sector overall. New capacity in the US is increasingly being located in the Southern states, eroding the proximity advantage historically enjoyed by the Canadian industry. Expansion into new markets will take the form of FDI, as OEMs' preference for parts makers to relocate along with the plant drives investment decisions. The recent announcement of Magna's investment in Mexico is indicative of the industry trend of focusing on emerging markets (particularly BRICM).

The medium and heavy-duty truck segment will benefit from the cyclical recovery in demand over the forecast horizon. Canadian capacity, much reduced since the relocation of production to Mexico, will stabilize and export growth is expected to post significant gains, albeit from a much reduced base. The truck industry continues to deal with slower demand as higher costs associated with new emissions standards are causing companies to focus on maintenance rather than replacement.



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## 3.7 Industrial Machinery and Equipment

Industrial machinery and equipment (M&E) exports will post healthy gains both this year and next. Despite the downward revision to the US growth outlook this year, investment activity in the private sector continues to fuel export demand as record-high cash levels, improving business confidence and accelerated tax deductions for capital investment fuels higher spending by US businesses. Macroeconomic conditions in Western Europe continue to be weighed down by sovereign debt woes and ongoing financial sector stress, yet there are some pockets of strength – particularly related to resource sectors and clean tech. Sales to emerging markets, though still a small share of overall sales, will continue to outpace those to developed markets throughout and beyond the forecast period.

**Table 21: Industrial Machinery and Equipment Export Outlook by Sector**

Top Sectors	CAD bn	% Share of Exports	Export Outlook (% growth)		
	2010	2010	2010	2011(f)	2012(f)
Agricultural and Construction	2.1	8.8	-14.0	12	16
Metals and Woodworking	1.3	5.3	5.9	-1	9
Mining, Oil and Gas	1.6	6.6	0.3	10	7
Rubber and Plastics	0.8	3.2	12.3	9	7
<b>Developed Markets</b>	<b>19.9</b>	<b>83.2</b>	<b>-3.0</b>	<b>10</b>	<b>8</b>
<b>Emerging Markets</b>	<b>4.0</b>	<b>16.8</b>	<b>-14.5</b>	<b>12</b>	<b>11</b>
<b>Total World</b>	<b>23.9</b>	<b>100.0</b>	<b>-5.1</b>	<b>11</b>	<b>8</b>

**Source:** Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

The outlook for exports of agricultural and construction M&E in 2011 and 2012 is set to improve considerably. On the agricultural M&E side, we expect farmers will want to take advantage of the unusually high commodity prices by increasing their investment in the latest farm equipment. Exports to Russia and Eastern European countries should see stronger export demand in 2011 and 2012 after contracting by 40-50% in each of the previous 2 years. On the construction M&E side, we've adjusted down our outlook for construction activity south of the border in 2011 due to disappointing results in the first half. However, our growth outlook for 2012 has not changed significantly, as we expect conditions to improve going forward. Overall, we are forecasting agricultural and construction M&E exports to grow by 12% this year, followed by a 16% expansion in 2012.

The outlook for exports of metal and woodworking machinery has been revised down as the adverse impact of the supply-side disruptions in the automotive sector has delayed investment plans. A return to normal, and in some cases above-capacity, production levels in the auto sector later this year and into next will support sales gains next year. While this segment of the M&E sector has been adversely impacted by the slowing growth in the US this year, next year will see a bounce-back as production picks up to recoup losses from this year. Canadian export growth next year and beyond will be increasingly supported by growing demand from emerging markets.

Exports of mining and oil and gas M&E will post impressive growth rates over the forecast horizon. This year's robust 10% overall expansion will be followed by a solid 7% gain in 2012. Shipments to the US are a key component of the outlook, with sales to this market driving the overall growth figure. US shale gas production has been growing steadily as regulations there require companies to turn gas plays into producing wells within a limited time frame or risk losing their licences. Many Canadian companies have moved rigs to their US sites where possible. However, with oil and metal prices strong by historical standards and Chinese demand seemingly insatiable, exploration for resources continues to increase. We anticipate strong demand for Canadian exports of M&E in Africa and South America, which should help lift overall export growth rates to emerging markets to more than double the growth to developed markets.

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Downstream demand for plastics is rebounding, however, not as quickly as previously expected, and spare capacity remains elevated. Growth hit a respectable 12.3% in 2010 as business investment started to take off, but this advance remains too weak to offset losses seen during the crisis. A disproportionate increase in sales is expected to come from emerging markets, led by China and the Middle East, where the plastics and chemical industries are rapidly expanding.

**3.8 Advanced Technology**

A decided lack of US procurement activity, lacklustre growth in Western Europe and steadily declining prices have led to a downward revision from the Spring export outlook; EDC Economics is now forecasting a slight contraction in exports of advanced technology (AT) in 2011 before rebounding slightly in 2012. Data from the US suggest that the economic recovery is still a work in progress, and the weaker growth profile will continue to impact upstream demand for Canadian AT exports throughout the year while a strong Canadian dollar will impede the industry's cost competitiveness. Accelerating growth in the US next year will offer an opportunity for a modest rebound as utilization, deployment and expenditure on advanced technologies pick up.

**Table 22: Advanced Technology Export Outlook by Region**

Top Markets	CAD bn	% Share of Exports	Export Outlook (% growth)		
	2010	2010	2010	2011(f)	2012(f)
<b>Total Developed Markets</b>	<b>12.0</b>	<b>84.7</b>	<b>-9.1</b>	<b>-4</b>	<b>1</b>
<b>Total Emerging Markets</b>	<b>2.2</b>	<b>15.3</b>	<b>3.7</b>	<b>8</b>	<b>5</b>
<b>Total World</b>	<b>14.2</b>	<b>100.0</b>	<b>-7.3</b>	<b>-2</b>	<b>1</b>
<b>Source:</b> Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.					

Canadian export sales will continue to be affected by reduced capacity in certain sub-sectors, notably in the computer and peripheral equipment industry (e.g. printers, servers, hard drives, storage devices, CPUs, photocopiers) as well as in the semiconductors, circuit manufacturing and other electronic components (memory chips, microprocessors), as production units are being outsourced to Asia and Mexico. The intimate connection between semiconductors and computers (the former being an input for the latter) encourages co-location of production facilities. The change in business model from hardware sales to rent and the progressive move toward cloud computing, aided by the growing penetration of fibreoptic network gear, are concurrently impacting foreign sales of Canadian AT hardware and infrastructure equipment.

Disappointing US consumer spending, falling confidence, continued deleveraging and weak housing starts are impacting spending on electronic products (tablet devices, netbooks, video games), wireless technology, electrical equipment and other home appliances. Top-echelon companies are reacting to these weak demand conditions by choosing to preserve cash rather than overextending themselves with new investment initiatives, and replacement demand for electronic data processing equipment and office building technology (data networking systems, phone, internet, videoconference infrastructure) from traditional big-spending sectors such as financial services, retail and manufacturing companies has not been sufficient to compensate for the shortfall. Such developments lead us to anticipate continued downward pressure on demand for Canadian exports of wired and wireless equipment in 2011. The structural shift toward fast-growing mobile markets, in addition to soaring demand for digital content, broadening 3G/4G wireless applications and demand for new broadband networks in emerging markets (notably in Asia, where China is expected to account for 50% of all new growth) will provide an opportunity for Canadian exporters of communications equipment in the longer run.

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EDC Economics continues to foresee a rebound in foreign sales of measuring, testing, navigational (GPS) and medical instruments (MRI systems, microscopes) following a weak performance throughout the recession. These instruments are high value-added products and will continue to be the sub-sector with the most growth potential for Canadian AT exports, benefiting from lower competition from China and supportive downstream demand from the energy, health care and biotechnology sectors in developed markets.

Key structural changes in Canada's AT industry, including the offshoring of manufacturing, will permanently alter the production landscape as the industry transforms itself into a knowledge-intensive solution provider with R&D units in Canada and manufacturing abroad. This is becoming standard practice in today's global supply chain.

**3.9 Aerospace**

The sector continues to be affected by the lagged impact of the global financial crisis, as delayed and cancelled orders that occurred during the recession are translating into another year of weak export growth for the Canadian industry. However, orders have resumed and, given the lag between orders and deliveries, will result in a healthy rebound for the sector in 2012. In order to adjust to a moderate pickup in new orders, production rates will continue to be adjusted accordingly. In line with the Spring 2011 forecast, EDC Economics expects exports of aircraft and parts to post no growth this year and then surge 22% next year.

Growth in the business jet segment of the industry will drive much of the export growth next year and beyond, as the cyclical recovery is augmented by shifting preferences toward private travelling which is becoming accessible to a larger market due to fractional ownership options. Bombardier will begin delivery on its contract for 50 business jets late next year and into 2013, with further upside potential. The outlook for the commercial jet segment, a key contributor to the Canadian aerospace industry, is driven by growing demand from emerging markets – particularly Asia and Africa.

**Table 23: Aerospace Export Outlook by Region**

Top Markets	CAD bn 2010	% Share of Exports 2010	2010	Export Outlook (% growth) 2011(f)	2012(f)
<b>Developed Markets</b>					
United States	5.0	49.4	-19.6	2	32
Western Europe	3.0	29.1	-9.8	-11	6
Japan, Oceania and Developed Asia	0.5	4.6	-11.9	13	12
<b>Emerging Markets</b>					
Latin America and Caribbean	0.4	3.9	71.3	11	26
Emerging Europe and Central Asia	0.4	4.1	33.2	-6	8
Africa and Middle East	0.6	5.6	6.9	6	14
Emerging Asia	0.3	3.2	106.2	18	45
<b>Total Developed Markets</b>	<b>8.5</b>	<b>83.1</b>	<b>-16.0</b>	<b>-2</b>	<b>22</b>
<b>Total Emerging Markets</b>	<b>1.7</b>	<b>16.9</b>	<b>38.2</b>	<b>6</b>	<b>22</b>
<b>Total World</b>	<b>10.2</b>	<b>100.0</b>	<b>-10.1</b>	<b>0</b>	<b>22</b>
<b>Source:</b> Statistics Canada, EDC Economics. 2010 is actual data, while 2011 and 2012 are forecast.					

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Helicopters and flight simulators will also make an important contribution to export gains next year as increased off-shore oil and gas exploration will stimulate growing travel to exploration platforms using helicopters, which in turn requires training simulators. In the engine and turboprop segment, Pratt & Whitney has seen production increase significantly and we expect this trend to continue for the industry overall, as heightened demand for the more fuel- and cost-efficient turboprop spurs exports. In addition, Pratt & Whitney has been commissioned to build and assemble the new Bombardier C Series engine – its largest undertaking to date.

Persistently high oil prices continue to erode profit margins for aircraft carriers; however, the impact of soaring energy prices represents both a downside risk to the forecast and an opportunity, as airlines invest in more energy-efficient technologies. Demand for more fuel-efficient aircraft, as well as larger capacity jets, will grow as airlines try to contain the increased cost burden (with fuel representing almost 25% of operating costs). Many airlines have commenced retiring older jets and replacing them with the newer, more fuel-efficient models. Environmental considerations are also driving suppliers to respond with products that produce lower emissions and decrease fuel costs for aircraft carriers.

In terms of new product developments, the CRJ 1000 aircraft entered into service at the end of 2010, demonstrating greater fuel efficiency than expected. Bombardier's C-Series is still on schedule for entry into service in 2013, and has recently seen a jump in demand. On the BJ's segment, the Learjet 85 is expected to be introduced in 2013, with additional projects coming into service in 2016 (Global 7000) and 2017 (Global 8000).

**3.10 Chemicals and Plastics**

Weaker-than-expected demand during the first half of this year has resulted in falling foreign sales of chemicals and plastics; however, we expect US economic activity to pick up in the second half of 2011 and into next year. There are no anticipated changes to Canadian capacity over the short term; therefore, the outlook is shaped by exogenous factors, namely international prices and demand. In the medium to long term, however, we will see additions to capacity and an expanding product offering kicked off by the construction of a new bio-based succinic acid (derived from corn) plant to be completed by 2013. Environmental concerns will continue to fuel R&D spending in the area of environmentally friendly production of chemicals and plastics. Total exports of **chemicals, rubber and plastics** will rise 6% in 2011 and 9% in 2012 with growth to emerging markets persistently outpacing that of developed markets.

**Table 24: Chemicals and Plastics Export Outlook**

Top Sectors	CAD bn	% Share of Exports	Export Outlook		
	2010		2010	(% growth) 2011(f)	2012(f)
Chemicals	24.9	76.8	5.2	6	10
Rubber and Plastics	7.5	23.2	8.0	6	7
<b>Total Chemicals, Rubber and Plastics by Market</b>					
<b>Developed Markets</b>	<b>29.4</b>	<b>90.6</b>	<b>4.4</b>	<b>7</b>	<b>9</b>
<b>Emerging Markets</b>	<b>3.1</b>	<b>9.4</b>	<b>22.5</b>	<b>1</b>	<b>11</b>
<b>World Total</b>	<b>32.5</b>	<b>100.0</b>	<b>5.8</b>	<b>6</b>	<b>9</b>
<b>Source:</b> Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.					

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The outlook for petrochemicals will be driven by price, not volume, as the high cost of feedstock will put a floor under production costs and thus prices. However, over the medium term prices should moderate as large-scale additions to capacity in the Middle East come online, tipping the supply–demand balance toward a bearish pricing environment. While increased production in the Middle East will eventually lead to closure of some US Gulf Coast and European facilities, Canadian companies, relying mainly on the more cost-competitive natural gas feedstock, remain well positioned over the medium term. Limited Canadian supply of natural gas for Western Ontario chemical producers will constrain production in the short term until other feedstock supply options are identified.

Pharmaceuticals export sales plunged in 2010 as Canadian manufacturing facilities of retail medicines lost market share to European production. Global restructuring efforts by multinational producers, along with the confidential nature of contract manufacturing in the industry, and US health care reforms, make for a highly uncertain outlook. We maintain our long-held outlook of positive growth over the medium term.

Demand for other chemicals (synthetic fibres, paint, adhesives and other inorganic chemicals) is gaining momentum over the forecast horizon from the key end-use sectors. Auto production has been adversely impacted this year due to supply-chain disruptions related to Japan's natural disaster; however, production is returning to normal, and should ramp up in 2012 to offset this year's losses. The US construction industry will contribute marginally to the improving demand profile, as activity in the residential and non-residential segments recovers slowly, and from dismally low levels.

The outlook for plastics will mainly be determined by developments in the packaging, construction and automotive industries in the US (90% of industry exports). As stated above, the prospects for automotive production are positive, while the construction outlook will provide more moderate gains. Meanwhile, packaging will be boosted by continued growth in global trade. Overall, the outlook for 2011 sees growth in plastics reaching 6% this year and 7% in 2012.

Canada's plastics industry, dominated by SMEs, is particularly vulnerable to economic and credit conditions – a continuing source of risk over the forecast period. Longer term, the global plastics industry will continue to see a strong buildup of supply in emerging markets (mostly emerging Asia), as plastics producers set up shop closer to their downstream partners. While Canada remains a good location from which to serve US clients, companies interested in unlocking the benefits of generally faster-growing emerging markets will be increasingly attracted to overseas investments.

### 3.11 Consumer Goods

US consumers continue to deleverage and rising saving rates have driven overall household debt to personal disposable income (PDI) ratios down from their peak of 130% in 2007 to 113% early this year. Conditions in the housing market remain dismal, however, and the rating downgrade on the US government has deflated consumer confidence, leading us to a downward revision in our 2011 export forecast for consumer goods. As employment conditions begin to improve next year and debt loads return to manageable levels, consumer spending will rebound. The pricing environment remains challenging as the persistently strong Canadian dollar adds to existing pressures from a price-sensitive consumer and competition from lower-costs jurisdictions.



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**Table 25: Consumer Goods Export Outlook**

Top Markets	CAD bn	% Share of Exports	Export Outlook (% growth)		
	2010	2010	2010	2011(f)	2012(f)
<b>Total Developed Markets</b>	<b>7.2</b>	<b>95.7</b>	<b>0.1</b>	<b>3</b>	<b>3</b>
<b>Total Emerging Markets</b>	<b>0.3</b>	<b>4.3</b>	<b>-7.4</b>	<b>6</b>	<b>5</b>
<b>Total World</b>	<b>7.6</b>	<b>100.0</b>	<b>-0.2</b>	<b>109</b>	<b>3</b>
<b>Source:</b> Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.					

The US housing sector recovery remains elusive, and the outlook continues to be clouded by the substantial amount of shadow inventory held by banks, the negative equity position of many US homeowners and the double-dip in housing prices. We have, accordingly, revised down our forecast for US housing starts to 600,000 units in 2011 and 850,000 units in 2012. Demand for household furnishings, kitchen cabinets, furniture and appliances largely tracks activity in the US residential construction market, and Canada's export performance will mirror this pattern.

Demand for jewellery will remain robust despite record-high prices, and this segment of the sector will support modest export growth this year. Prices should drop slightly next year; however, the accompanying weakening in the Canadian dollar will neutralize this effect and the significant price correction will not materialize until 2013.

### 3.12 Canada's Services Export Sector

Canadian exports of services have fully recovered from the recession, exceeding 2008 levels during the first half of this year. Moderate, steady growth over the forecast horizon is expected, although downside risks are increasing in tandem with rising concern around the sovereign debt crisis in Europe and a slowing US economy. Given that the strong gains in the merchandise trade sector last year will be followed by another double-digit growth rate this year, the share of services exports in total trade has fallen back slightly to approximately 15%. The strong loonie continues to weigh on the sector, and while EDC Economics expects a moderate softening in the Canadian dollar next year, continuing high commodity prices and a favourable interest rate differential (with the US) will continue to provide support.

For overall service exports, EDC Economics is forecasting growth of approximately 4% this year and next. Commercial services, which account for over half of all Canadian services exports, will follow a similar pattern, growing 3.8% this year and then accelerating slightly to 4.1% in 2012. Transportation services exports will continue to mirror cross-border trade flows, slowing slightly after last year's bounce, but continuing to outperform the overall sector, with growth of 10% this year and 6% next. Travel services to businesses and persons, accounting for a quarter of service exports, will be flat this year before returning to moderate growth of 1% in 2012.

Underperforming the sector overall last year, commercial services exports will pick up this year; however, fiscal austerity in developed markets and the delayed recovery in the US construction sector will limit opportunities over the forecast horizon. Nevertheless, certain sub-sectors, including financial services, R&D and management services, are contributing strongly to the positive momentum, and similar to the merchandise trade sector, emerging markets offer a plethora of growth opportunities.

Exports of transportation services rebounded in tandem with the dramatic recovery in merchandise trade last year. Tracking EDC Economics outlook for a continuation toward normalization of trade flows with the US and higher-volume traffic with emerging markets, all modes of transportation services will grow both this year and next.

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The weak USD, continuing US consumer deleveraging and falling consumer confidence will limit tourism spending in Canada this year. Business travel will fare slightly better but it will also slow significantly from last year, as companies continue to watch their bottom line amidst fears of a slowing US economy. Next year, a strengthening USD and improving macroeconomic conditions should foster a slight rebound in Canadian-bound travel.

**Table 26: Canadian Services Export Outlook**

	2006	2007	2008	2009	2010	2011(f)	2012(f)
<b>Total Service Exports (\$ mn)</b>	<b>68,386</b>	<b>69,804</b>	<b>72,484</b>	<b>68,293</b>	<b>71,253</b>	<b>73,925</b>	<b>76,656</b>
<b>Annual % Change</b>	<b>1.16</b>	<b>2.07</b>	<b>3.84</b>	<b>-5.78</b>	<b>4.33</b>	<b>4</b>	<b>4</b>
Commercial Services (\$ mn)	38,395	39,676	42,017	40,324	41,263	42,832	44,576
annual % change	2.55	3.34	5.90	-4.03	2.33	4	4
Transportation Services (\$ mn)	11,863	11,888	12,188	10,559	12,005	13,148	13,883
annual % change	0.73	0.21	2.52	-13.37	13.69	10	6
Travel Services (\$ mn)	16,457	16,578	16,544	15,547	16,198	16,158	16,374
annual % change	-1.30	0.74	-0.21	-6.03	4.19	0	1
Government Services (\$ mn)	1,670	1,660	1,734	1,864	1,788	1,788	1,824
annual % change	-2.28	-0.60	4.46	7.50	-4.08	0	2
<b>Source:</b> Statistics Canada, EDC Economics. 2006 to 2010 are actual data while 2011 and 2012 are forecast.							

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The export outlook for 2011 has deteriorated as weaker-than-expected macroeconomic conditions in the US and supply-side disruptions weigh on Canada's trade performance. Robust demand from emerging markets will combine with ameliorating supply-side conditions to buttress growth in the latter half of this year and into next. In 2011, double-digit export growth rates will be enjoyed by over half of the provinces, as nominal gains in the resource sectors inflate foreign sales receipts. Next year will see moderating growth across the provinces as prices fall; however, British Columbia will begin to benefit from improving conditions in the US housing sector and Ontario will see increased output of manufactured metals and mining activity. The Canadian dollar will weaken slightly next year, providing Canadian exporters some reprieve from a very expensive loonie that has averaged USD 1.03 this year.

Exports from **Newfoundland and Labrador** will soar 21% this year, before slowing to 2% growth in 2012. High oil prices are pushing up energy exports as volumes are lower; exports of industrial goods and agri-food will also see sizable gains. Strong demand for iron ore from China and Western Europe will compensate for the weak demand from the US.

**Prince Edward Island's** exports will rise 1% in 2011, followed by a stronger 6% pace in 2012. The anticipated rebound this year was stalled by an unexpectedly soft patch in global GDP in the second quarter that lasted throughout the summer and resulted in lower foreign sales. Next year, a reviving US economy will translate into stronger demand and higher prices that in turn will drive up the nominal value of foreign shipments.

**Nova Scotia's** export outlook for this year has been revised down from our Spring outlook due to disappointing macroeconomic conditions in the US, reduced capacity in the forestry industry and a weaker price environment in the automotive industry. Nova Scotia's export performance will see a 4% increase this year before experiencing growth of 9% in 2012, supported by increased natural gas production at the Deep Panuke field.

Exports from **New Brunswick** will grow 15% this year, driven largely by stronger energy prices. While limited new export capacity is expected to come online in New Brunswick over the forecast horizon, opportunities in the mining and energy sectors will boost exports over the long term. Despite a better economic outlook anticipated for 2012, New Brunswick's export growth will be limited to 0% in 2012 as commodity prices weaken.

After tepid growth last year, **Quebec's** exports will grow by 4% this year, accelerating slightly to 7% in 2012. While the forestry sector will be essentially flat in 2011, the other resource sectors will contribute to impressive nominal gains this year. In 2012, the aerospace sector will be the star performer, offsetting reduced growth from industrial products as the price effect begins to wear off.

**Ontario's** export sector will post gains of 9% this year, followed by a further 10% gain in 2012. The outlook has been revised down since our Spring publication, due to supply-chain disruptions in the auto sector and the broad-based effect of weaker-than-expected economic growth in the US. The resource sectors will continue to enjoy high but gradually moderating commodity prices over the forecast horizon and only a slight reprieve is expected in the currency, which is expected to drop to parity next year.

Exports from **Manitoba** are poised for an impressive surge this year, with international sales rising 15% in 2011 followed by a more moderate 7% rise in 2012. Agricultural exports will receive an impressive boost as record grain prices more than compensate for lower output. The energy sector is benefiting from soaring prices, driven by instability in the Middle East and North Africa. Most other sectors will see moderate gains as a hesitant economic recovery takes hold, but unfortunately a return of the province's overall exports to pre-crisis levels will take time.

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EDC Economics is forecasting an impressive 22% increase in exports out of **Saskatchewan** this year, the strongest growth in Canada, followed by a 5% rise in 2012. The province's exports of energy and fertilizers will receive a stellar boost from rising prices, while agriculture should also benefit in spite of lost ground after the extreme wet weather conditions.

**Alberta's** exports will surge 18% this year and another 2% in 2012. Even though Alberta is well known as an energy powerhouse, the growth will be broad based with each major export category registering an expansion in both forecast years. However, the overarching driver this year is high prices, and EDC Economics is expecting the price of WTI oil to average USD 94/bbl in 2011, a full USD 15/bbl up from last year, before moderating to USD 85/bbl in 2012.

Continued strong demand from China and rapidly growing Asian economies will benefit **British Columbia's** export sector, which will expand at a double-digit pace in both 2011 and 2012. Export growth to Asia, which now accounts for over 40% of the province's foreign sales, will exceed 25% this year. Also supporting the expansion will be high (by historical standard) prices for many of the province's key commodities, including pulp, coal and copper. As a result, the province's three main export sectors (forestry, energy and industrial goods) will all perform particularly well.

**Table 27: Canadian Merchandise Export Forecast by Province**

Provinces	CAD mn	% Share of Province's Total Exports	2010	Export Outlook (% growth)	2012 (f)
	2010			2011 (f)	
Newfoundland and Labrador*	9.2	2.5	6.8	21	2
Prince Edward Island	0.7	0.2	-8.9	1	6
Nova Scotia	4.4	1.2	0.9	4	9
New Brunswick	12.7	3.4	28.5	15	0
Quebec	57.8	15.4	2.6	4	7
Ontario	146.1	39.0	16.3	9	10
Manitoba	10.2	2.7	-3.1	15	7
Saskatchewan	23.5	6.3	7.9	22	5
Alberta	78.6	21.0	12.4	18	2
British Columbia	28.9	7.7	15.3	17	13
Territories	2.2	0.6	31.1	-2	7
<b>Total Goods Exports</b>	<b>374.3</b>	<b>100.0</b>	<b>11.9</b>	<b>12</b>	<b>7</b>

**Source:** Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

\*Includes EDC estimate for crude oil exports (\*not included in national total from Statistics Canada)

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## 4.1 Newfoundland and Labrador

Table 28: Newfoundland and Labrador Merchandise Export Outlook

Top Sectors	CAD mn	% Share of Province's Total Exports	2010	Export Outlook (% growth)	
	2010			2011 (f)	2012 (f)
Energy	5,981	65.0	5.5	17	-8
Industrial Goods	2,236	24.3	16.0	32	25
Agri-Food	794	8.6	7.8	16	1
Forestry	118	1.3	-30.3	26	21
All Others	77	0.8	-32.7	-0.5	9
Total	9,206	100.0	6.8	21	2
Total excl. energy	3,225	35.0	9.4	27	19

**Source:** Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.  
 \*Includes EDC estimate for crude oil exports (\*not included in national total from Statistics Canada)

On the heels of modest growth last year, EDC Economics expects Newfoundland and Labrador's exports to accelerate by 21% in 2011 before slowing to 2% next year on the back of higher oil prices. This is a slight improvement from our Spring 2011 forecast.

In 2011, we expect sizable gains in exports of industrial goods and agri-food will offset declining energy output while strong demand for iron ore from China and Western Europe will compensate for the slower-than-expected recovery in the US.

The positive outlook for industrial goods is shaped by favourable developments in the iron ore, copper and nickel sectors. Exports of iron ore will benefit from higher prices and larger shipments, as production ramps up at IOC, Wabush and Labrador Iron Mines over the forecast horizon. Sector prospects beyond 2012 continue to be bright, thanks to significant investment by New Millennium Capital Corporation and Tata Steel Ltd as well as drilling activity at the historic Hope Brook mine. The mining sector will continue to see increased investment and growing opportunities for exports over the forecast period.

Falling crude production over the forecast horizon will drag energy exports into negative territory. Lower output from Terra Nova is expected to contribute to the decline, based on the assumption that all repair work required for the FPSO production vessel is pushed into 2012. Declining production at Hibernia is somewhat offset by growth from Hibernia South, while production at White Rose should be roughly flat through 2012, with upside potential longer term. A USD 300 million investment at the Come-by-Chance refinery will increase output from 115,000 barrels to 120,000 barrels per day in 2012. Our forecast is based on an annual average price for WTI crude of USD 94/bbl, falling back to USD 85/bbl in 2012.

A hefty increase in the price of crab this year is the key driver behind the strong agri-food export outlook, while volumes will be weaker as we expect lower landings for both crab and shrimp through the forecast, as profitability is impaired by the strong Canadian dollar and high energy prices. Farmed salmon and steelhead trout remain bright spots in the industry as capacity in the province continues to grow.



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The balance of the province's exports consist of a broad mix of goods, including machinery and equipment, aerospace and alcoholic beverages, and are shipped by numerous small and medium-sized companies. We expect exports in this category to remain flat this year with modest growth in 2012, although volatility and sensitivity to external developments are prominent features of this segment.



## 4.2 Prince Edward Island

**Table 29: Prince Edward Island Merchandise Export Outlook**

Top Sectors	CAD mn	% Share of Province's Total Exports 2010	2010	Export Outlook (% growth) 2011(f)	2012(f)
	2010				
Agri-Food	467.6	67.6	-2.3	6	5
M&E	31.9	4.6	-28.5	5	6
Transportation	35.4	5.1	-21.8	1	19
Industrial Goods	59.9	8.7	-5.6	4	9
All Others	96.6	14.0	-24.0	-26	9
<b>Total</b>	<b>691.4</b>	<b>100.0</b>	<b>-8.9</b>	<b>1</b>	<b>6</b>
<b>Total excl. energy</b>	<b>690</b>	<b>99.8</b>	<b>-8.8</b>	<b>1</b>	<b>6</b>

**Source:** Statistics Canada, EDC Economics. 2010 actual data, while 2011 and 2012 are forecast.

Prince Edward Island's exports appear to be taking a detour of sorts this year on their road to recovery, but the performance next year will be more impressive. Overall, Island exports will rise 1% in 2011, followed by a stronger 6% pace in 2012. The anticipated rebound this year was stalled by an unexpectedly soft patch in global GDP in the second quarter that lasted throughout the summer and resulted in lower foreign sales. But a reviving US economy next year will translate into stronger demand and higher prices that in turn will drive up the nominal value of foreign shipments. The high Canadian dollar also weighs on the export sector, and a reprieve is expected over the forecast horizon as the loonie dips back below parity in 2012. The key risks to the outlook are the recurrent global shocks and events that end up dulling consumer and business sentiment and in turn lead to delays in purchase and investment decisions. Higher global energy costs did just that in the first half of this year.

The agri-food sector remains the dominant export industry in Prince Edward Island. Potatoes and seafood are the two key sub-sectors whose performance is primarily sensitive to the supply-demand balance and price performance. EDC Economics is forecasting a rebound of 6% in total agri-food sales this year, followed by a 5% gain in 2012. The pricing and demand environment in the first half of this year were favourable due to global shortages driving prices, and ample PEI supply. But the tables have turned in the second half of this year as last year's global crop shortages (harvest year) appear to be being met by traditional sources in the US and Europe. Further, there are concerns that PEI's harvest will be down this crop year due to wet weather that delayed planting, leading to a shortened growing season. There are also concerns that blight might further reduce available stored inventory. The remainder of 2011 and 2012 will see decreased processed and table potato shipments and a softening in prices.

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PEI lobster landings were down 14% in the first half of the year as adverse weather conditions kept fishers on solid ground. Meanwhile, the minimum catch size of each lobster was increased – which bodes well for the industry down the road, but signifies that there will likely be fewer crustaceans hauled out this year and possibly next. However, higher pricing helped offset the decline in landings, and we anticipate a recovery in demand in the US market. Meanwhile, the industry has been promoting sales to less traditional markets in Asia. Special crops will continue to benefit from Canada's strong reputation as a quality producer in this segment, and the opening of Nature's Crop International crushing plant will lift sales of canola oil going forward.

While prospects for industrial goods, transportation and M&E will improve over the forecast horizon in tandem with the US economic rebound, the sub-sector posted a weak first half in 2011. The persistently-high Canadian dollar is weighing on growth prospects, while the global recovery had a hiccup in the summer leaving demand for aircraft refurbishment and rail car repair in the doldrums. PEI is viewed globally as a centre of excellence for aircraft aftermarket repair and overhaul, and this sector just saw additional capacity coming online this year. Overall, EDC Economics anticipates a 19% jump in transportation sector sales, and a 9% increase in industrial goods sales in 2012. The biosciences industry remains quite promising, and the opening of BioCommons Manufacturing is indicative of the growth potential for the sub-sector. Rising demand for animal vaccines for pets and commercial use (farms and aquaculture) are bright spots for PEI exports. Overall, these less traditional sectors will once again begin to shine as the global recovery gains speed.

**4.3 Nova Scotia****Table 30: Nova Scotia Merchandise Export Outlook**

Top Sectors	CAD mn	% Share of Province's Total Exports	2010	Export Outlook (% growth) 2011(f)	2012(f)
	2010				
Energy	475	10.9	-36.0	1	22
Agri-Food	998	22.9	-0.8	12	7
Forestry	911	20.9	20.7	-3	6
Motor Vehicle	969	22.3	17.5	4	10
All Others	1,000	23.0	1.2	3	7
<b>Total</b>	<b>4,353</b>	<b>100.0</b>	<b>0.9</b>	<b>4</b>	<b>9</b>
<b>Total excl. energy</b>	<b>3,878</b>	<b>89.1</b>	<b>8.5</b>	<b>4</b>	<b>7</b>
<b>Source:</b> Statistics Canada, EDC Economics. 2010 actual data, while 2011 and 2012 are forecast.					

Nova Scotia's export outlook for this year has been revised slightly downward from our Spring outlook on the back of disappointing macroeconomic conditions in the US, reduced capacity in the forestry industry and an anticipated weaker price environment in the automotive industry. Nova Scotia's export performance will see a 4% increase this year before experiencing growth of 9% in 2012, supported by increased natural gas production at the Deep Panuke field.

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The shutdown of the NewPage paper mill is expected to reverse the nominal gains in both volumes and prices of exports of newsprint and other paper experienced through mid-year. In addition to impacting the province's forestry exports receipts this year, the mill's closure is expected to effect 400 forestry contractors that fed the mill with pulp wood to produce high gloss paper. This reduction in capacity will not be offset by other main provincial producers and will translate into weaker export receipts. Going into 2012, newsprint exports should benefit from a higher and more favourable price environment which should help make up for the structural downward trend in demand resulting from the growing penetration of electronic media. Foreign shipments of lumber and wood products will suffer from the combined effects of a weaker price and demand environment resulting from a muted recovery in US housing starts. The export outlook for 2012 is unlikely to be fundamentally altered as sawmills continue to suffer from interprovincial competition and supply-driven deadlocks in productive capacities. Momentum in the province's exports earnings of pulp is nonetheless expected to be sustained despite the weakening effect of global overcapacity on price levels. EDC Economics continues to anticipate solid growth prospects for the province's pulp segment in the medium term as it benefits from new pockets of export opportunities in emerging markets. Against this overall backdrop, EDC Economics is revising its forecast of forestry export receipts downwards to -3% in 2011, while forecasting a return to growth of 6% in 2012.

Surprisingly, natural gas exports increased sharply in nominal terms (+29.6%) in spite of falling prices in the first part of the year and continued depletion at the mature Sable field. This unexpected increase is leading us to revise our forecast of energy exports. The gradual increase in production at the Deep Panuke offshore field in 2012 will help the province achieve a 41% increase in natural gas export volumes in 2012, while supporting an overall increase in energy exports of 22% with further upside risk coming from the potential start of metallurgical coal production at the Donkin mine.

EDC Economics continues to forecast a strong bounce-back of 12% in agri-food sales this year, followed by a 7% gain in 2012 resulting from high prices for crabs, lobsters and scallops. Downside risk on volume growth persists as weather conditions, ministerial quotas and weakness in US private consumption affect landings. Improvements in crustacean conservation technology in addition to growing upstream demand from pharmaceutical industries for fish oil and derivatives should progressively help provincial sales make inroads into European markets and diversify away from the US, which attracts 60% of the province's seafood exports.

The outlook for Nova Scotia's exports of automotive products will remain positive but is expected to soften in the second part of the year due to a weaker-than-expected price environment in the automotive industry. Exports of tires out of Michelin's plants in Pictou County, Bridgewater and Waterville proved resilient in the first half of the year, helping export sales of motor vehicles and parts to outperform national nominal growth by 9 percentage points. EDC Economics anticipates continued momentum in volume growth in the second half of the year with the normalization of auto production in the US. Overall, we are forecasting a 4% increase in foreign sales of automotive products in 2011 followed by an 10% increase in 2012. The sector is expected to remain a strong export driver for the province alongside agri-food and forestry, with all three sectors contributing to at least 20% of total provincial exports.

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## 4.4 New Brunswick

Table 31: New Brunswick Merchandise Export Outlook

Top Sectors	CAD mn 2010	% Share of Province's Total Exports 2010	2010	Export Outlook (% growth) 2011(f)	2012(f)
Energy	8,723	68.6	36.3	22	-3
Forestry	1,556	12.2	20.2	-1	13
Agri-Food	1,169	9.2	6.9	4	8
Industrial Goods	930	7.3	20.9	3	-1
M&E	233	1.8	17.1	-19	7
All Others	108	0.9	-25.4	0	9
<b>Total</b>	<b>12,719</b>	<b>100.0</b>	<b>28.5</b>	<b>15</b>	<b>0</b>
<b>Total excl. energy</b>	<b>3,996</b>	<b>31.4</b>	<b>14.1</b>	<b>0</b>	<b>8</b>

**Source:** Statistics Canada, EDC Economics. 2010 actual data, while 2011 and 2012 are forecast.

Exports from New Brunswick will grow 15% this year, driven largely by stronger energy prices. While limited new export capacity is expected to come online in New Brunswick over the forecast horizon, opportunities in the mining and energy sectors will boost exports over the long term. Despite a better economic outlook expected for 2012, New Brunswick's exports will remain flat in 2012 as commodity prices weaken.

With more than two-thirds of exports tied to the energy sector, the overall increase in exports is in large part tied to fluctuations in oil and natural gas prices. The events in the Middle East have given an unexpected boost to energy prices, with EDC Economics now forecasting oil prices to average USD 94 per barrel in 2011 as US demand recovers, before falling to USD 85 in 2012. Natural gas prices will see limited growth in 2011 before a more substantial increase next year, which will give a significant boost to export earnings from the Canaport LNG plant. Meanwhile, we suspect that the Canaport terminal will continue to operate well below design capacity as shale gas continues to flood the North American market. Shale gas exploration in the province has wound down as Apache Resources has decided to focus on other opportunities and Southwestern has faced growing public opposition. As such, production and exports remain a few years away. Overall, we expect New Brunswick energy export growth will slow to 22% in 2011 and negative 3% in 2012.

Exports from the forestry sector will contract slightly in 2011 before expanding again next year, although the outlook for each sub-sector varies widely. Exports of wood products remains depressed as demand from US housing construction is still subdued. Expected improvements in US housing construction in 2012 will boost demand and prices for wood products next year, supporting exports and the potential reopening of the Weyerhaeuser and Atcon mills in the Miramichi area. Our export outlook for the pulp and paper sectors was revised upwards as commodity prices have held up better than expected. At the same time, better fundamentals for pulp, containerboard and supercalendered paper prices will support growth in both sectors next year as well. Overall, exports from the forestry sector will decline 1% this year before rising 13% in 2012.

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Agri-food products export growth will slow moderately in 2011, rising 4% before accelerating to 8%. Despite better prices for the prized lobster catch, lobster landings have been adversely affected by weather conditions. The other key driver for 2011 will be higher snow crab exports, as prices are expected to remain around record levels this year on weaker global supplies. Salmon prices meanwhile will remain weak going forward as the Chilean stock is being rebuilt and is expected to compete aggressively on US markets to regain lost market shares. Higher potato prices are also benefiting the export of fresh and frozen potatoes despite continued weak demand from US fast-food outlets.

Exports of industrial goods will also see growth in 2011 and 2012, largely driven by higher prices for potash as well as greater output from the PotashCorp Sussex mine, which operated at 80% of capacity in 2010. This leaves strong upside potential in terms of additional volumes in 2011 and 2012, given strong grain prices and Brazil's growing demand for fertilizers for its ethanol crops (sugarcane). The completed expansion of the Sussex potash mine is still expected for 2013, which will give a further boost to export capacity. At the same time, the province is looking for interest to develop a new greenfield potash mine also in the Sussex area. However, it may take as long as 7 to 10 years before the project begins producing. Meanwhile, metal exports have underperformed as zinc prices have started to weaken, exacerbated by lower ore contents at the Brunswick Mine, which is slated to close by the first quarter of 2013. As the mine reaches the end of its life, other mining projects are underway in the province, such as Mount Pleasant, Picadilly and Sisson Brook – none of which are expected to compensate for the closure of Brunswick Mine.

**4.5 Quebec****Table 32: Quebec Merchandise Export Outlook**

Top Sectors	CAD mn 2010	% Share of Province's Total Exports 2010	2010	Export Outlook (% growth) 2011(f)	2012(f)
Industrial Goods	22,342	38.7	16.7	6	1
M&E	7,744	13.4	-7.2	5	5
Forestry	7,618	13.2	0.5	0	9
Transportation	7,079	12.3	-13.4	-1	23
Agri-Food	4,960	8.6	12.1	11	6
Consumer Goods	2,509	4.3	2.6	1	1
All Others	5,523	9.6	-10.9	4	9
<b>Total</b>	<b>57,774</b>	<b>100.0</b>	<b>2.6</b>	<b>4</b>	<b>7</b>
<b>Total excl. energy</b>	<b>54,976</b>	<b>95.2</b>	<b>2.8</b>	<b>4</b>	<b>7</b>

**Source:** Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

Quebec's export forecast was revised slightly downward as deteriorating macroeconomic conditions weighed on consumer confidence and the US housing market remains mired in recession. While the forestry sector will be essentially flat in 2011, the other resource sectors will contribute to impressive nominal gains this year. In 2012, the aerospace sector will be the star performer, offsetting reduced growth from industrial products as the price effect begins to wear off. The Canadian trend of diversifying into emerging markets is evident in Quebec, with China expected to replace the UK this year as the province's number two export destination behind the US. Extraordinary financial and monetary conditions will persist through next year causing volatility in commodity markets and the Canadian dollar will weaken to below parity. After marginally positive growth last year, EDC Economics expects Quebec's exports to grow by 4% this year followed by a modest increase of 7% in 2012.



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The aerospace sector, which has been suffering from plunging demand and deferrals throughout the recession, is beginning to heat up with a rebound of orders and an increasing backlog of planes on the OEM's order book. The outlook for the US, the top export destination, will be fairly flat this year with few aircraft scheduled for delivery in 2011, but will return to growth next year as Bombardier's recently announced purchase agreement with NetJets for up to 120 new global aircraft signals a revival of demand in the business jet sector. Overall, the growth in aerospace exports to emerging markets will outpace revived demand in developed economies, and we expect this trend to continue over the medium term.

Quebec's aluminum exports will be boosted by strong prices this year, and are expected to average USD 2,450/tonne in 2011, while weakening slightly next year, although remaining well above historical norms. Aluminum production will be flat this year and next, with the only notable ramp-up in production occurring at Rio Tinto's Laterrière smelter.

Activity in the mining sector is booming, in large part because of an \$80 billion government-led initiative to support mineral extraction in the northern regions (Plan Nord) and the development of Malartic and Sleeping Giant. China became the number one foreign destination for Quebec's iron ore exports last year, and this summer's first maritime shipment from the Bloom Lake Mine marked the beginning of production that will be entirely destined for the Chinese market. The mine's output will rise significantly in coming years as Cliffs Natural Resources announced a third-phase expansion which will see annual production increase to 24 million tons by 2015, in addition to the current work to see annualized output ramp up to 16 million tons by 2013. The other major mining operation coming online is LIM's Schefferville project which began in June 2011, with the ore being stockpiled at the Port of Sept-Îles. Export shipments are expected to begin during the third quarter.

The energy sector continues to be a source of strength for the Quebec economy, and the commissioning of the first generating unit at the Eastmain-1-A powerhouse this summer will provide a boost to Quebec's generating capacity. However, high domestic demand has diverted supply to Quebec households and away from the US, thus weighing on export growth this year. Ongoing investment activity in both production and transmission systems will boost capacity out past the forecast horizon, although weather and other conditions within Quebec have an important impact on export levels. The major expansions at Ultramar's Lévis refining plant and increased shale gas activity will also boost the medium-term energy outlook.

Overall, Quebec's export growth will be slightly below the national growth rate this year as the lagged effect of the recession continues to echo throughout the aerospace sector and a slower-than-expected recovery in the US. By next year, however, both of these factors will turn to positives and a robust trade performance will return.

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## 4.6 Ontario

**Table 33: Ontario Merchandise Export Outlook**

Top Sectors	CAD mn 2010	% Share of Province's Total Exports 2010	Export Outlook (% growth)		
			2010	2011(f)	2012(f)
Industrial Goods	50,652	34.7	24.6	16	6
Motor Vehicle	48,958	33.5	35.4	5	19
M&E	20,313	13.9	-4.9	5	6
Agri-Food	9,262	6.3	5.9	8	5
Forestry	4,604	3.2	2.5	2	10
Consumer Goods	4,057	2.8	-0.5	5	4
All Others	8,223	5.6	-18.6	0	7
<b>Total</b>	<b>146,070</b>	<b>100.0</b>	<b>16.3</b>	<b>9</b>	<b>10</b>
<b>Total excl. energy</b>	<b>143,405</b>	<b>98.2</b>	<b>16.8</b>	<b>9</b>	<b>11</b>

**Source:** Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

The growth outlook for Ontario's export sector has been revised down slightly since our Spring outlook, due to supply-chain disruptions in the auto sector and the broad-based effect of weaker-than-expected economic growth in the US. The Canadian dollar has persisted well above parity this year, producing a drag on export revenues, profit margins, and overall competitiveness. The resource sectors will continue to enjoy high but gradually moderating commodity prices throughout the forecast horizon and only a slight reprieve is expected in the currency, which is expected to drop to parity next year. Overall, Ontario's export sector will post gains of 9% this year followed by a further 10% gain in 2012.

Auto production in North America fell sharply in April following the natural disaster in Japan that disrupted global supply chains. Production levels at Honda's Alliston plant and Toyota's Woodstock plant will remain below capacity until late this year. However, higher production at Chrysler's Brampton plant (Dodge Charger), Ford's Oakville plant (Ford Edge) and at GM's Oshawa plant (Camaro) will result in positive overall export growth this year. Next year will see double-digit production increases at Honda and Toyota, as above-capacity activity resumes and new vehicle launches (including Honda's CRV and the new Civic) boost orders.

The export outlook for the Metals and Ores industry varies by sub-sector. However, the overwhelming driver is precious metals. Gold and silver exports have increased by a stunning 40% in the first half of the year, although this is mainly due to soaring prices as elevated drilling and exploration activity is not expected to translate into higher output over the forecast horizon. There has been a correction, however record-high gold prices will persist into next year, held up by extraordinary monetary stimulus and supportive financial sector conditions. Other metals are also seeing strong growth as a result of a resumption of normal activity at Vale's Sudbury operations that is driving nickel and cobalt export sales, and robust pricing which is pushing export receipts to another double-digit increase this year.

Export growth in the petroleum and refined products sector will be well below the national level and, according to the Canadian Association of Petroleum Producers, Ontario's output will increase by approximately 3% both this year and next. Electricity exports will decline beyond the forecast horizon due to reduced production capacity; the commissioning of the Gosfield Wind Project and the Talbot Wind Farm this year will be insufficient to offset shutdowns of two additional Nanticoke units, scheduled for the fourth quarter of 2011.

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Exports of petrochemical products will rise on higher prices, and the industry is enjoying wider margins as increased revenues more than offset rising costs of feedstock. The potential for expanding the industry's export sales beyond the US market is limited as import tariffs into non-NAFTA markets are variable and transportation costs prohibitive. As a signatory to the Chemicals Tariff Harmonization Agreement (CTHA), there will be opportunities to expand into other markets when the General Agreement on Tariffs and Trade (GATT) is fully implemented and petrochemical tariffs drop to 0%, but in the meantime, US demand will shape the outlook. Exports of plastics will jump in nominal terms thanks to higher prices while volumes will drop slightly, due to weak US demand, a decline in production due to planned maintenance at Nova's facilities and rising inventories. The medium-term outlook brightened on news that Nova is considering a new polyethylene facility in Ontario, while the debottleneck project and polymer expansions at Nova's Sarnia facility should be completed between late 2014 and 2017. The growth profile for the pharmaceutical sector continues to be clouded by the industry trend toward outsourcing of R&D and manufacturing. However, there are some bright spots for Ontario. Teva's recently expanded manufacturing facility in Stouffville, along with the recent acquisition activity by Valeant pharmaceuticals, will result in a slight boost to Ontario's export volumes.

Because Ontario's aerospace industry is dominated by Tier 1 and Tier 2 companies (systems integrators and equipment providers), the recovery in exports will lead the overall sector, witnessing moderate growth this year. An impressive number of contracts and agreements for Ontario manufacturers were recently announced, including Noranco Inc.'s contract for landing gear at its Woodbridge division and Cyclone Manufacturing's contract to manufacture components for the Airbus A350. The refurbishment market is also seeing a dramatic improvement in demand, and Ontario service providers report a steady growth in the mid-sized business jet segment since early this year. The abundance of deals demonstrates the success that Ontario companies are having in integrating themselves into global supply chains, while competitive tax rates and the highest R&D spending of any province in Canada spell a very bright outlook for the medium-term outlook for the sector in Ontario.

The services sector will contribute to Ontario's trade performance this year and next as the financial industry, concentrated in Toronto, has seen massive flows of foreign direct investment as Canadian banks expand their presence globally (including Scotiabank's purchases in Brazil and Chile), and also investments in Canada such as China Investment Corporation's establishment of its first overseas representative office in Toronto.

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## 4.7 Manitoba

**Table 34: Manitoba Merchandise Export Outlook**

Top Sectors	CAD mn 2010	% Share of Province's Total Exports 2010	2010	Export Outlook (% growth)	
				2011(f)	2012(f)
Agri-Food	4,046	39.5	-2.2	18	6
Industrial Goods	2,407	23.5	4.4	25	5
M&E	1,220	11.9	-3.5	9	10
Energy	864	8.4	-0.4	15	2
Motor Vehicle	431	4.2	-20.2	9	21
Forestry	373	3.6	-10.6	0	11
All others	896	8.8	-13.3	-10	14
<b>Total</b>	<b>10,237</b>	<b>100.0</b>	<b>-3.1</b>	<b>15</b>	<b>7</b>
<b>Total excl. energy</b>	<b>9,373</b>	<b>91.6</b>	<b>-3.4</b>	<b>15</b>	<b>8</b>

**Source:** Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.

Manitoba's exports are poised for an impressive surge this year, with international sales rising 15% in 2011 followed by a more moderate 7% rise in 2012. This is in line with EDC Economics Spring forecast as Manitoba's exports for the first half of 2011 are already up 14% compared with the same period last year.

The solid export growth is being driven by improving demand from the US and high commodity prices, even though there has been some softness in grain prices recently. Manitoba's economy is the most diversified in Canada, which means that the gains from trade will vary significantly depending on the industrial sector. Agricultural exports will receive an impressive boost as record grain prices more than compensate for lower output. The energy sector is benefiting from the soaring prices, driven by instability in the Middle East and North Africa. Most other sectors will see moderate gains as a hesitant economic recovery takes hold, but unfortunately a return of the province's overall exports to pre-crisis levels will take time. Pressure from the strong Canadian dollar remains a significant challenge for Manitoban exporters.

After a challenging 2010, Manitoban agri-food exports are forecast to rise by 18% this year, entirely as a result of rising prices. Export volumes should remain flat as flooding in southern Manitoba will result in declining agricultural production for the second consecutive year. Soils were saturated because of last year's floods, and the extreme wet weather in 2011 compounded an already difficult situation. The only bright side in a tough year for Manitoban farmers took the form of grain and agricultural prices soaring to record heights. Adverse weather conditions have hampered agricultural output in the US, Europe and China, in a year which saw rapidly rising emergent market demand for food and the production of biofuels. Higher canola production over the forecast period will be a key contributor to Manitoba's export growth, while durum sales will also climb reflecting much higher prices. As farmers shift acreage toward wheat and corn, export volumes for these commodities will increase over the coming years.

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Manitoba's livestock exports will be affected by a number of factors which will cause a leveling off of volumes over the forecast horizon. The flooding has reduced available grazing land, thereby lowering output. Prices for livestock and meat are expected to increase, as overall demand increases and consumption shifts toward more expensive cuts. Unfortunately, pricing for certain types of livestock exports will continue to be weighed down by US country-of-origin labelling regulations. Despite rising revenues, soaring feed costs will continue to squeeze industry profit margins. Asian-bound shipments will receive a large boost over the forecast horizon, as the Chinese government phases out the remaining restrictions on Canadian beef, opening up an exciting new market for Canadians.

Manitoba's energy sector will be a strong driver of growth over the forecast horizon, with exports expected to rise 15% in 2011 and 2% in 2012. In spite of low growth in petroleum production, strong oil prices in 2011 have raised the value of the province's crude exports. Oil prices will decline to USD85/bbl in 2012 but will still provide incentive needed for increased drilling activity to support output, even though it will take several years before production comes online. With US industrial activity picking up and Manitoba Hydro's Wuskwatim generating station coming online in 2011, our forecast is positive for Manitoba's electricity exports.

In the transportation sector, the aerospace industry will continue to struggle this year, as the economic weakness of 2010 shrank orders and led to slumping aircraft deliveries in 2011. The long-delayed first delivery of Boeing's Dreamliner is now planned for Q4/11, which along with increased demand for other 7-series commercial aircraft, will provide a welcome boost for Boeing Winnipeg. However, the main ramp-up in production will only come into effect in 2012. Also, Standard Aero's multi-year contracts with US NAVAIR and EuroLot should boost export prospects in the service segment.

Finally, the outlook for Manitoban metals exports will be positive in spite of weakening volumes. Soaring prices of copper and other base metals are a welcome boost to export earnings in 2011. Unfortunately, on the volume side, last year's closure of the Flin Flon copper smelter, and the approach of the end of the Trout Lake mine's life, will reduce shipments.

**4.8 Saskatchewan****Table 35: Saskatchewan Merchandise Export Outlook**

Top Sectors	CAD mn 2010	% Share of Province's Total Exports 2010	Export Outlook (% growth)		
			2010	2011(f)	2012(f)
Energy	8,489	36.1	16.9	16	-3
Agri-Food	8,086	34.4	-2.2	26	7
Fertilizers	5,030	21.4	37.3	27	15
Chemicals/Plastics	648	2.8	-31.8	6	10
All Others	1,272	5.4	-23.2	10	11
<b>Total</b>	<b>23,525</b>	<b>100.0</b>	<b>7.9</b>	<b>22</b>	<b>5</b>
<b>Total excl. energy</b>	<b>15,036</b>	<b>63.9</b>	<b>3.4</b>	<b>24</b>	<b>10</b>

**Source:** Statistics Canada, EDC Economics. 2010 actual data, while 2011 and 2012 are forecast.

EDC Economics is forecasting an impressive 22% increase in exports out of Saskatchewan this year, the strongest growth in Canada, followed by a 5% rise in 2012. The province's exports of energy and fertilizers will receive a stellar boost from rising prices, while agriculture should also benefit in spite of lost ground after the extreme wet weather conditions. There is little change to the 2011 forecast from the Spring estimates, as exports are tracking well so far, already up 18.2% in the first half of 2011 compared with the same period last year.



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Saskatchewan's energy sector will be a solid performer, even though the oil production profile is stable over the next years, as earnings will be supported by strong oil prices averaging USD94/bbl in 2011 and then moderating to USD85/bbl next year. Rising light crude output out of Bakken will be offset by sustained declines in conventional production of heavy oil, simply because the Western Canada Sedimentary Basin is mature and production has been declining for years. High energy prices will continue to drive investment, and higher drilling activity will continue through the forecast horizon, although it will take time for additional capacity to come online.

The volume of Saskatchewan's agri-food exports will be flat in 2011 as a result of a second consecutive year of extreme wet weather. Saskatchewan soils were already water-saturated from last year's flooding, and much heavier-than-normal springtime precipitation led to challenging conditions in 2011. As a result, just 82% of available acreage was seeded this spring, resulting in significantly lower agricultural output. Fortunately, prices of most grains have exceeded the records last seen in 2008, boosting Saskatchewan's agricultural export revenues, and these high prices are likely to continue. Adverse weather conditions affected agricultural production in the US, Europe and China, in a year that saw rapidly rising emerging market demand for food as well as soaring production of biofuel. Even if 2012 brings a vast improvement in global agricultural production, this will permit inventories to recover to normal levels. As a result of changing prices and challenging weather conditions, Saskatchewan farmers have shifted production toward higher-margin canola and durum, while corn will remain essentially unchanged. This is why agricultural exports are expected to rise by 26%, even though actual volumes will remain roughly stable.

Saskatchewan's beef exports are also in for a challenging 2011 that will see slight declines in export volumes, mainly because the flooding has reduced available grazing land. Prices for beef and pork have seen solid increases so far in 2011 and these are expected to continue, as overall demand recovers from recessionary lows, even though pricing for certain types of livestock exports will be weighed down by US country-of-origin labelling regulations. Emerging market demand has been particularly robust and Asian-bound shipments will receive a large boost over the forecast horizon, as the Chinese government phases out the remaining restrictions on Canadian beef, opening up an exciting new market for Canadians. Despite rising prices, Saskatchewan's livestock production will rise only marginally as soaring feed costs will continue to squeeze industry profit margins.

Fertilizer exports will post robust growth in both 2011 and 2012, with the strongest performance coming from the potash sector. As an input into global agriculture, fertilizers will benefit from the surge in food prices this year, before falling back slightly in 2012 as more fertilizer capacity comes online. For Canadian fertilizer exporters, the demand horizon for 2011 looks strong as the world's importers seek to boost agricultural production, and high food prices mean comfortable profit margins, sufficient to cover discretionary inputs such as nutrients. Whereas growth in 2010 was fuelled by a surge in pent-up demand from deferred purchases, the momentum in 2011 is driven by vastly improved credit conditions for farmers and rising demand from biofuel mandates that will continue to necessitate higher production of fertilizer-intensive crops. Canpotex's growing shipments to Brazil, India and other Asian importers signal impressive emerging market demand, which should continue through 2011 and into 2012.

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## 4.9 Alberta

**Table 36: Alberta Merchandise Export Outlook**

Top Sectors	CAD mn	% Share of	Export Outlook		
	2010	Province's Total Exports 2010	2010	(% growth) 2011(f)	2012(f)
Energy	56,643	72.1	17.6	21	0
Industrial Goods	8,840	11.2	16.2	11	9
Agri-Food	6,629	8.4	-9.6	17	6
M&E	3,450	4.4	-11.1	7	7
Forestry	2,270	2.9	22.1	4	18
All others	762	1.0	-29.7	-9	12
<b>Total</b>	<b>78,594</b>	<b>100.0</b>	<b>12.4</b>	<b>18</b>	<b>2</b>
<b>Total excl. energy</b>	<b>21,951</b>	<b>27.9</b>	<b>0.9</b>	<b>11</b>	<b>9</b>

**Source:** Statistics Canada, EDC Economics. 2010 actual data, while 2011 and 2012 are forecast.

EDC Economics is forecasting that Alberta's exports will surge by a booming 18% this year and another 2% in 2012. Even though Alberta is well known as an energy powerhouse, EDC Economics sees broad-based growth with each major export category registering an expansion in both forecast years. The energy sector will register the fastest growth in 2011, but impressive performances are expected to come from industrial goods and agri-food this year.

Strong prices and production of petroleum products and coal will drive Alberta's energy exports 21% higher in 2011, while no gain is on tap for 2012 as declining prices for oil and coal offset slight gains in natural gas and electricity. The major driver of the forecast is high prices as EDC Economics is expecting the price of WTI oil to average USD 94/bbl in 2011, a full USD 18/bbl up from last year, before moderating to USD 85/bbl in 2012. The first half of this year witnessed significant volatility in prices as concern over production disruptions due to the Arab Spring drove prices up sharply early in 2011. Fears of a supply shortfall were unfounded as the lost 1.72 mb/d of Libyan oil output was offset by other producers, and OPEC spare capacity remains at 4 mb/d. More recently, oil prices have declined as markets have become preoccupied with the deteriorating demand environment as macroeconomic data for the second quarter revealed a sharply slowing global economy and the spectre of a US double-dip recession re-emerged. Combined, the improving supply side and deteriorating demand side provide little support for the strong prices seen earlier in the year, and lower prices should persist over the forecast horizon. On the volume side, exports from Alberta's oil sands will receive an impressive boost both this year and next thanks to the Jack Pine Mine (started in 2010) and Kurl Mine (2012), as well as a large number of other projects.

US shale gas production continues to grow rapidly, keeping underground storage levels near 5-year highs. We expect US production growth to slow over the forecast, leading to a gradual reduction of inventories, lifting the price of gas this year and next. As a result, the price of Henry Hub natural gas will average around USD 4.25/MMBtu in 2011, and drift toward USD 4.75/MMBtu in 2012. The upward price pressure will be a result of the expected decline in US drilling activity next year. Currently, prices are being held back due to the upswing in US production over the past few years – an outcome of US law requiring shale producers to bring projects to production within 2 years or risk losing their drilling rights. However, price risk is tilted to the downside and EDC Economics sees gas production in Alberta falling through the forecast.

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Alberta's agricultural production will increase only modestly, but record-high prices for agricultural commodities will push exports up 17% in 2011. Growth in biofuel usage, coupled with the trend in emerging markets toward higher protein diets, continues to drive global demand for grains and oilseeds. This is leading to a surge in prices which will surpass the heights seen in 2008. Meanwhile, exports of meats and live cattle should continue to grow in 2011, mainly as a result of higher prices as US consumers shift back toward more expensive cuts of meat.

Forestry exports are projected to rise 4% this year and 18% in 2012. Wood products will see the largest growth on higher prices related to the US housing market which will remain weak in 2011 but gradually improve next year, alongside strong Chinese demand for lumber and a boost from new production at Fox Creek. The outlook for pulp sees modest growth this year, but a weak price outlook will see these gains erased in 2012.

Exports of mining and oil and gas M&E will post decent growth on rising demand for horizontal drilling rigs. Exports of other M&E will rise as US investment activity gets a lift from strong corporate profits, improving business confidence and accelerated tax deductions for capital investment.

**4.10 British Columbia****Table 37: British Columbia Merchandise Export Outlook**

Top Sectors	CAD mn 2010	% Share of Province's Total Exports 2010	Export Outlook (% growth)		
			2010	2011(f)	2012(f)
Forestry	9,099	31.4	20.1	11	26
Energy	8,031	27.8	19.1	32	10
Industrial Goods	5,537	19.1	16.0	18	2
M&E	2,273	7.9	7.0	10	5
Agri-Food	2,769	9.6	12.6	10	8
All Others	1,226	4.2	-14.4	-3	10
<b>Total</b>	<b>28,933</b>	<b>100.0</b>	<b>15.3</b>	<b>17</b>	<b>13</b>
<b>Total excl. energy</b>	<b>20,903</b>	<b>72.2</b>	<b>13.8</b>	<b>12</b>	<b>14</b>
<b>Source:</b> Statistics Canada, EDC Economics. 2010 is actual data while 2011 and 2012 are forecast.					

Continued strong demand from China and rapidly growing Asian economies will benefit British Columbia's export sector, which will expand at double-digit pace again in 2011 and 2012. Exports to Asia now represent over 40% of the province's exports, and will expand in excess of 25% this year. British Columbia's exports are expected to grow by 17% and 13%, respectively, following last year's 15.3% growth rate. Also supporting the expansion will be gains in many of the province's key commodity prices, including pulp, coal and copper. As a result, the province's three main export sectors (forestry, energy and industrial goods) will all perform particularly well, with higher prices boosted by greater output.

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Despite stronger-than-expected demand from China for pulp and wood products, our outlook for British Columbia's forestry exports was revised down due to weaker-than-expected US housing starts. Nonetheless, wood product exports to China will again double in 2011 and expand at a double-digit pace next year, with previously closed capacity reopened to exclusively serve the Chinese market. The planned construction of 8 million social housing units in China in 2012 combined with the expected return of housing activity in the US will give a substantial boost to the province's forestry export figure in 2012. Our revised higher outlook for the pulp sector is due to a combination of higher-than-anticipated pulp prices and the correction to our erroneous assumption that the Mackenzie pulp mill was closed for an indefinite period following a technical accident earlier this year. Chinese pulp imports will again be an important growth driver in 2011 and 2012, although not to the same extent, in part due to increased competition from new capacity in Southeast Asia and less inventory building. Meanwhile, higher paper prices will offset the reduction in volume from capacity closures in Kitimat in early 2010, and Kelowna, resulting in a small boost to exports. Overall, exports from the forestry sector will grow 11% in 2011 and 26% in 2012.

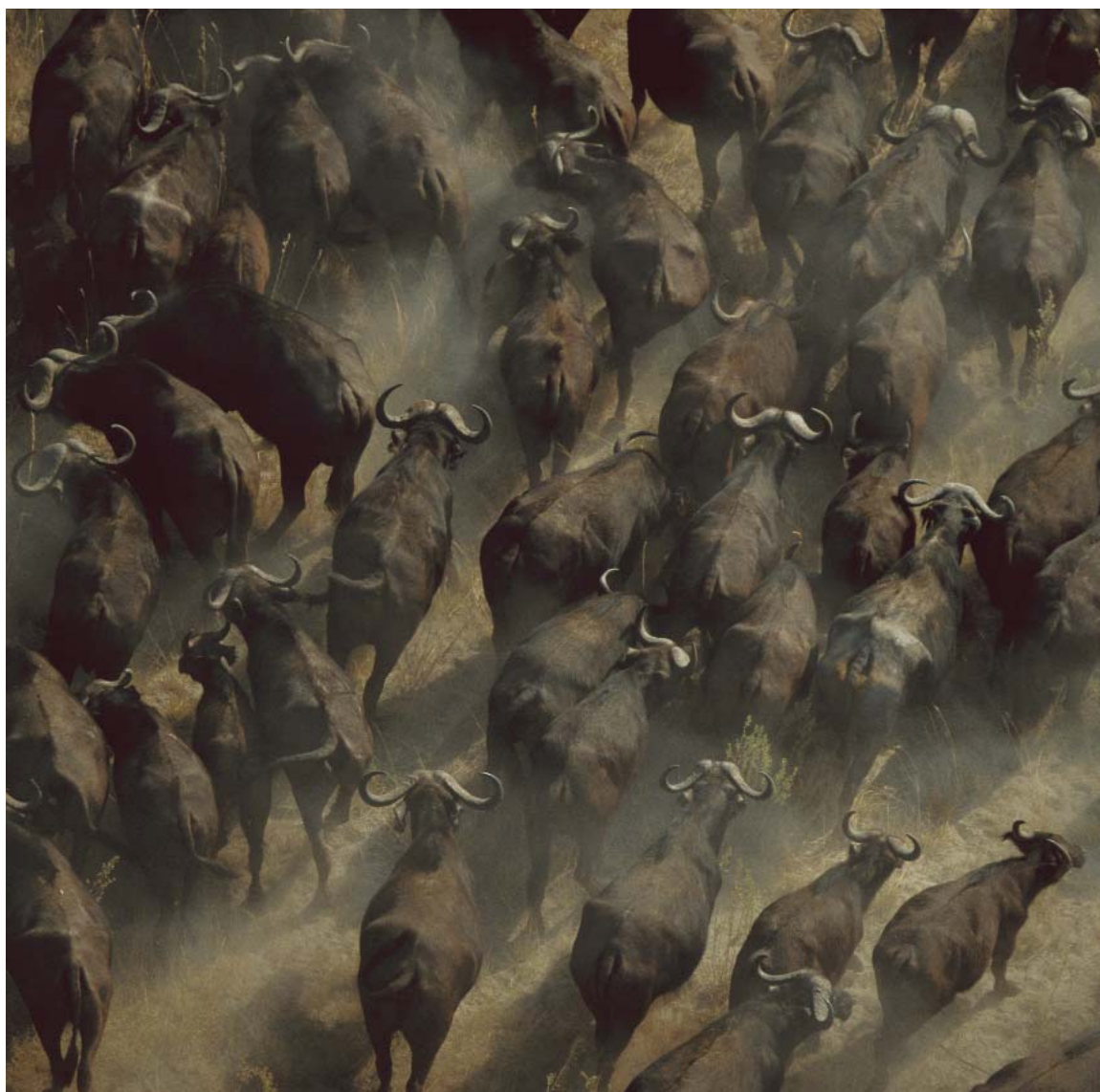
Exports of energy will jump 32% in 2011 before easing to 10% in 2012, driven mainly by higher prices for coal, as flooding in Australia this year had a significant impact on supply. However, this transitory effect is dissipating and prices will fall next year. Meanwhile, demand from Japan, Canada's traditional top coal export market, should rebound in the second half of 2011 and through 2012 as reconstruction efforts get underway. Coal exports will also benefit from greater production capacity, as numerous capacity expansion projects and new mining developments are underway in response to better coal fundamentals, which will result in greater production over the next 2 years and beyond. According to the Coal Association of Canada, coal production in the province could double if all proposed new mines and capacity expansion projects are realized. Natural gas exports will remain virtually flat this year, as increased output from the Montney shale gas field is offset by weak price gains and the stronger Canadian dollar. Despite the somewhat bearish North American outlook for natural gas, exploration and development of the Horn River Basin and Montney shale gas formation continue. And in spite of the collapse of the Encana-PetroChina deal, more international players are looking at the province's shale gas resources for overseas exports, including Korea, Japan, Malaysia and South Africa. The construction of one or more LNG liquefaction terminals remains a few years away.

Industrial goods exports will benefit from strong commodity prices in 2011, particularly for gold and copper, and the beginning of production at the Copper Mountain mine. Production from the province's largest copper mine (Highland Valley Copper) should improve in 2011 as the mine's geotechnical problems, which affected production in 2010, should be resolved. With numerous mining projects at various stages of development or expansion and the expected limited decline in copper and gold prices in 2012, exports of industrial goods should continue to expand next year, but at a weaker pace of 2%, compared with 18% in 2011. Nonetheless, with new developments and expansions such as the New Afton mine, Mount Milligan, and Red Chris, higher output going forward will also sustain greater exports of industrial goods.



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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

EDC Payment Experience:  
Measured by the number and size  
of EDC claims experienced in a  
particular country over a period of  
a year, relative to EDC's business  
volume growth.

positive



Positive: The number of claims or  
the amounts claimed have decreased  
in proportion to EDC business  
volume growth.

neutral



Neutral: The number of claims or  
the amounts claimed have remained  
unchanged in proportion to EDC  
business volume growth.

caution



Caution: The number of claims or  
the amounts claimed have increased  
slightly in proportion to EDC  
business volume growth.

negative



Negative: The number of claims or  
the amounts claimed have increased  
in proportion to EDC business  
volume growth.

very  
negative

Very Negative: The number of  
claims or the amounts claimed have  
increased significantly in proportion  
to EDC business volume growth.

**5.1 Experience and Attitude****Algeria****EDC Products****Account receivable insurance**

Open on a full range of payment terms subject to Algerian  
regulations

**Medium-long-term financing**

Open on a full range of payment terms subject to Algerian  
regulations

**Political risk insurance**

Open

**EDC payment experience 2010**

(-) – Negative

**Country risks**

FX reserves are at USD 146 billion (over 3 years of import cover).  
The central bank will maintain the fixed-float for the dinar, which  
could mean a gradual depreciation in 2011 in an attempt to slow  
import growth. Rising imports related to infrastructural projects  
underway are limiting improvement in the current account surplus.  
Limited political reforms were initiated by the leadership ahead  
of parliamentary elections in 2012. The first half of the year saw  
frequent social protests, but they have ceased.

**Angola****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms, but other payment  
terms will be considered

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

Increased oil production provides the government with ample  
resources to finance new borrowings; fx reserves stand at  
USD 22 billion. Expect the currency to trade sideways over the  
short term due to stronger export earnings. Payment delays are not  
expected. Political stability is expected over the short term due  
to the strong position of the president. An opaque investment  
environment remains challenging; however, foreign investment  
will continue due to Angola's economic and political stability.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Argentina****EDC Products****Account receivable insurance**

Open case-by-case on a full range of payment terms

**Medium-long-term financing**

Closed for business with the public sector over the medium-long term

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

**(O)** – Caution

**Country risks**

Strong domestic demand, favourable external conditions and a supportive credit environment will continue to support economic growth and bolster external liquidity in the short term, mitigating counterparty and repayment risks. Macro-economic imbalances and a changing regulatory environment constitute a downside risk to payment experience in the medium to long term. Results from primaries for the next presidential and legislative elections suggest a heightened probability of policy continuity at the top.

**Armenia****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms, but other payment terms will be considered

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

What has been a sluggish recovery so far will begin to accelerate this year, thanks to a strong performance in the agricultural sector. Progress on fiscal reforms under the current IMF program has been satisfactory, but much remains to be done. External vulnerabilities remain significant and include large current account and fiscal deficits, high rates of dollarization, and a growing debt burden. Access to concessional, external financing will remain intact.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Australia****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

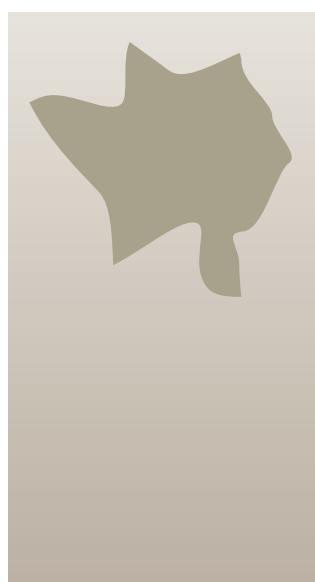
Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

The Australian economy continues to perform well despite the slowdown brought on by severe weather. Real GDP growth of 2.1% is expected for 2011, down from 2.7% in 2010. The external sector is expected to remain strong, buoyed by commodity demand from Asia, although the high-flying AUD will challenge non-commodity exporters. Payment experience remains sound, despite downward trending consumer confidence and a historically high level of business failures up y/y 23% in Q1/11.

**Azerbaijan****EDC Products****Account receivable insurance**

Open case-by-case on full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

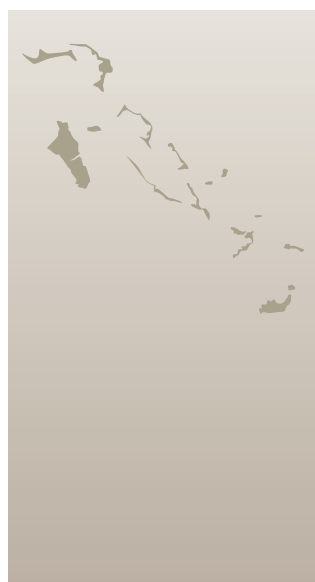
**Country risks**

While the near-term outlook is positive, it is highly dependent on oil production (and prices), which is expected to peak in 2014, thus significant structural reforms will be necessary over the coming years. While the financial system is in relatively good shape, domestic credit growth has been sluggish. Upward pressure on the currency is expected as energy prices remain high. Tensions with Armenia have been mounting, although an escalation in military activities is unlikely in the short-term.

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**Bahamas****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) - Neutral

**Country risks**

Economic recovery will receive a boost owing to a strengthening US economy. Currency will remain pegged to the USD as FX reserves continue on an upward trend. Fiscal concerns are rising but not overly problematic at this point. Commercial risk is elevated in light of economic weakness (high unemployment and rising delinquencies), however, liquidity and capital levels remain high. Fiscal deficit is expected to shrink as revenues recover and fiscal consolidation continues.

**Bahrain****EDC Products****Account receivable insurance**

Open

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open

**EDC payment experience 2010**

(Ø) – Caution

**Country risks**

The currency peg to the USD remains intact. FX reserves are expected to rise again in 2011. Payments delays are not likely. Budgetary deficits are expected going forward as the government ramps up social spending and boosts infrastructural capacity. While Bahrain has stabilized following a heavy government crackdown of protests in March, the political crisis persists causing concerns for the medium-term economic outlook.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Bangladesh****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms, but other payment terms will be considered

**Medium-long-term financing**

Sustainable lending conditions apply.

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

The narrow export base, poor infrastructure and dependence on external assistance are key vulnerabilities. Although weakening, remittances continue to support the balance of payment and FX reserves accumulation. Rising payment delays and deteriorating business conditions warrant closer monitoring. Opposition protests and labour unrest contribute to political instability, but the government is unlikely to fall. High levels of corruption pose challenges, especially with state entities.

**Barbados****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

Barbados is considered a high-income economy, but one that is highly dependent on North American and European economic performance. The currency will remain pegged to the USD. Economic difficulties could impact the stability of Barbados, but only if the current downturn persists over the medium to long term. Barbados has a stable two-party democracy. Drug trafficking is on the rise, but the crime rate is low.



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**Bolivia****EDC Products****Account receivable insurance**

Open case-by-case on full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Bolivia's external solvency and liquidity ratios have improved significantly as a result of debt relief and natural resources exploration, allowing FX reserves to provide over 14 months of import cover. Inflation risk is high and is likely to have societal ramifications in the form of strikes and potential unrest. A weak regulatory environment and government interference weigh on the business and investment climate. Bolivia does not subscribe to ICSID.

**Botswana****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Growth has regained momentum and will hit 4% through 2012, as investment in power and other infrastructure gains strength from the recovery in commodity prices. That said, organized labour strike action in 2011 weakened output. Payments delays should not be an issue – the country has ample FX reserves at USD 9 billion or 15 months' import cover and is not heavily indebted.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Brazil****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(Ø) – Caution

**Country risks**

A stable macroeconomic environment, large FX reserves (USD 300 billion) and reduced country risk support payment experience in Brazil. Still tight credit conditions for some SMEs, and monetary policy tightening are expected to impact access to private credit in the short term. Expect currency appreciation as money inflows exert pressure on the exchange rate. The economy is expected to decelerate in H2/11 and H1/12. Brazil is expected to look beyond its borders only for what it cannot accomplish domestically.

**Bulgaria****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

While the recovery is gaining momentum, payment risks will remain elevated in 2011, particularly in the construction sector. The country is highly exposed to the EMU, and Greece in particular, via financial and trade linkages; however the banking sector is considered well capitalized and stable and confidence in the currency board remains high. Euro adoption continues to be a medium-term goal. A recently passed law limiting government debt to 40% will support an improving sovereign risk outlook.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Cameroon****EDC Products****Account receivable insurance**

Open case-by-case on full range of payment terms, ILC preferred

**Medium-long-term financing**

Sustainable lending conditions apply.

**Political risk insurance**

Open

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

Growth continues to recover, driven by oil production and government spending. The common currency (CFA franc) provides a degree of currency stability. FX reserves (USD 5 billion) provide 11 months of import cover. The ruling party is expected to maintain its position despite growing pockets of discontent. The country may experience further unrest (e.g. urban riots and demonstrations), particularly around upcoming elections, which could lead to short-term business disruption or payment delays.

**Chile****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

Earthquake-related public spending will continue to be a priority until 2013. EDC does not expect that such spending would cause any lasting damage to public accounts. The new conservative administration is expected to focus on foreign investment-friendly policies. President Piñera is, however, currently experiencing record-low approval ratings. Copper mine union strikes are pushing copper prices up and presenting supply risks in the short term, which will fuel upward pressures on the peso.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**China****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

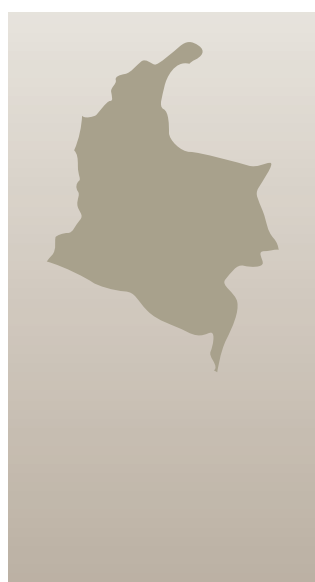
Open

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010****(O)** – Neutral**Country risks**

Banks will continue to face tight liquidity with additional monetary tightening in H2/11. Credit tightening will affect real estate developers and downstream suppliers as well as household spending on big ticket items. Small and medium-sized banks heavily exposed to RE are at risk. Currency appreciation will accelerate in H2/11. Despite challenges, medium-to long-term outlook remains positive. The regime is unlikely to face significant challenges to its position despite growing assertiveness from the middle class.

**Colombia****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010****(O)** – Neutral**Country risks**

Responsible economic management, improvements in productivity, debt profile, and the financial sector make Colombia a good candidate to continue receiving strong capital inflows and one of the best economic performers in the region over the medium to long term. Liquidity and access to USD is good and we do not expect a shortage of FX over the short term. The peso is experiencing upward pressures but government is implementing several measures to counter appreciation. The country was awarded investment grade in H1/11.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Costa Rica****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

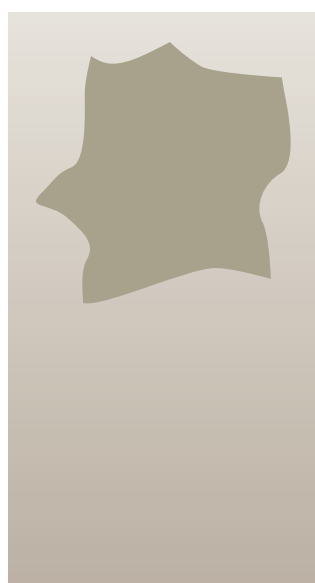
Open

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

Economic indicators released in 2010 point to increasing vulnerabilities over the medium to long term. Given its small size and open economy, the country felt the pinch from the international crisis earlier and with more severity than some of its neighbours. A high degree of dollarization and downward pressures on the currency are the main risks over the short term.

**Côte d'Ivoire****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms, but other terms will be considered

**Medium-long-term financing**

Sustainable lending conditions apply. Limited opportunity for sovereign support.

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

IMF judges the risk of external debt distress as high. The country is recovering from a political crisis in 2010 and early 2011. A government has been formed, although the transition is still underway. Sporadic violence remains a risk. The banking sector is recovering following the crisis during which financial transactions were halted. The government is dependent on the international community for financial support. Debt relief is expected to move forward in 2012 with the return of stability.



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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Croatia****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

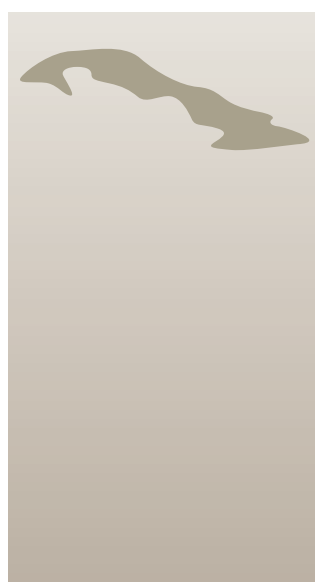
Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

Economic recovery continues to be elusive as domestic demand remains suppressed by high unemployment and deleveraging. Bank lending is slowing resuming, however tight credit conditions and elevated bankruptcy rates will persist throughout the year. The successful completion of EU accession negotiations puts Croatia on track to join the bloc in July 2013, and despite ongoing structural rigidities, this represents a significant boost to the medium-term economic outlook.

**Cuba****EDC Products****Account receivable insurance**

EDC does not currently provide Canadian exporters with direct credit insurance coverage under Accounts Receivable Insurance (ARI) or Contract Frustration Insurance (CFI) policies against the risk of non-payment by Cuban buyers or Cuban banks.

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(Ø) – Caution

**Country risks**

Long-standing arrears with ECAs persist. FX liquidity conditions have improved (following a disastrous 2008 and first half of 2009) but remain challenging. The government is reforming foreign investment policies, which has the potential to ameliorate long-term revenue and, in turn, liquidity conditions. Still, the economic outlook will remain weak until further signs of improved economic conditions emerge. While Obama is in office, slow progress on relations with the US will likely continue.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Czech Republic****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(0) – Neutral

**Country risks**

While growth has been accelerating, increasing downside risks are evident in the deteriorating economic and financial conditions in Western Europe. Sovereign debt metrics are favourable but have deteriorated sharply, and significant structural reforms in the areas of health and pension are necessary for medium-term sustainability.

**Dominican Republic****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(Ø) – Caution

**Country risks**

The country is prone to periodic liquidity issues but government solvency is not particularly problematic. The current IMF program will boost external liquidity, as well as implement an ambitious fiscal, economic and banking reform agenda. Economic and fiscal performance has been sluggish but much better than in many other Caribbean markets. The Dominican Republic's democracy is stable, but it is vulnerable to disruptions during administration turnovers. Presidential elections are due in May 2012.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Ecuador****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms, but other payment terms will be considered

**Medium-long-term financing**

Restrictive

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(0) – Neutral

**Country risks**

Pressures on external accounts have diminished, mitigating transfer risk and dollarization abandonment in the short term. Payment experience may be constrained by a weak financial sector, moderate economic growth and state-led regulatory changes in the commercial environment. President Correa is expected to serve out his mandate. Recent moves to concentrate power further in the executive could translate into more uncertainty for business, particularly for investors in extractive sectors.

**Egypt****EDC Products****Account receivable insurance**

Open case-by-case

**Medium-long-term financing**

Restrictive

**Political risk insurance**

Open

**EDC payment experience 2010**

(-) – Negative

**Country risks**

FX reserves of USD 26.5 billion cover slightly under 5 months of imports. Political uncertainty may prompt currency weakness. Commercial payment delays are anticipated. The fiscal shortfall will widen sharply, due to increased outlays and weaker tax revenues tied to lower growth, while the current account shortfall will widen due mainly to fewer tourist arrivals. Parliamentary elections will conclude by November 2011, but a new president will be chosen only in late 2012 or early 2013.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**El Salvador****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

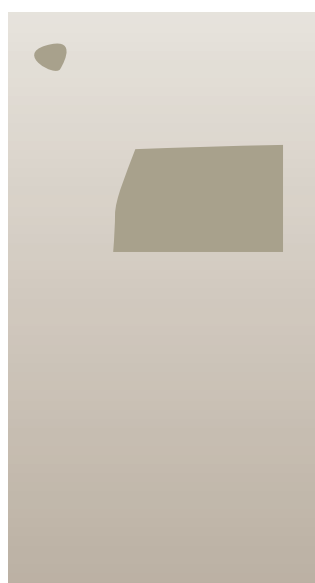
Open

**EDC payment experience 2010**

(0) – Neutral

**Country risks**

The country's dollarized economy will put pressure on the fiscal sector. The government's aim to consolidate fiscal accounts based on higher tax revenues, expenditure restraints and subsidy reform is expected to improve the public debt position. There is a risk of cash-flow issues affecting both the private and public sectors. We do not expect the country to abandon dollarization.

**Equatorial Guinea****EDC Products****Account receivable insurance**

Open case-by-case with preference to ILC terms, but other terms will be considered

**Medium-long-term financing**

IMF and sustainable lending conditions apply. Restrictive.

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

The economy remains highly dependent on oil. The government is spending in an attempt to diversify and the IMF remains concerned with its ability to fully cover the ambitious spending plans. While FX reserves are ample, payment delays are common. The common currency (CFA franc) provides a degree of currency stability. The government continues to face criticism over corruption, human rights and political repression; however, the president will remain in place for the foreseeable future.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Estonia****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium–long-term financing**

Open

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

As growth accelerates in 2011, efforts to maintain the strong budget culture that has become Estonia's trademark will be important. With the adoption of the euro on January 1 this year, external vulnerabilities have materially diminished, and exchange rate risk eliminated.

**Ethiopia****EDC Products****Account receivable insurance**

Open case-by-case on full range of payment terms

**Medium–long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

The IMF judges the risk of external debt distress to be moderate, and provided emergency funding. There are concerns with budget overruns. ECAs are reporting increased payment delays; the environment for foreign investors is challenging. FX reserves provide 2 months of import cover and currency weakening is likely. The ruling party's position will remain strong over the short term as the country emerges as an investment destination.



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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**France****EDC Products****Account receivable insurance**

Open

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Economic recovery has been weak and the growing debt crisis in Europe will potentially put pressure on the government to reduce deficits sooner than planned. French banks are among the most exposed to Greek government debt and thus have been proponents of the bailout package. Lending remains tight even though stress tests have shown French banks to be quite solid and well capitalized.

**Gabon****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Preference for sovereign transactions with Ministry of Finance guarantee

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

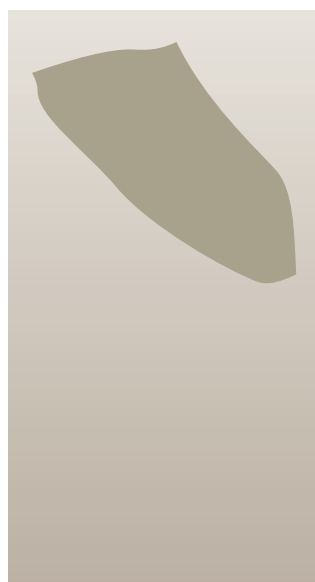
**Country risks**

The oil-dependent economy with the common currency (CFA franc) provides a degree of currency stability. FX reserves (USD 1.88 billion) provide ample coverage for import cover. Nevertheless, payment delays are being reported. Political stability was affected by the presidential succession in 2009, but the situation has since stabilized. General political and policy continuity is expected over the short term.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Georgia****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms, but other terms will be considered

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

Commercial operating conditions are improving in line with the economic recovery, and the banking sector is relatively healthy. Nevertheless, it is reported that cash-flow problems for companies are not uncommon and weak private capital inflows remain a key challenge. Significant progress on structural reforms has occurred, however vulnerabilities remain in the form of large external and fiscal imbalances. A successful Eurobond issue has eased the refinancing risks that loomed on the horizon.

**Germany****EDC Products****Account receivable insurance**

Open

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

Since 2010, German economic growth has been impressive but it is driven in large part by exports which are vulnerable to weakness among Eurozone trading partners. German business confidence has remained close to record highs following strong economic growth in the last two quarters. Payment experience remains excellent.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Ghana****EDC Products****Account receivable insurance**

Open case-by-case on a full range of payment terms

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

The onset of oil production in 2010 coupled with record-high gold prices have greatly boosted Ghana's economic output. That said, the IMF is concerned over government spending overruns. Ghana is one of the more stable African countries but short-term challenges include ensuring new oil wealth is well managed and managing heightened expectations among the citizenry seeking to benefit from oil production.

**Guinea****EDC Products****Account receivable insurance**

Open case-by-case with a strong preference for ILC terms, but other terms may be considered subject to strong risk mitigates.

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

Guinea is currently restoring stability following several years of crisis and military rule. As a result of the crisis, the IMF judges the country to be in external debt distress. The Fund program was suspended in 2009 but relations were restored in mid-2011. FX reserves of USD 100 million provide just 2 weeks of import cover. The country has enormous mineral potential which is likely to be unlocked in the coming few years conditional on continued improved political stability.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Haiti****EDC Products****Account receivable insurance**

Open case-by-case on a full range of payment terms

**Medium-long-term financing**

IMF conditions apply.

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

There is little in the way of any institutional oversight in the market due to weak governance and institutions. LIC country and is subject to sustainable lending principles. Newly elected President Martelly has minimal representation in congress, posing challenges to the legislative process. Political tensions may be on the rise with the return to Haiti of Aristide and Duvalier, but for the foreseeable future recovering from the earthquake will be of higher concern.

**Hong Kong****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

**(O)** – Neutral

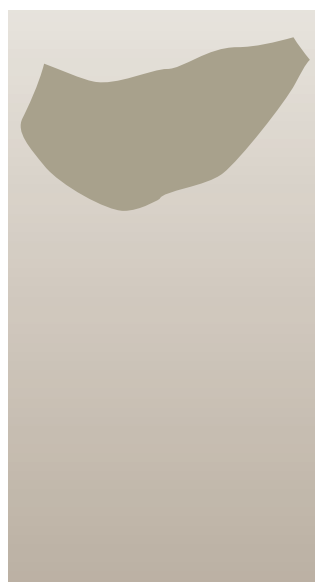
**Country risks**

Growth will slow markedly going forward as monetary and credit tightening starts to bite, and external demand slows. The use of renminbi to settle imports is gaining prominence, but mostly in trade with mainland China. The HKD is expected to remain pegged to the USD for the time being. The medium- to long-term outlook remains favourable thanks to a very strong external position, very limited public debt and a flexible economy. Access to foreign liquidity is very easy with substantial FX reserves.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Hungary****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(0) – Neutral

**Country risks**

Tight credit conditions will persist throughout 2011 as the new tax damages banks' profitability; several foreign-owned banks will be exiting the market. Servicing FX-denominated loans continues to be onerous as the Swiss franc soars, and non-performing loans in both the corporate and household sector will continue to climb. Recently announced fiscal consolidation plans, if implemented, will improve the medium-term fiscal outlook which is overshadowed by large public sector debt load.

**India****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(-) – Negative

**Country risks**

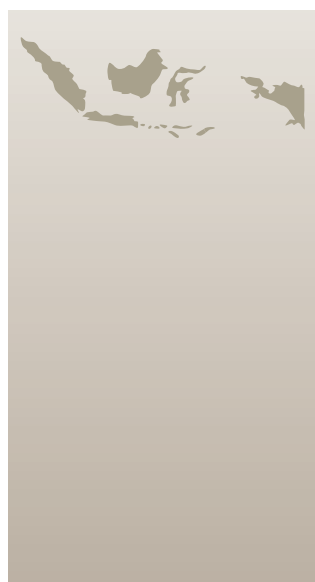
Greater payment delays have recently been reported, and recent monetary and credit tightening will only accentuate them going forward. Access to foreign liquidity remains strong with FX reserves in excess of USD 290 billion. The uncertain global environment and balance of payment vulnerabilities puts the currency at risk of volatility/depreciation in 2011 and 2012. The uncertain domestic political situation has nearly halted reforms and new infrastructure projects, which will put a dent in medium- to long-term growth.



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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Indonesia****EDC Products****Account receivable insurance**

Open case-by-case on full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Strong growth is set to continue driven by healthy domestic demand, increasing international investor interest, and demand for commodities. Credit to the private sector is growing and interest rates have held steady at 6.75% as core inflation appears contained and exchange rate appreciation has been moderate despite upward pressure on IDR from capital inflows. Public and external vulnerabilities remain low and FX reserves are at a record USD 118 billion end-July.

**Iraq****EDC Products****Account receivable insurance**

Open case-by-case with a strong preference for ILC terms, but other terms may be considered subject to strong risk mitigates

**Medium-long-term financing**

Restrictive

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

Near-term debt sustainability has improved due to the USD 3.7 billion IMF Standby agreement. Commercial borrowers should see improved access to FX. Import cover is about 15 months. Longer-term growth and debt sustainability is improving – according to key economic indicators. High political violence levels are unlikely to decrease further with most attacks occurring in central Iraq. IOCs will continue increasing production levels in the south.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Israel****EDC Products****Account receivable insurance**

Open

**Medium-long-term financing**

Open

**Political risk insurance**

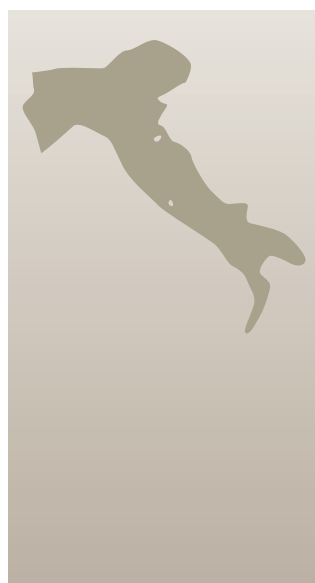
Open

**EDC payment experience 2010**

(0) – Neutral

**Country risks**

The shekel will post a gradual weakening through 2012. FX reserves are USD 66 billion and represent 10 months of import cover. Payment delays should be minor on commercial transactions. GDP growth will ease in 2011, following the rebound of 2010 and growth will remain below the more rapid pace set in the 2004-08 boom years.

**Italy****EDC Products****Account receivable insurance**

Open

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(-) – Negative

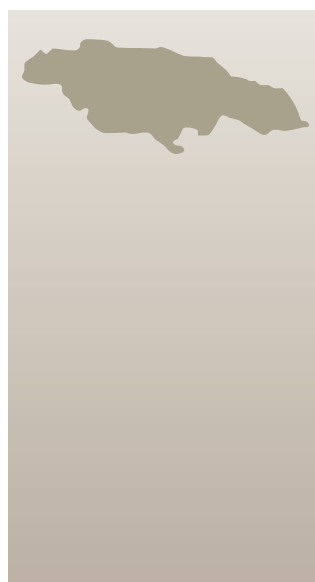
**Country risks**

Contagion from the sovereign debt crisis has spread to Italy and some banks have difficulty accessing international funds. The European Monetary Union has masked structural weakness in the Italian economy and government debt/GDP is over 120%. Economic recovery will be weak as external demand from the rest of the EU remains subdued. Payments to exporters abroad continue to be slow.

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## 5.2 Payment Risk Maps

**Jamaica****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open

**EDC payment experience 2010****(O)** – Neutral**Country risks**

Private sector growth prospects are modest. Successful restructuring of domestically held sovereign debt, along with IMF program, significantly reduced liquidity risks; however, solvency remains challenged as interest costs continue at high levels. Commercial credit risks are moderating, but banks should be monitored for signs of distress. Prime Minister Golding's unpopularity due to the impact of fiscal consolidation demonstrates the unlikelihood he will be re-elected in 2012.

**Japan****EDC Products****Account receivable insurance**

Open

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010****(O)** – Neutral**Country risks**

A return to growth is expected in Q3 as supply chains and production resumes, and reconstruction accelerates. However, growth will remain anaemic due to falling real estate prices, unfavourable demographics, deflation, and electricity shortfalls. The timid steps proposed to address the government's debt, now above 200% of GDP, are insufficient. Continued yen appreciation is squeezing profit margins, with a heavier impact on small exporters in low value-added sectors.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Jordan****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open with preference for a Ministry of Finance's guarantee

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

The currency peg to the USD provides stability – and FX reserves of USD 10 billion provide 8 months of import cover. However, food inflation could drive overall CPI higher in 2011. GDP growth will recover further in 2011 alongside the gentle global rebound. Fiscal outlays are likely to increase – specifically on social programs – as the authorities tread a careful path to address demonstrators' concerns.

**Kazakhstan****EDC Products****Account receivable insurance**

Open case-by-case on a full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open

**EDC payment experience 2010**

(Ø) – Caution

**Country risks**

The economy is benefiting from strong commodity prices and the associated FDI inflows, and will outperform regional peers. Nevertheless, domestic demand will continue to be constrained by a weak credit environment. Government balances have swung sharply into surplus, yet the fiscal picture is highly dependent on commodity prices. Overall political stability is generally assured in the short term. However, the lack of any succession planning poses an ongoing risk to long-term policy continuity.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Kenya****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium–long-term financing**

IMF and sustainable lending conditions apply. Open with preference for a Ministry of Finance's guarantee.

**Political risk insurance**

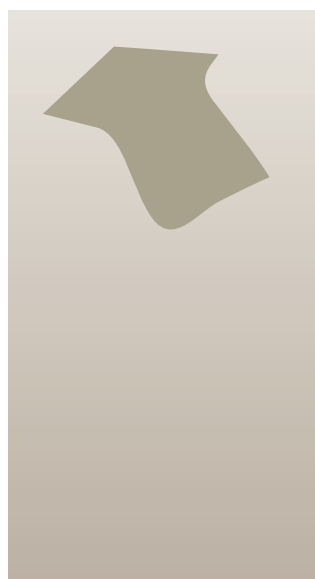
Open

**EDC payment experience 2010**

No information

**Country risks**

A loose IMF policy is lifting economic prospects. Tourism and FDI should gradually improve. FX reserves provide 3 months of import cover, and stronger agricultural prices would support a stronger shilling. Relative political stability is expected until the 2012 elections, but close monitoring is warranted. The last elections were accompanied by violence. Pro-market reforms are underway but might be delayed by a crowded legislative agenda and political tensions within the coalition government.

**Kuwait****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium–long-term financing**

Open with preference for a Ministry of Finance guarantee

**Political risk insurance**

Open

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

The central bank remains committed to the GCC currency union. Until then, the dinar will be allowed to float. FX reserves are USD 17.6 billion, or 7.5 months of import cover. Parliamentary deadlock continues to slow down start-up of mega projects.



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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Kyrgyzstan****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms, but other terms will be considered

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

Donor support helped stabilize the economy following the political crisis last year, and a new IMF program has recently been approved. Overall economic conditions remain critical with rising poverty levels, yawning trade and fiscal deficits and very poor governance all weighing on commercial conditions. The banking sector is recovering from the strain of the crisis and the NPL ratio has been reportedly stable. The political situation remains fragile and the risk of renewed instability is elevated.

**Lebanon****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms, but other terms will be considered.

**Medium-long-term financing**

Restrictive

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

While large current account shortfalls continue to be funded, government debt at 150% of GDP remains problematic alongside persistent government deficits of 9% of GDP. Despite economic crisis and weak numbers, the country continues to raise sufficient capital to service its debt. The pound peg to the USD will remain in place. CA deficits are large, but are still financed by workers' remittances and FDI inflows. Payment delays are common.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Libya****EDC Products****Account receivable insurance**

Highly restricted

**Medium-long-term financing**

Highly restricted

**Political risk insurance**

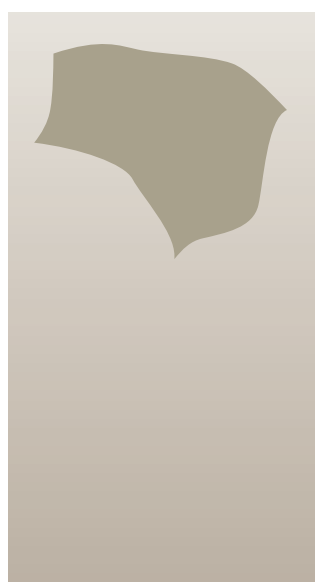
Highly restricted

**EDC payment experience 2010**

No information

**Country risks**

The post-Gaddafi transition will be challenging as the National Transitional Council attempts to consolidate control over Libya. Oil production levels are unlikely to return to pre-civil conflict levels for at least another year and the security situation could continue to be unstable due to power conflicts between rebel factions. Sanctions and asset freezes imposed by Canada, the EU, UN and US on the former regime will have to be lifted to facilitate business. Payment risks remain high.

**Lithuania****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open case-by-case

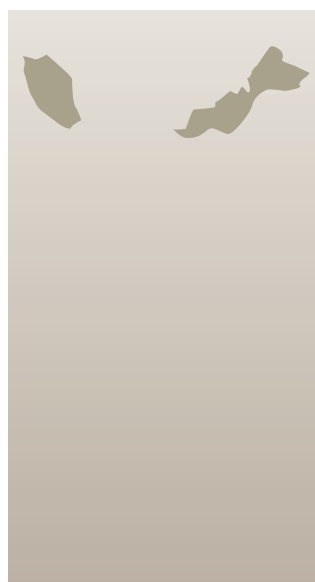
**EDC payment experience 2010****(O)** – Neutral**Country risks**

Economic growth is beginning to accelerate as domestic demand picks up steam, even in the face of still-high unemployment. The weak recovery is having a negative impact on public finances and the government's budget deficit will remain stubbornly high at 6% in 2011. Spill-over effects from the sovereign debt crisis in the EMU pose a material downside risk, as the country is heavily reliant on external financing. Euro adoption is unlikely before 2016.

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## 5.2 Payment Risk Maps

**Malaysia****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

As expected, the economy continues to slow, partly driven by lower industrial production due to supply chain disruptions brought on by the Japanese earthquake. Still, real GDP is expected to grow 5% in 2011. Inflation and the appreciation of the ringgit are manageable. Access to FX liquidity remains good with reserves at USD 131 billion end-May. FDI is rebounding (USD 7 billion in 2010), but far below Malaysia's ambitious "Economic Transformation Program" (ETP) targets.

**Mali****EDC Products****Account receivable insurance**

Open case-by-case on a full range of payment terms

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

Mali's program with the IMF will come to an end in 2011 and for the most part the country met its requirements. That said, donor support is still needed as the economy remains exposed to fluctuations in commodity prices. The common currency (CFA franc) provides a degree of currency stability. FX reserves of USD 1.48 billion provide roughly 6 months of import cover.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Mauritania****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

An IMF program and donor support will strengthen creditor confidence. FX reserves are low at USD 200 million, or just one month of import cover; this should improve as mining investments come on-line. Commercial payment delays are likely. Mauritania has experienced instability in recent years with several military coups. In spite of recent unrest inspired by events in North Africa, the government is expected to remain in power over the short term. Parts of the country experience sporadic violence.

**Mauritius****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open with preference for a Ministry of Finance guarantee

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

Longer-term prospects expected to improve with the recovery of key FX earners (tourism, textiles). Donor support is also providing a helping hand. FX reserves are about USD 1.98 billion, providing 4-5 months of import cover. Currency depreciation is likely in 2011 and 2012. Key export earning sectors were sideswiped by the global downturn, and remain sensitive to shifts in sentiment in the industrial economies.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Mexico****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(-) – Negative

**Country risks**

Long-term economic prospects linked to US economy. Country is investment grade but rating faces challenges such as maintaining oil production and a weak government revenue base. Economic conditions are favourable but some softening in growth in line with a weaker outlook for the US. Electoral politics will dominate for the first half of 2012 and legislative paralysis has set in. The opposition PRI is likely to win the presidency and could also control the next legislature.

**Moldova****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms

**Medium-long-term financing**

IMF conditions apply.

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

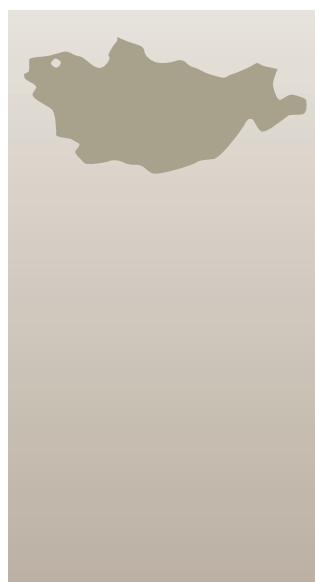
The economy has recovered to pre-recession levels thanks to improving external conditions; higher growth will serve to narrow the fiscal deficit while worsening the trade deficit and significant structural weakness continue to expose the country to downside risks. Access to financing via the IMF support package is expected to be maintained through next year and provides a buffer should external conditions deteriorate. Public debt is moderate but is weighed down by contingent liabilities.



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**Mongolia****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

The economy will continue to expand at a rapid pace with new mining developments, but local currency, economy and fiscal revenues remain susceptible to commodity price swings and slowdown in China demand. The trade deficit has expanded but is supported by mining FDI. FX reserves now exceed USD 2.4 billion, or 5 months of import cover. Poor quality assets in the banking sector remain, but overall situation continues to improve.

**Morocco****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open with preference for a Ministry of Finance guarantee

**Political risk insurance**

Open

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

The current account deficit will persist in 2011 as weaker growth in the EU continues to dampen export potential and tourist arrivals. FX reserves of USD 20 billion provide an ample 6-7 months of import cover. In an effort to address the concerns of demonstrators, the government introduced a reformed constitution and has increased social spending.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Mozambique****EDC Products****Account receivable insurance**

Open case-by-case on a full range of payment terms

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

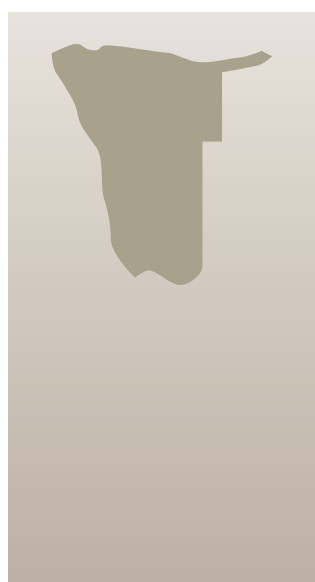
Open

**EDC payment experience 2010**

No information

**Country risks**

Donor support has boosted longer-term prospects, while infrastructural shortcomings are being addressed. Aluminum prices are key to the outlook. The currency appears overvalued, hinting at a commodity price-driven correction. Commercial payment delays are common, though FX reserves provide 7 months of import cover. The political environment is stable and investor confidence is strengthening. Corruption and bureaucracy continue to detract. Expect subsidies to be phased out.

**Namibia****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open with preference for a Ministry of Finance guarantee

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

The recent recovery of copper and diamond prices are positive for growth and export earnings. The outlook for South Africa and international tourist arrivals are the other keys to economic stability. The currency is pegged to the South African rand and we anticipate the peg will remain in place for the next 12-24 months. Inflation pressures are still evident – increasing the risk of a central bank tightening.

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## 5.2 Payment Risk Maps

**Netherlands****EDC Products****Account receivable insurance**

Open

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(0) – Neutral

**Country risks**

Deficit spending is projected out to 2014; however, with very low public debt going into the crisis, debt/GDP is expected to reach just 73% by 2014. Growth will be weak in 2011. Domestic credit conditions remain tight, but are improving. Excellent payment experience.

**Nigeria****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms

**Medium-long-term financing**

Sustainable lending conditions apply.

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

Growth has continued to rebound in 2011. The country's oil dependence is problematic given ongoing unrest in the oil-producing Niger Delta and continued regulatory uncertainty in the oil sector. Payment delays are typical amid a lack of transparency and corruption. FX reserves are ample. 2011 election results will spell policy continuity in the short term. Ongoing challenges include addressing ethno-religious tensions, particularly in the north, and ongoing banking sector reform.

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**Oman****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open with preference for a Ministry of Finance guarantee

**Political risk insurance**

Open

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

The currency peg is expected to remain in place for the coming year or so. FX reserves of USD 13 billion provide ample import cover at 7 months. Despite a narrowing of the current account surplus, payment delays should not be an issue given the country's resources. Economic output should recover a notch in 2011, though remain below levels seen in 2000-08. Government spending on social programs and job creation will likely rise this year to respond to small protests in Q1.

**Pakistan****EDC Products****Account receivable insurance**

Open with restrictions, preference for secure terms

**Medium-long-term financing**

Restrictive, IMF conditions apply.

**Political risk insurance**

Off cover

**EDC payment experience 2010**

**(O)** – Neutral

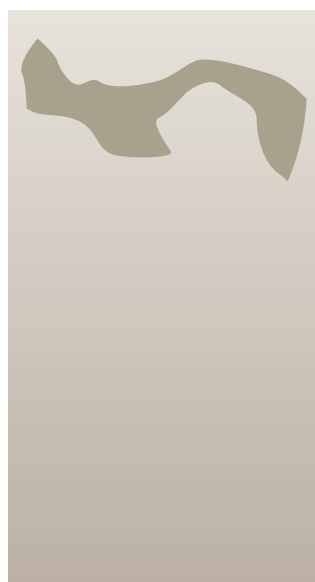
**Country risks**

Access to bilateral and multilateral funding has become limited with the widening Pakistan/US political rift and multilateral banks withholding funds until the government expands its tax base. The private sector is under severe pressure from high inflation and frequent electricity shortages. Average payment delays are 100+ days. The coalition government's main goal is to stay in power amidst rising tensions within Pakistani society. Security in parts of the country can be very challenging.

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## 5.2 Payment Risk Maps

**Panama****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

The law of fiscal responsibility has been modified to allow for counter-cyclical fiscal policy. The sovereign's solvency ratios are expected to improve over the medium to long term. The construction sector has started to show signs of a rebound. Still, caution advised with banks with high exposure to that sector.

**Peru****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Strong economic fundamentals and good debt management should result in better growth and solvency ratios than the regional average over the medium to long term. Liquidity remains good. EDC does not expect a shortage of USD, a drastic movement in the currency or liquidity issues that will severely affect the private sector's accounts. President Ollanta Humala has reassured investors by maintaining policy continuity. The challenge of responding to popular demands remains.

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## 5.2 Payment Risk Maps

**Philippines****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010****(O)** – Neutral**Country risks**

The potential slowdown in the global economy will compound the current weakening of export growth. Despite this weakness, access to FX liquidity (with foreign reserves at USD 61.4 billion end-June) remain healthy. Ongoing fiscal consolidation efforts are bearing fruit. NPLs are at lows of 2.8% as of August 2011. Strong capital inflows, although a positive, may prompt further policy tightening following a 50 Bps hike in H1/11. GDP growth is expected to be in line with regional peers at 5% in 2011.

**Poland****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010****(O)** – Neutral**Country risks**

Robust export growth and stable domestic demand have fostered a favourable environment for companies; however, downsides risks are growing in line with deteriorating conditions in the EMU. Fiscal performance has been impressive and the 3% deficit target by 2013 should be achieved. Euro adoption unlikely before 2015.



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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Portugal****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium–long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

The economy will have to undertake some painful structural adjustments in order to address its lack of competitiveness and bring its debt under control. The July 2011 bailout package will likely extend repayment tenors out by up to 30 years; however, Portugal's economy will remain in recession through 2011 and 2012. Payment experience has been slow.

**Qatar****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium–long-term financing**

Open with preference for a Ministry of Finance guarantee

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

FX reserves are up over 80% from a year ago, and at USD 23 billion cover 10 months of imports. Massive investments in natural gas production mean sustained current account surpluses for the coming years – providing ample payment capacity. Economic activity remains buoyant. Natural gas output continues to rise – driving current account and government surpluses. Government investment in infrastructure is also a key driver. A key challenge is to prevent overheating or bubbles in real estate.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Romania****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010****(0)** – Neutral**Country risks**

Economic growth has finally returned as domestic demand emerges from the painful austerity of the past 2 years. The country is exposed to deteriorating conditions in Greece, however, due to significant financial linkages. A successor IMF loan approved in the spring will be treated as precautionary and will focus on structural reforms, including increasing the capacity to absorb EU transfer funds and restructuring the energy and transportation sectors.

**Russia****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010****(-)** – Negative**Country risks**

Local companies' payment capacity has improved along with ameliorating credit conditions and growing FX reserves. While economic growth is firming, the current account surplus is shrinking, and will flip into deficit before the end of 2011; capital outflows have jumped reflecting uncertainty around the upcoming elections. Low public sector debt levels and robust energy prices point to low sovereign risk over the near term; however, the growing reliance on energy revenues is cause for concern.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Saudi Arabia****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open with preference for a Ministry of Finance guarantee

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

FX reserves of USD 411 billion provide 2-3 months of import cover and are complemented by sizable sovereign wealth funds. The exchange rate peg will hold for the coming 12-24 months. Longer-term growth prospects are intact. Government spending will offset the impact of weaker oil earnings. The government remains flush with cash and neither liquidity nor solvency concerns are evident at this stage, while recent bouts of civil unrest in the region will prompt the government to boost social spending.

**Senegal****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Export revenues are recovering. Senegal successfully completed its IMF program recently but a follow-up facility is likely. Commercial payment delays, particularly for FX and bank-related payments, are common. FX reserves (USD 1.95 billion) provide 5 months of import cover. Senegal has experienced recent unrest and this is expected to continue. This is driven by the population's economic grievances and the president's low levels of popularity. Elections in 2012 are likely to be accompanied by unrest.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Singapore****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium–long-term financing**

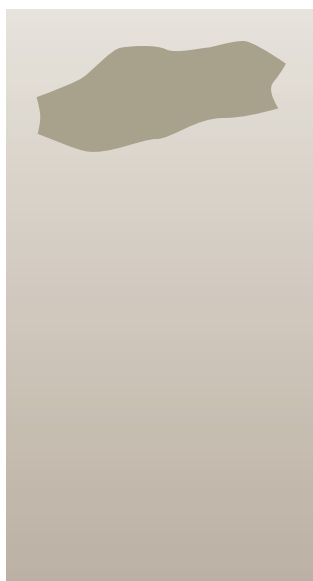
Open

**Political risk insurance**

Open

**EDC payment experience 2010****(O)** – Neutral**Country risks**

Singapore's real GDP growth will be adversely affected with rising global economic uncertainties. The SGD is up 13% y/y against the USD and will see further upward pressure as inflationary pressure persists. As a result, additional monetary tightening is expected going forward. Despite slowing manufacturing and export trade volumes, the real estate sector will grow, although a correction is anticipated. FX liquidity is not an issue with over USD 200 billion in reserves.

**Slovakia****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium–long-term financing**

Open

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010****(O)** – Neutral**Country risks**

The recovery, which has been robust to date, should slow marginally in H2/11, as weakening demand conditions in Europe set in. Further austerity will be needed to get the large budget deficit within acceptable range. As a member of the European Monetary Union, FX risk has been eliminated.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**South Africa****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010****(O)** – Neutral**Country risks**

Prospects for a recovery remain – though global trends still drive the outlook. Rand strength is tied to gold prices and investor appetite for USD. The perceived failure of the government to provide basic services will continue to test support for the ruling party. This could force the adoption of a greater nationalistic stance, which we have partially seen in the mining sector. But, South Africa remains the continent's leading investment destination.

**South Korea****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010****(O)** – Neutral**Country risks**

Banks' delinquency ratios have been increasing but remain manageable. Construction, real estate and shipbuilding are particularly affected by the appreciating currency and rising input costs. Greater currency and stock market volatility could emerge should tensions with North Korea flare up again. Banks are still dependent on short-term external credit, but substantial FX reserves provide a strong buffer. The medium- to long-term outlook remains broadly positive but exports will be affected by sluggish G3 demand.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Spain****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

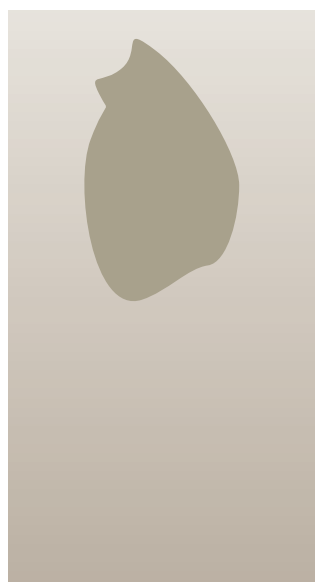
Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

The Spanish economy is struggling with severe unemployment (20%) and a depressed housing market which has caused significant losses for the banking sector, estimated at €181 billion in “troubled” construction and real estate loans. The economy will remain weak in 2011 with GDP growth forecast at an anaemic 0.5% this year. Payment experience has been reported as fair, with some buyers “stretching” receivables payments to conserve cash.

**Sri Lanka****EDC Products****Account receivable insurance**

Open case-by-case on a full range of payment terms

**Medium-long-term financing**

Restrictive, IMF conditions apply.

**Political risk insurance**

Restrictive

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Greater trade account deficit is being offset by higher remittances and tourism receipts, both of which could weaken rapidly if the global environment deteriorates. Access to foreign liquidity remains adequate with FX reserves of USD 6.6 billion and IMF support. Private sector access to credit is often difficult with rising bank NPL and high government borrowing crowding out private sector. The medium- to long-term economic outlook is positive with peace dividend and reconstruction activity boosting investment.



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## 5.2 Payment Risk Maps

**Syria****EDC Products****Account receivable insurance**

Highly restricted

**Medium-long-term financing**

Highly restricted

**Political risk insurance**

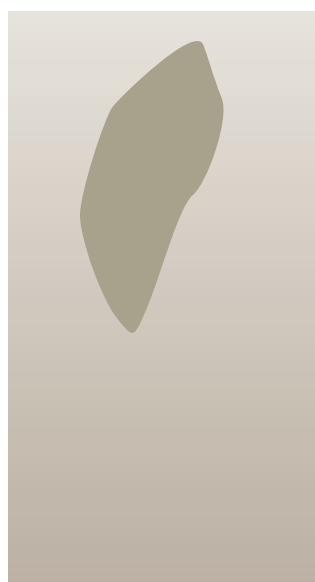
Highly restricted

**EDC payment experience 2010**

No information

**Country risks**

As a result of a violent government crackdown on popular protests, trade flows have been negatively affected and Syria is facing economic sanctions. GDP growth projections are down and the relatively high FX reserves of USD 11 billion in March 2011 are decreasing. Transfer and convertibility risk is also heightening.

**Taiwan****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Not offered under the "One China" policy

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010****(O)** – Neutral**Country risks**

Access to credit and foreign liquidity remains adequate. Despite manageable inflation, authorities will continue to tighten monetary policy in H2/11 to stave off a property bubble. The rise in bankruptcies will further exacerbate due to tighter credit. Real economic growth is expected at 5.2% in 2011. Weaker external demand from key export markets will slow growth into 2012, but improving trade and economic ties with China will help the domestic economy in both the short and medium to long term.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Tajikistan****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

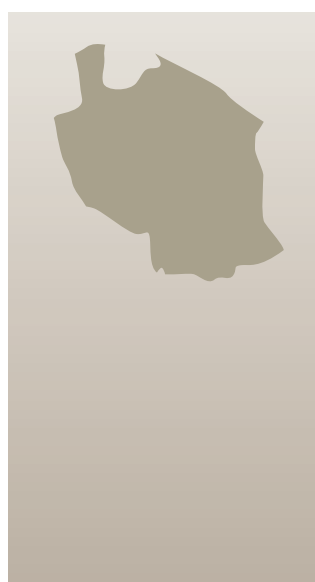
Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

Businesses operating in Tajikistan face a difficult business environment; payment performance among local companies is poor and transfer delays are likely to remain significant. Tajikistan is a sustainable lending LIC, heavily reliant on foreign aid to cover its financing needs. Economic mismanagement is acute. The somoni will continue to appreciate as remittance inflows from Russia recover. The availability of hard currency is very limited and import cover is weak.

**Tanzania****EDC Products****Account receivable insurance**

Open on a full range of payment terms, but ILC preferred

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

Infrastructure spending will continue into 2012 assisted by IMF support. Fund concerns centre on budgetary overruns. Current account deficits remain despite record gold prices. A currency weakening is likely due to a reversal in gold prices. Expect some payment delays. The political outlook is stable largely due to the dominance of the ruling party, but growing pains could emerge. Certain mining sector projects have faced controversy for political, environmental and/or human rights concerns.

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## 5.2 Payment Risk Maps

**Thailand****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

The non-violent elections and smooth transition of power bodes well for near-term business environment confidence. The new government's populist plans to ease access to credit, increase social welfare programs and initiate infrastructure development will benefit the domestic economy, but counter central bank efforts to curb inflation. Credit growth, especially given softening demand from key export markets, will slow down. Access to foreign liquidity remains sound at USD 179 billion.

**Trinidad & Tobago****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

**(O)** – Neutral

**Country risks**

Non-energy sectors are weak and persistent drains on the fiscal position are slowing diversification efforts. International reserves stand at high levels but are reliant on commodity exports, posing a risk on potential revenues and, in turn, cash flow. New leadership in Trinidad & Tobago has brought hopes for reduced corruption and political infighting; however, much progress is needed to meet the challenges posed by declining oil and gas production. Drug-related crime is a rising concern.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Tunisia****EDC Products****Account receivable insurance**

Open case-by-case

**Medium-long-term financing**

Restrictive

**Political risk insurance**

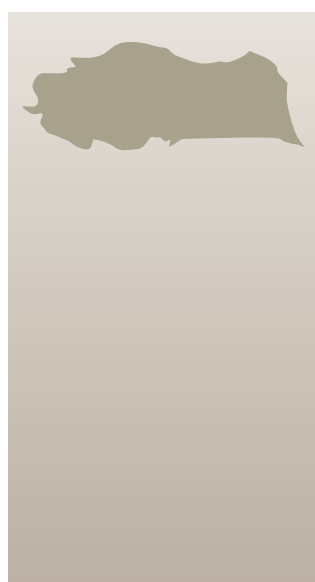
Open case-by-case

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Growth, trade, tourism and capital flows will not recover from the January revolution and the Libyan crisis this year. Ongoing strikes in the mining sector and uncertainty about the political environment have hit exports and FDI hard. The current account shortfall is widening, though the external and total public debt remain manageable. Constitutional assembly elections will take place in October but presidential and parliamentary elections are likely to take place in late 2012 at the earliest.

**Turkey****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Concerns around overheating, including inflationary pressure, will put pressure on fiscal and monetary authorities to move into a tightening stance by the end of 2011. The above-target economic performance has been a boon for government revenues; however, the increasingly pro-cyclical fiscal policy will further fuel price pressures and capital inflows. The AKP secured a third term in office in recent elections, signifying policy continuity ahead and a continuation of pro-business policies.

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## 5.2 Payment Risk Maps

**Turkmenistan****EDC Products****Account receivable insurance**

Open case-by-case with a strong preference for ILC terms, but other terms may be considered subject to strong risk mitigants

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

**Country risks**

The economic outlook is robust driven by higher public spending, favourable external conditions and untapped hydrocarbon reserves. Commercial risks, however, remain very high due to endemic corruption, an onerous tax regime, problems with FX conversion and pervasive government involvement in the economy. Despite growing energy-related revenues, the sovereign risk profile is constrained by lack of transparency and the centralized approach to economic management.

**Uganda****EDC Products****Account receivable insurance**

Open case-by-case on full range of payment terms

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

**Country risks**

FDI and donor support finance the current account. The CA gap will widen on the strength of a domestic economic recovery. FX reserves cover 5 months of imports and with transfers rebounding currency weakness is not expected. There has been some political unrest, but overall stability is expected over the short term. Uganda's medium- to long-term political environment will be shaped by the way in which the government deals with increased political opposition.

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## 5.2 Payment Risk Maps

**Ukraine****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium–long-term financing**

IMF conditions apply.

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(Ø) – Caution

**Country risks**

The economy continues to recover, supported by reviving domestic demand and improving credit conditions. Deteriorating conditions in Europe, however, pose downside risks and the banking sector remains vulnerable. Public debt levels remain manageable yet the sustainability of public finances rests on further significant structural reforms. Government access to financial markets has been restored; however, ongoing IMF support is critical to the currency and debt sustainability outlook.

**United Arab Emirates****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium–long-term financing**

Open with preference for a Ministry of Finance guarantee

**Political risk insurance**

Open

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Ratings remain unchanged for the UAE federation as a whole. Oil-rich emirate Abu Dhabi remains in excellent economic shape, but risk for Dubai commercial entities remains elevated. FX reserves of the UAE are USD 33 billion. There is little popular pressure for political reform, and major political change is highly unlikely in the short term.



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## 5.2 Payment Risk Maps

**United Kingdom****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

**EDC payment experience 2010****(0)** – Neutral**Country risks**

British economic growth remains weak and there are concerns about the economic impacts of austerity measures. In October 2010, the UK announced the largest cuts in British history, estimated at £81 billion over the next 4 years, which may have a dampening effect on growth. Financing conditions remain poor and many small and medium-sized businesses report difficulty in accessing credit. However, payment experience is generally quite good, with only a few negative reports.

**United States****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open

**Political risk insurance**

Open

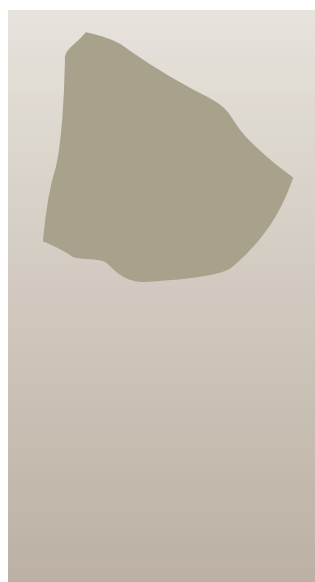
**EDC payment experience 2010****(+)** – Positive**Country risks**

US economic growth has been weaker than expected; consumers are still reluctant to spend because of a soft housing market and real estate prices which continue to decline. Nevertheless, US business is doing extremely well: corporate profits hit an all-time high of \$1.9 trillion in Q1/11 and corporations are holding just under \$1 trillion of cash. Payment experience in the US is positive and has improved of late because of the stellar performance of US business.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Uruguay****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

The government is aiming to reform public sector and economic policy in order to reduce financial vulnerabilities in the medium to long term, including further de-dollarization. Payment performance is currently supported by a stable macroeconomic environment and strong liquidity. Expect some currency volatility as a result of uncertainty about global demand. The economy's high level of dollarization should, however, invite authorities to protect private balance sheets from experiencing net losses.

**Uzbekistan****EDC Products****Account receivable insurance**

Open case-by-case with preference for ILC terms, but other payment terms will be considered.

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

No information

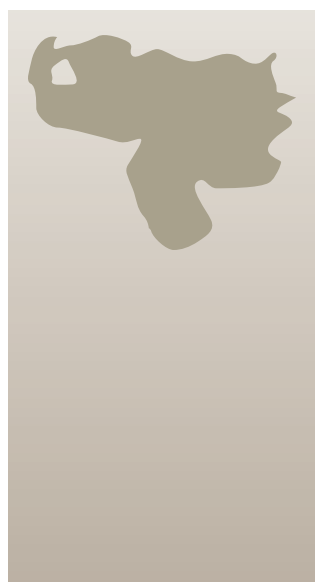
**Country risks**

Macroeconomic vulnerabilities will persist due to reliance on commodities and lack of diversification. Credit risks remain high due to pervasive government involvement in the economy, onerous tax regime and extremely high corruption levels. Exchange and import controls are highly restrictive, and currency convertibility is problematic. Government debt levels are low and the small fiscal deficit planned for 2011 will provide some much-needed infrastructure investment.

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## 5.1 Experience and Attitude

## 5.2 Payment Risk Maps

**Venezuela****EDC Products****Account receivable insurance**

Open case-by-case on a full range of payment terms subject to the certain restrictions.

**Medium-long-term financing**

Restrictive

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(Ø) – Caution

**Country risks**

In January 2011, the government devalued the currency for the second time in 2 years, leading commercial entities to face increased cost in accessing USD. Although USD accessibility has temporarily improved, supplies in the medium to long term are still expected to remain strained in all dollar markets (SITME, CADIVI). Chavez has extended and accelerated the implementation of nationalist policies and its posture toward the private sector remains arbitrary.

**Vietnam****EDC Products****Account receivable insurance**

Open on a full range of payment terms

**Medium-long-term financing**

Open case-by-case

**Political risk insurance**

Open case-by-case

**EDC payment experience 2010**

(O) – Neutral

**Country risks**

Authorities continue to face challenges to manage macroeconomic vulnerabilities; attempts to curb mounting inflation or fix trade and fiscal deficits continue with no concrete results. The dong will continue to face downward pressure despite multiple rounds of devaluations. Payment experience to deteriorate in 2011 and into 2012 and tighter credit conditions will put additional pressure on smaller firms. FX liquidity is limited (USD 13.5 billion end-May), and there is import cover of only 5-7 weeks.

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## 5.2 Payment Risk Maps

**Yemen****EDC Products****Account receivable insurance**

Highly restricted

**Medium-long-term financing**

Highly restricted

**Political risk insurance**

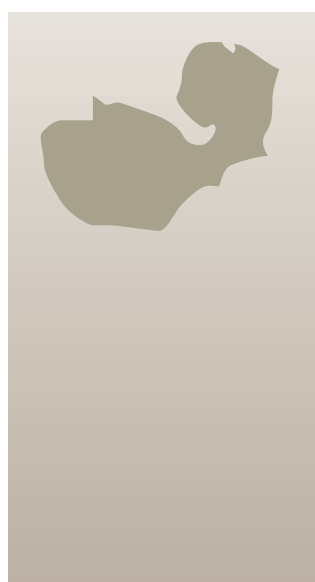
Highly restricted

**EDC payment experience 2010**

No information

**Country risks**

The country remains in a governance crisis, with opposition groups still pitted against the president who is convalescing in Saudi Arabia from a June assassination attempt. Armed groups are exploiting the security vacuum. Oil and gas exports have continued, but local supplies were disrupted for months by a pipeline attack. FX reserves have likely dipped to under USD 5 billion and will continue declining. External debt distress is deemed high by the IMF; external payments capacity has decreased.

**Zambia****EDC Products****Account receivable insurance**

Open case-by-case on full range of payment terms

**Medium-long-term financing**

IMF and sustainable lending conditions apply.

**Political risk insurance**

Open

**EDC payment experience 2010**

No information

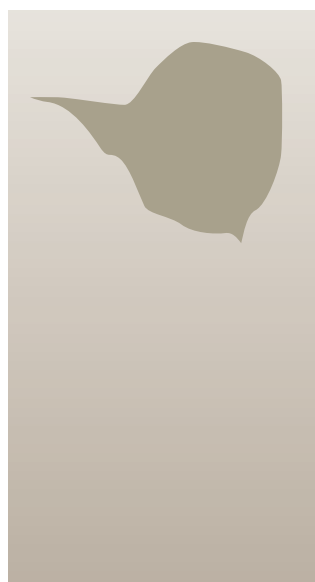
**Country risks**

The rebound in copper earnings (prices) helped drive an export recovery. The IMF has commended Zambia's performance under the current program throughout the global slump. FX reserves provide about 5 months of import cover. Strong copper and gold prices support the currency, but a weakening cannot be ruled out. The ruling party and president will likely remain in power, providing policy continuity. Zambia remains a key destination for mining sector investment.

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**Zimbabwe*****EDC Products*****Account receivable insurance**

Off-cover

**Medium-long-term financing**

Off-cover

**Political risk insurance**

Off-cover

**EDC payment experience 2010**

No information

**Country risks**

FX reserves are critically low at USD 8 million – latest report for end-2010. Current account deficits are massive. Payment delays are common. IFI re-engagement is needed to clear arrears. Zimbabwe is going through a political transition at the moment and political risks (including political violence) are expected to intensify through 2012. The medium- to long-term outlook is dependent on how the succession plays out following the expected departure of President Mugabe in the coming 1-3 years.

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## 5.2 Payment Risk Maps

## Latin America

## Short-term payment risk





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**Caribbean****Short-term payment risk**

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**Asia/Pacific****Short-term payment risk**

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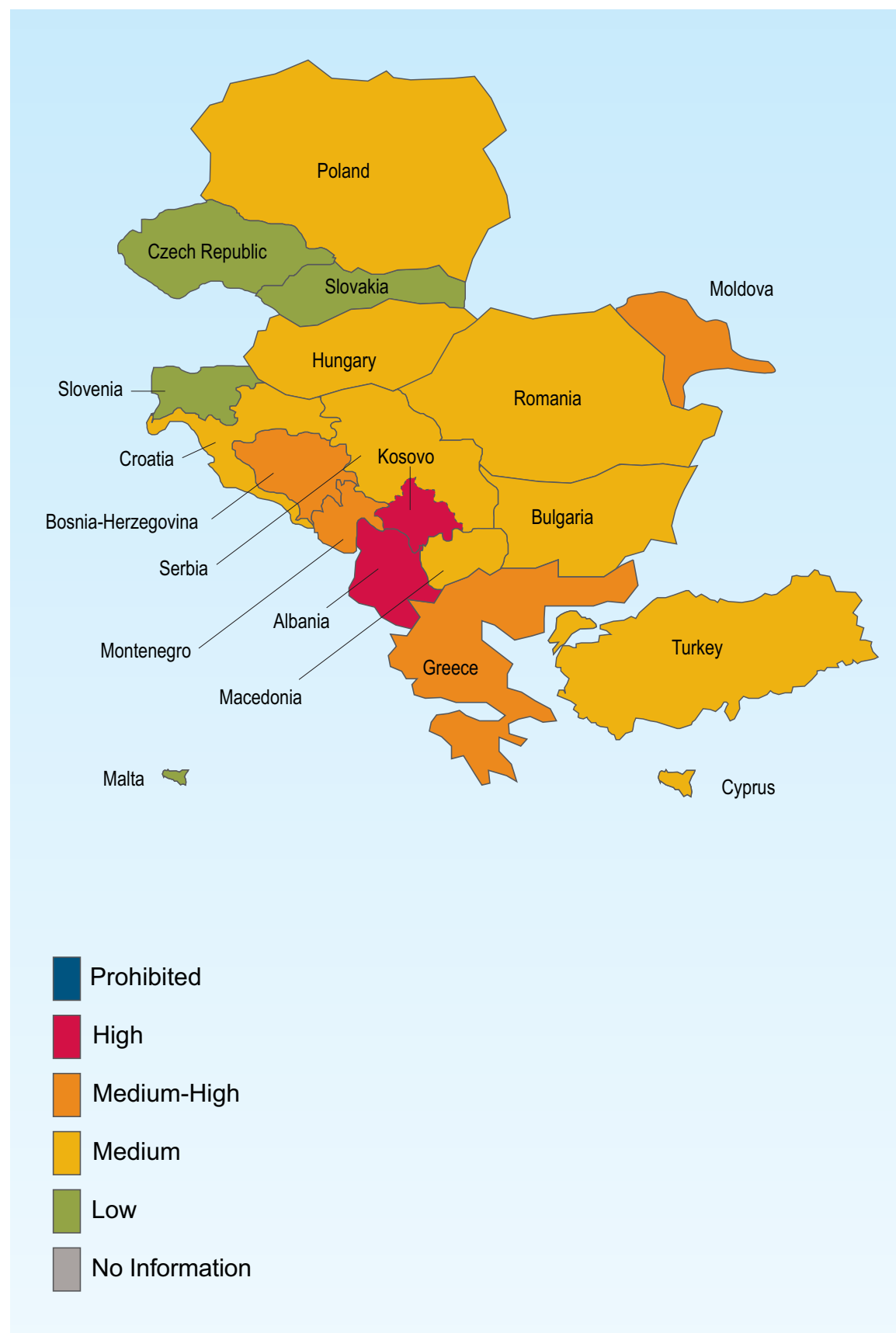
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### Short-term payment risk



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**Former Soviet Union****Short-term payment risk**

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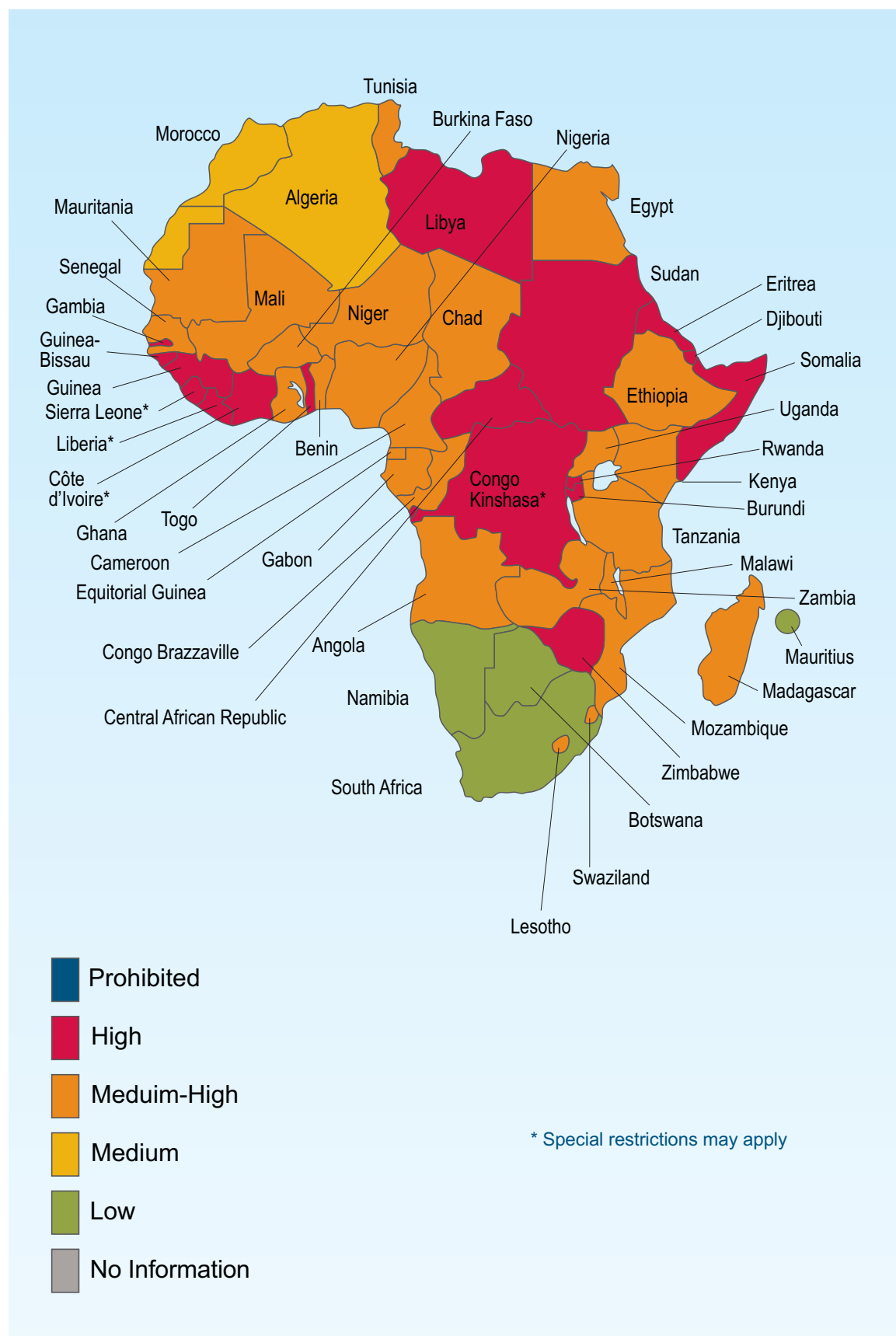
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## Africa

## Short-term payment risk





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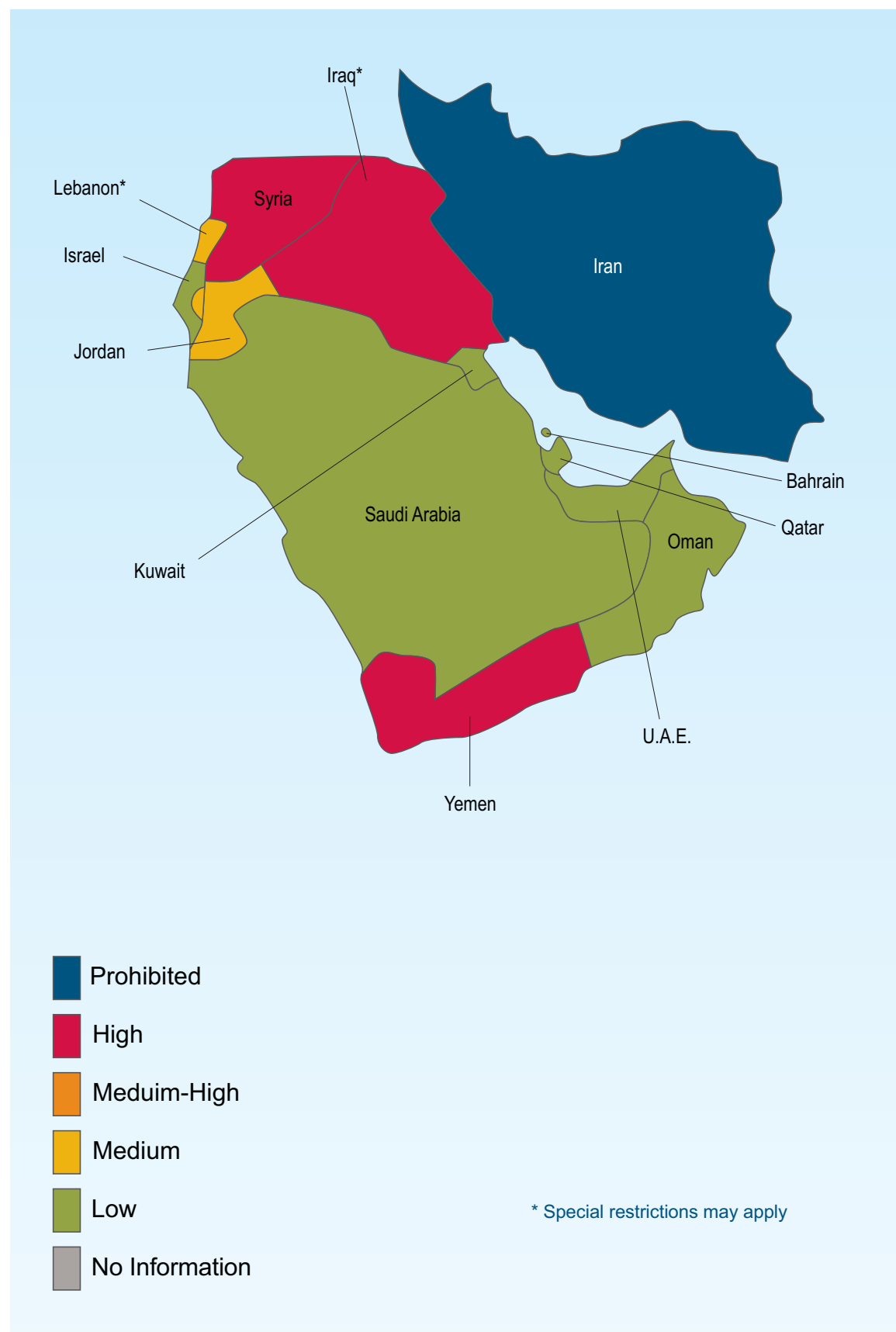
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**Middle East****Short-term payment risk**

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## Medium- &amp; long-term payment risks



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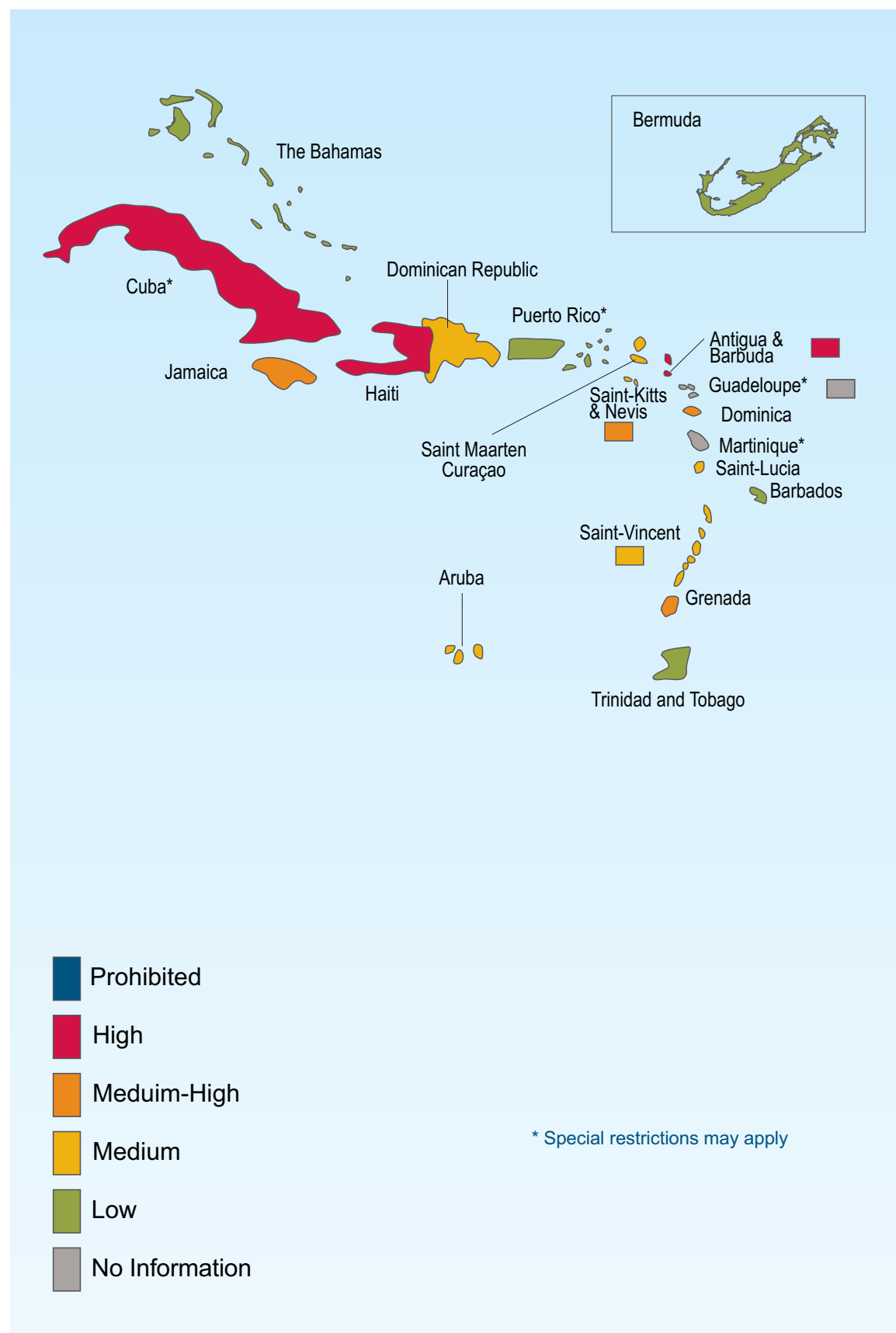
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**Caribbean****Medium- & long-term payment risks**

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**Asia/Pacific****Medium- & long-term payment risks**

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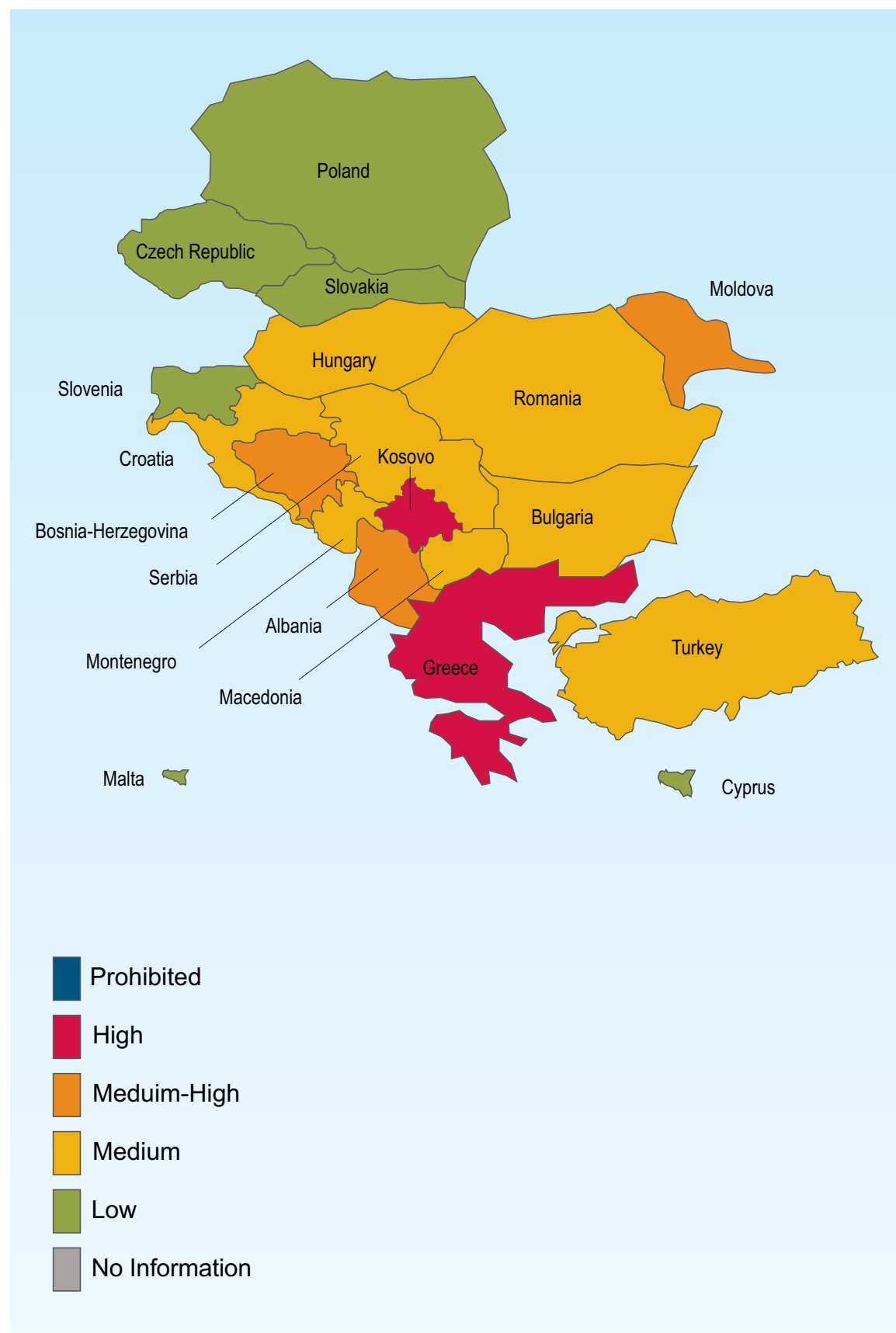
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### Medium- & long-term payment risks



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### Medium- & long-term payment risks



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**Former Soviet Union****Medium- & long-term payment risks**



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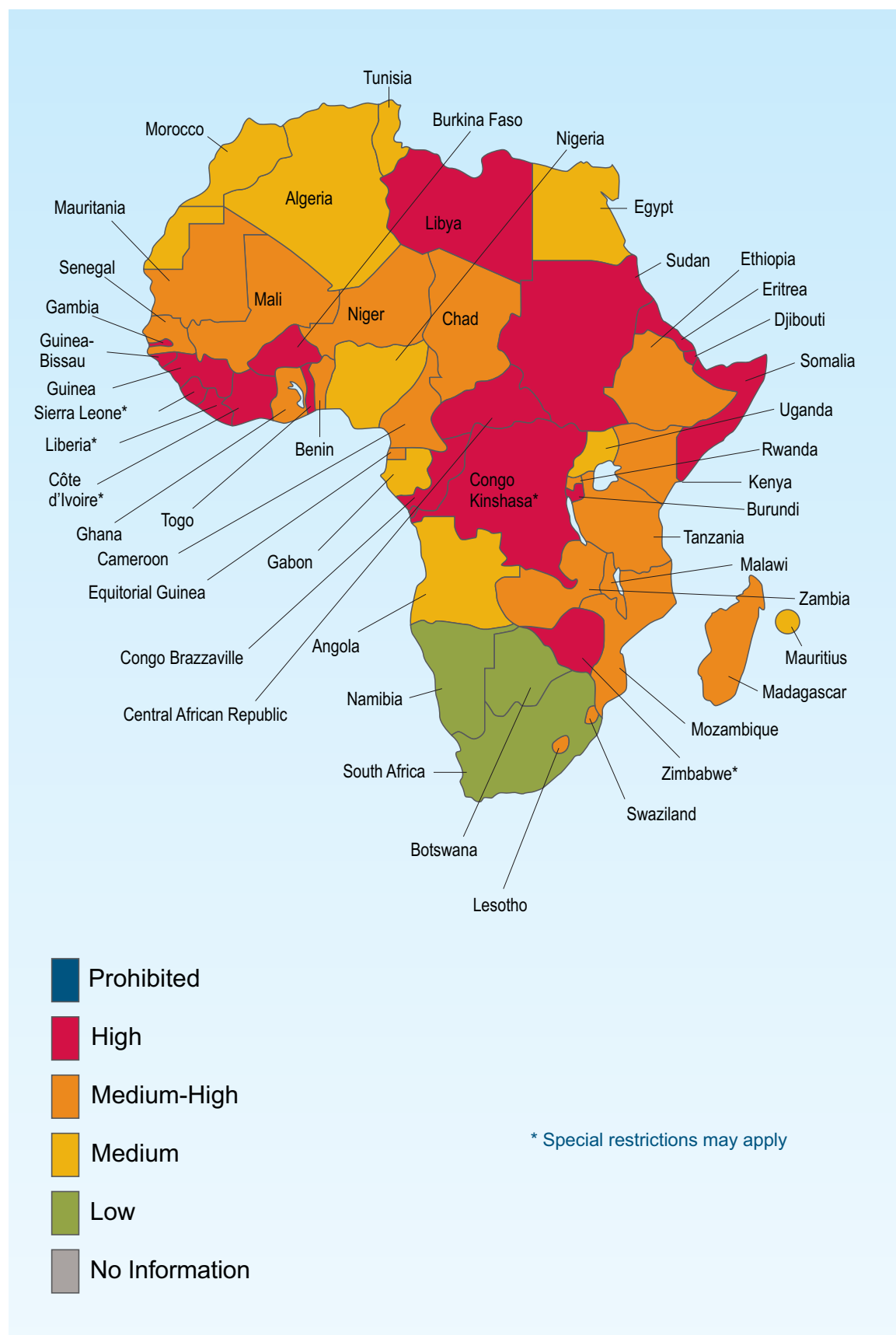
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**Africa****Medium- & long-term payment risks**

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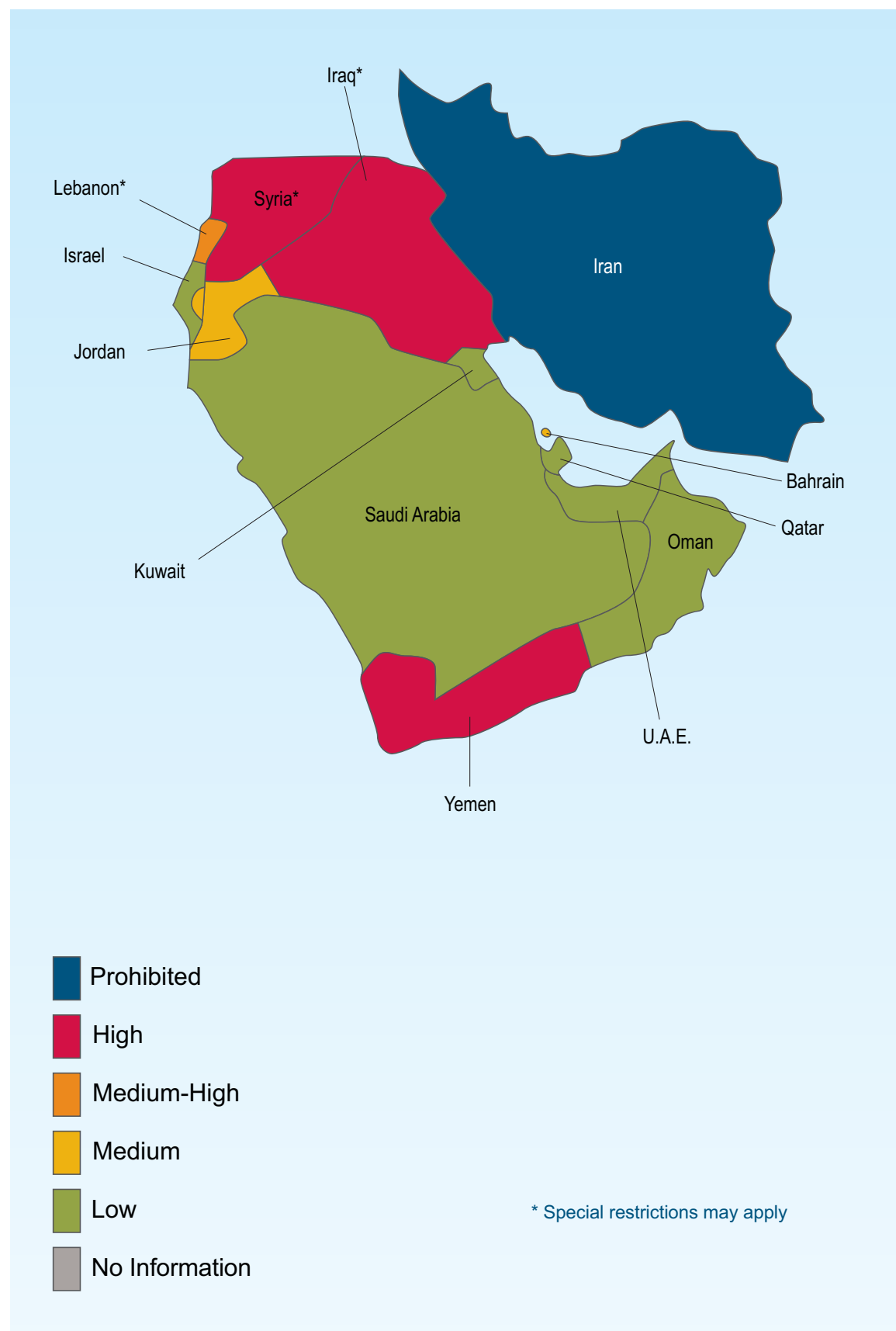
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**Middle East****Medium- & long-term payment risks**

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## Other Services from EDC Economics

### Export Performance Monitor

The Export Performance Monitor is a monthly publication which tracks recent movements in Canadian exports by industry and geographic market. The monitor also assesses EDC's main export forecast, which is produced twice yearly.

### Commodity Analyst

The Commodity Analyst is monthly report on activity in the principal commodity markets. The report includes commentary on the short-term outlook as well as charts and tables highlighting recent trends.

### Commodity Tracker

The Commodity Tracker is a weekly table of commodity prices and economic indicators related to activity in the commodity markets that are most relevant to Canadian exporters.

### Weekly Commentary by Peter G. Hall

Short, intuitive insights into this week's hot economic issues.

### Country Snapshots

[Canada Country Overview](#)

[US Country Overview](#)

[Brazil Country Overview](#)

[Mexico Country Overview](#)

[China Country Overview](#)

[India Country Overview](#)

[Russia Country Overview](#)

This assessment is valid at date of issue but always subject to review.  
Please contact the EDC Economics Division for current position.

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