Overview

Canada's International Business Strategy

1997-1998

Team Canada • Équipe Canada

CANADA'S INTERNATIONAL BUSINESS STRATEGY (CIBS)

Canada's International Business Strategy (CIBS) is at the heart of the Team Canada approach to doing business in the global marketplace. It sets out the international business development strategies for 27 industry sectors.

Strategies that have the greatest chance of success are those that are developed by federal and provincial governments in close collaboration with industry. They must reflect industry's priorities, and incorporate a careful assessment of Canadian strengths and worldwide opportunities.

The sector strategies are the basis upon which the federal and provincial governments will allocate a considerable portion of their international business development resources. Each strategy identifies the primary objectives that government and industry will pursue to help Canadian firms capture emerging global trade, technology and investment opportunities. These objectives, in turn, determine which specific international events and initiatives receive government support.

Individual sector strategies are the product of National Sector Teams (NSTs), groups that bring both private- and public-sector expertise to bear on a range of business issues. NST involvement in the development of CIBS ensures that government initiatives reflect the real needs of Canadian industry. By co-ordinating federal, provincial and industry planning, CIBS reduces overlap and duplication, and directs government resources where they can genuinely make a difference.

This year, two new sectors are included as integral parts of CIBS: Aboriginal Products and Services; and Construction, Architectural and Engineering Services. A further step, under development, will provide greater focus on sectors offering particular opportunities. Action plans for these sectors will be brought forward in the coming months.

CIBS includes:

- Volume 1, the CIBS Overview, consists of two parts: a Strategic Overview summarizing Canada's main international business development and trade policy objectives; and a Geographic Overview identifying key challenges, priorities and opportunities within each of the world's major geographic regions. Also included is a complete list of Canada's International Trade Centres, from which firms can obtain a variety of services related to doing business abroad.
- Volume 2, Industry Sector Strategies, sets forth the main challenges identified by the NSTs in pursuing international business opportunities, and the strategic directions that government and industry will follow for emerging global trade, technology and investment opportunities. The full text of each strategy, including a brief profile of Canadian capabilities and a snapshot of the international market, is available in electronic format or by fax. Please see pg. 16 for details.
- The CIBS Compendium — International Activities: Federal and provincial governments have agreed to use the sector strategies as a basis for the allocation of resources. A continually updated list of activities designed to implement the sector strategies — known as the evergreen CIBS Compendium — is posted on the Internet. Canadian companies are invited to participate in these events, and are encouraged to contact the department or agency listed for details. The activity lists in abbreviated format, updated quarterly, are also available by fax-back. See pg. 16 for details.

We want to hear from you!

CIBS is continually being revised in response to feedback from clients. Your views on how CIBS can be improved are important. If you have comments or questions, or want to find out how to become more actively involved in the CIBS process, please contact the CIBS Working Group at:

Tel: (613) 996-1814
Fax: (613) 996-9265
e-mail: strategy.cib@extott16.x400.gc.ca

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All monetary figures in this document are expressed in Canadian dollars unless otherwise indicated.

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Acronyms and Initialisms used in *Canada's International Business Strategy*

(This list does not include sector-specific references)

ACM	apparent Canadian market
APEC	Asia-Pacific Economic Cooperation forum
ASEAN	Association of Southeast Asian Nations
BDBC	Business Development Bank of Canada
BOOT	build, own, operate, transfer
BOT	build, operate, transfer
CBSC	Canada Business Service Centre
CCC	Canadian Commercial Corporation
CIBS	Canada's International Business Strategy
CIDA	Canadian International Development Agency
CSA	Canadian Space Agency
DFAIT	Department of Foreign Affairs and International Trade
DND	Department of National Defence
EBRB	European Bank for Reconstruction and Development
EC	Environment Canada
EDC	Export Development Corporation
EDI	Electronic Data Interchange
EU	European Union
FDI	Foreign Direct Investment
FIPA	Foreign Investment Protection Agreement
FITT	Forum for International Trade Training
FTA	Canada-U.S. Free Trade Agreement
FTAA	Free Trade Agreement of the Americas
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
HRDC	Human Resources Development Canada
IBOC	International Business Opportunities Centre
IC	Industry Canada
IFI	international financial institution
IMF	International Monetary Fund
ISO	International Organization for Standardization
ITAC	International Trade Advisory Committee
ITC	International Trade Centre
MAPAQ	Ministry of Agriculture, Fisheries and Food of Quebec
MNE	multinational enterprise
MOU	Memorandum of Understanding
MRA	Mutual Recognition Agreement
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NEBS	New Exporters to Border States
NEXOS	New Exporters Overseas
NRC	National Research Council
NRCan	Natural Resources Canada
NST	National Sector Team
OAS	Organization of American States
OBS	Open Bidding Service
OECD	Organization for Economic Co-operation and Development
PEMD	Program for Export Market Development
R&D	research and development
S&T	science and technology
SAGIT	Sectoral Advisory Group on International Trade
SIC	Standard Industrial Classification
SMEs	small and medium-sized enterprises
TC	Transport Canada
WTO	World Trade Organization

EXECUTIVE SUMMARY

The Government of Canada has clearly identified the promotion of jobs and growth as one of the main objectives in the conduct of its international relations in the years ahead. This is a priority shared by federal, provincial/territorial and municipal governments, as well as by industry — the "Team Canada" partners.

In pursuit of the first of these objectives, the federal government launched a new international business development strategy in October 1995 to help Canadian business capture global market opportunities while creating jobs at home. This Jobs Strategy is also intended to build strong partnerships among the three levels of government and the private sector; to attract and retain investment in all regions of Canada; to ensure that maximum benefit is derived from available resources; and to eliminate overlap and duplication among governments in supporting international business development.

The principal component of the Jobs Strategy is ensuring that Canada's economy can grow, thereby encouraging job creation. In pursuing the Strategy, the government's objective is to create an environment in which Canadian business can flourish; a climate that will result in more competitive industries and the creation of more jobs, so that all Canadians will benefit.

The Strategy addresses both immediate and long-term job-creation needs, and focusses on partnerships at all levels. It has several key components, which together provide the necessary ingredients for success: getting the economic fundamentals right; focussing on priority sectors (e.g. youth, trade and technology); and making maximum use of government programs and services.

Trade development is another key element of the Jobs Strategy. Increased trade means new and better jobs for Canadians — it is estimated that for every $1 billion of exports, 11 000 Canadian jobs are created or sustained. Although Canada is a highly successful trading nation, only 100 companies account for over half of the country's total exports. Thus, the government is committed to encouraging and assisting Canadian companies to enter the international business arena. To this end, the government has set a goal of doubling the number of active Canadian exporters by the year 2000.

A key element of the Jobs Strategy is its focus on Canadian small and medium-sized enterprises (SMEs). Recent data confirm that smaller firms create the vast majority of new jobs in Canada. They are also central to government efforts to broaden Canada's trade, technology and investment relations to fast-growing markets worldwide. Indeed, exports are critical to Canada's economic and social well-being, and serve as the engine that is driving Canada's economy.

Canada's International Business Strategy (CIBS) is an integral part of the federal government's international business development efforts, and is a vehicle through which Canadian companies can begin or expand their exporting efforts. Through direct and active consultation between governments and the private sector, CIBS provides Canadian industry with a real opportunity to influence the government's international business strategies and priorities. At the same time, CIBS works to streamline the allocation of resources and to rationalize federal (and increasingly provincial) international initiatives. CIBS will also play an important role in the government's first commitment to departmental sustainable development (SD) strategies. As it prepares its SD strategy, the Department of Foreign Affairs and International Trade (DFAIT) will look at ways to help Canadian exporters — SMEs in particular — to better understand and respond to new environmental imperatives, and to ensure continued access to key export markets.

This strategic overview complements the 27 sector strategies, jointly developed by government and industry, that constitute the main component of CIBS. An abbreviated version of the sector strategies appears as Part II of this document. These strategies lay out the government's broad trade policy and international business development priorities.

International Business Development Priorities

International Business Promotion

To help Canadian firms capture global market opportunities, the federal government is working to:

- strengthen and expand Team Canada partnerships;
- fully use the combined private- and public-sector expertise to be found in the National Sector Teams (NSTs);
- increase the number of exporting SMEs; and
- broaden Canada's trade, technology and investment relations beyond traditional markets to other fast-growing regions of the world.

The Trade Commissioner Service is a key element in the government's business development programs and strategies, and efforts will continue to improve the Service's ability to gather and disseminate market information and intelligence.

Investment Development

Canada depends on international capital to finance a significant proportion of its economic development. Today, more than 1.3 million Canadian jobs (1 in 10), more than 50 percent of total exports, and 75 percent of manufacturing exports can be directly attributed to foreign direct investment (FDI) in Canada. It is also estimated that 22 percent of jobs in Canada are indirectly attributed to FDI. The attraction of international business investment is, therefore, a core objective of Canada's foreign policy; it is, moreover, a critical element in the government's Jobs Strategy.

To meet this challenge, the Government of Canada has adopted a new investment strategy that seeks to increase Canada's global share of inward FDI, which has declined in recent years. This strategy consists of five elements:

- marketing Canada's advantages as an international investment site to decision makers of international companies;
- targeting specific multinational enterprises (MNEs) in priority sectors, to attract new investment and to facilitate the retention and expansion of existing investments;
- helping more Canadian SMEs to grow through international investment partnerships;
- addressing those factors in Canada's investment climate that are of concern to investors or that represent a comparative disadvantage vis-à-vis competing jurisdictions; and
- building new partnerships to attract and retain investment in Canada across all levels of government and the private sector.

Science and Technology

Canadian companies contribute to and benefit from ready access to worldwide scientific and technological knowledge and world-class process and product technology. Participation in international initiatives based on science and technology (S&T), including research and development (R&D) and standards setting, also encourages firms to innovate, thereby contributing to wealth creation and, more generally, enhancing the quality of life in Canada.

The government's main S&T objectives, as outlined in the federal S&T strategy, include sustainable wealth and job creation. In an international business context, one main element is supporting and enhancing the global performance of Canadian SMEs. To this end, a number of initiatives will be pursued to promote R&D, S&T co-operation, and technology acquisition and dissemination. Federal departments and agencies will refine their strategies to promote international S&T collaboration and to gather and disseminate international S&T intelligence more effectively.

Trade Policy Priorities

Managing the Canada-U.S. Economic Relationship

Canada's economic relationship with the United States remains the most complex and substantial among any two countries in the world. Managing this relationship must therefore remain Canada's chief trade and economic policy priority.

While the overall Canada-U.S. relationship has been extremely positive, continued vigilance is needed to defend Canadian interests. The government will continue to focus on resolving any contentious issues that may arise between the two countries.

Canada attaches a high priority to finding solutions that reduce the possibility of disputes with the U.S. concerning such perennial issues as subsidies, dumping and the operation of trade remedy laws regarding such practices. Through advocacy and coalition building, it will attempt to create a positive climate for change.

One of Canada's key interests in managing its economic relationship with the United States is to ensure that Canadian businesses take full advantage of the opportunities offered by the U.S. marketplace and, in particular, its demands for a broad variety of high-technology goods and services.

Establishing an Effective World Trade Organization

The federal government supports the full and effective implementation of the World Trade Organization (WTO) agreements. To this end, Canada seeks to reinforce the WTO as a strong, credible and transparent rules-based institution capable of overseeing the operation of the multilateral trading system and conducting multilateral negotiations.

Other priorities include monitoring and, where possible, accelerating the implementation of the Uruguay Round agreements, and preparing for WTO negotiations in a number of new areas, such as investment and competition policy.

Improving International Rules Governing Foreign Direct Investment and Anti-competitive Behaviour

Canada will continue to pursue a "multi-track" strategy to improve international rules governing FDI and anti-competitive practices. This strategy involves negotiating new bilateral foreign investment protection agreements (FIPAs) with developing countries and economies in transition; pursuing negotiations on a multilateral agreement on investment; and encouraging greater vigilance regarding the anti-competitive actions of large multinational firms.

Widening Canada's Network of Free Trade Partners

The federal government will continue to widen Canada's network of free trade partners and improve market access for Canadian exporters. This objective is being pursued within the context of the North American Free Trade Agreement (NAFTA), the Free Trade Agreement of the Americas (FTAA), the Asia-Pacific Economic Cooperation (APEC) forum and the WTO.

The governments of Canada and Chile have reached a bilateral free trade agreement that will facilitate Chile's eventual accession to the NAFTA. Moreover, in December 1994, leaders of 34 countries agreed that the FTAA should be negotiated by 2005.

The Canada-Israel Free Trade Agreement was signed on July 31, 1996. The agreement will allow duty-free access to each other's markets for industrial goods. Implementation of the Agreement is scheduled for January 1, 1997.

In 1997, Canada will serve as chair of the APEC forum. Throughout the year, Canada will be responsible for advancing APEC's trade and investment liberalization agenda and, in particular, will aggressively pursue the 1994 commitment of APEC leaders to establish free trade in Asia-Pacific by 2020.

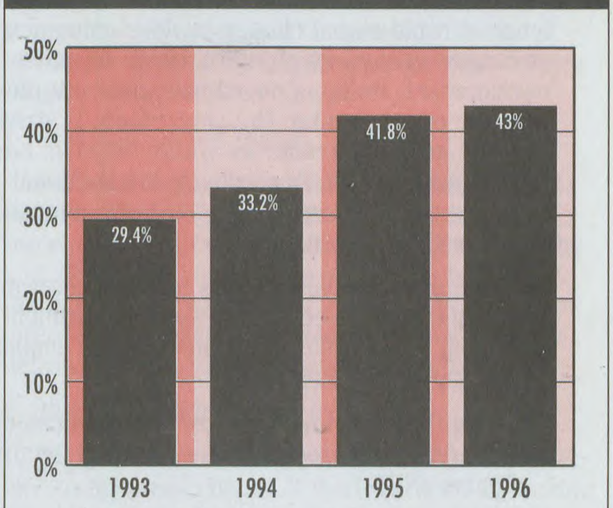
Similarly, opportunities to build stronger ties with the European Union (EU) are being addressed. Within this context, Canada will continue to press for further trade and investment liberalization across the Atlantic, leading to eventual trans-atlantic free trade.

INTRODUCTION: TEAM CANADA. WORKING TOGETHER, WE ARE TAKING ON THE WORLD

The promotion of economic growth and employment will remain one of the main objectives of Canada's foreign policy in the years ahead. Key to the pursuit of this goal is enhancing Canada's ability to compete in international markets.

Exports of goods and services currently account for more than 37 percent of Canada's gross domestic product (GDP), the highest in the Group of Seven leading industrialized nations (G-7). Already, some three million working Canadians (one out of every three) owe their jobs to Canada's success in the global marketplace. It is estimated that every $1 billion in exports creates or sustains 11 000 jobs in Canada.

Figure 1
Exports of Goods and Services as % of GDP
Canada, 1993-1996



(1996 data are from Jan-June)

Source: Statistics Canada

The Trade Commissioner Service continues to be a primary element of the government's international business development agenda. Moreover, efforts will continue to enhance the abilities of Canada's trade commissioners to gather and disseminate market information and intelligence.

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To help Canadians succeed in international markets and to create jobs in Canada, the government launched a new international business development strategy in October 1995, designed to help Canadian businesses capture emerging market opportunities. This Jobs Strategy is designed to build strong partnerships among the three levels of government and the private sector, which together comprise "Team Canada"; to attract and retain investment in all regions of Canada; to ensure that maximum benefit is derived from available resources; and to eliminate overlap and duplication among governments in supporting international business development. Team Canada initiatives include identifying Canadian companies and helping them to become export ready by providing market intelligence, sales leads, business contacts and country- and sector-specific analyses.

Small and medium-sized enterprises (SMEs) are central to the government's efforts to broaden Canada's trade, technology and investment relations with fast-growing markets worldwide. Indeed, a major goal of the Jobs Strategy is to double the number of active Canadian exporters by the year 2000.

Implicit in the Team Canada approach is the recognition that it is the private sector — not the government — that is the ultimate generator of wealth. Individual Canadians and firms are the innovators, the inventors, the investors and the creators of new jobs. This is the true spirit of Team Canada — Canadians helping each other to succeed in international markets. The government, however, has a clear responsibility to establish a fiscal, economic and policy framework that is conducive to wealth and job creation, and that will support Canadian industry and Canadian entrepreneurs as they operate in an increasingly competitive global marketplace.

Canada's International Business Strategy (CIBS) has become the vehicle for articulating and co-ordinating a national strategy for international business development, effectively guiding the allocation of federal international business development resources. By encouraging direct and active consultation between governments and the private sector, CIBS provides Canadian industry with a real opportunity to influence the government's international business strategies and priorities.

This strategic overview is intended to complement the 27 sector strategies, jointly developed by government and industry, that constitute the main component of CIBS. Its purpose is to lay out Canada's broad international business priorities as identified under two main headings: International Business Development, and Trade Policy.

International Business Development Priorities

The Jobs Strategy

The overriding purpose of the government's international business development plans is to provide employment for Canadians.

The government has been working to establish an economic climate that promotes job creation and helps Canadian companies to take advantage of emerging international business opportunities. The Jobs Strategy, an action plan involving the resources and energy of every government department, is a partnership among federal, provincial and municipal governments, business and non-governmental organizations (NGOs). Its aim is to co-ordinate efforts to create more and better jobs for Canadians. In particular, it focusses on youth, trade, technology and infrastructure — four key areas in which government involvement with the private sector can make a difference.

With one in three Canadian jobs dependent on exports, a critical component of the Jobs Strategy is to encourage more Canadian firms to export, and in particular, to actively support SMEs in their international business efforts.

The Prime Minister's Team Canada trade missions abroad provide an example of the positive results that can be achieved through co-ordinated effort. These missions are particularly important in the delivery of the trade and investment elements of the government's Jobs Strategy.

Moreover, the government will maintain its policy of encouraging and helping Canadian businesses to obtain leading-edge technologies. Such technologies are conducive to significant product innovation, and allow Canadian firms to capitalize on opportunities in the global marketplace.

International Business Promotion

The Government of Canada is meeting the challenge of rapid global change by developing new strategies in support of international business development. Building on extensive consultations with the private sector, the government is striving to focus available resources where they can have the greatest impact. Accordingly, international business development efforts are being concentrated in the following areas:

- building strong partnerships between government and the private sector to derive the maximum benefit from available resources and to eliminate overlap and duplication;
- using the combined private- and public-sector expertise to be found in the National Sector Teams (NSTs);
- encouraging more Canadian firms, and particularly SMEs, to become active exporters; and
- diversifying Canadian trade, technology and investment relations to help Canadians capitalize on opportunities around the globe.

Building Team Canada Partnerships

The federal government is continuing with a number of its Team Canada initiatives, which were announced in October 1995:

- *Canada's International Business Strategy*

As noted in the introduction, CIBS is central to the Team Canada approach. Team Canada departments and agencies will be operating under Cabinet directive to allocate their international business development resources through CIBS, and budgets for international business development will be linked to the lists of CIBS-approved initiatives. In addition, NSTs have been charged with monitoring the implementation of CIBS year-round, in order to ensure that the allocation of international business development program resources is consistent with the sector strategies.

- *International Business Development Agreements*

To date, agreements have been reached with nine provinces and the two territories. These agreements focus on ways to eliminate overlap and duplication among service providers, while ensuring better service for clients. The ultimate aim is to provide end users with "seamless" delivery of all the government's international business-related programs and services.

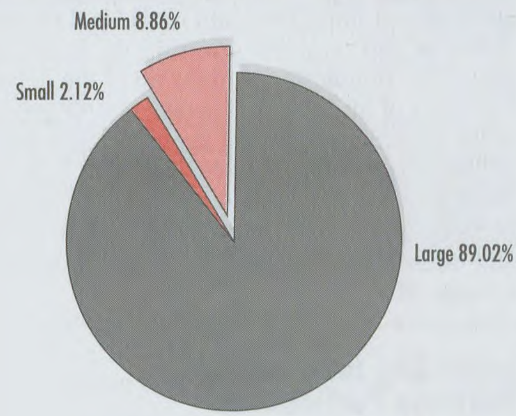
- *National Sector Teams*

National Sector Teams have been established to guide the development and implementation of trade strategies in 27 sectors. They build upon the knowledge and capabilities of all stakeholders at the industry-sector level to develop and implement international business development plans, and to deliver services to private-sector clients.

- *Regional Trade Networks*

The government is committed to improving service to business clients at the local level by linking federal and provincial government departments and agencies and the private sector through a series of Regional Trade Networks (RTNs). These networks build on various federal-provincial trade and investment agreements, and provide services to both active and potential exporters. Key services include exporter-preparation services, market information and intelligence, export counselling, and information on international financing.

Figure 2
Export Participation Rate
Canada, by Firm Size, 1994



Size defined by value of goods/services exported:
Small = < $500 000;
Medium = $500 000 to $5 million;
Large = over $5 million

Source: Estimates prepared by Entrepreneurship and Small Business Office, Industry Canada, based on data provided by Statistics Canada.

Under the leadership of senior federal trade commissioners, RTNs recently prepared three-year regional trade plans laying out how government and the private sector intend to work together at the regional level to generate new international opportunities for Canadian business. Each plan sets out national objectives and regional targets to the year 2000, along with key commitments and deliverables in a number of important areas.

- *Mechanisms for Active Industry Consultation and Participation*

In addition to membership renewal of the existing International Trade Advisory Committee (ITAC) and Sectoral Advisory Groups on International Trade (SAGITs), both of which include senior representatives of the private sector, the government will continue to increase industry involvement in the setting of international business development priorities through the direct participation of private-sector members of the NSTs.

- *Deputy Ministerial Committee on International Business Development*

A Deputy Ministerial Committee on International Business Development brings co-ordination to the whole range of government international business development initiatives, and provides a mechanism to review and establish priorities on an ongoing basis. The Committee is made up of the deputy ministers of all federal departments (or presidents, in the case of government agencies) that are active in international business development. It is co-chaired by the deputy ministers of the two lead departments, the Department of Foreign Affairs and International Trade (DFAIT) and Industry Canada (IC).

Increasing International Business Participation

Canada is known internationally as a trading nation. However, relatively few Canadian companies are actually engaged in export activity. The need to encourage more SMEs to export is particularly critical since smaller firms are responsible for creating the vast majority of new jobs. The challenge is to double the number of active Canadian exporters by the year 2000, with particular emphasis on new SME exporters. To accomplish this goal, the government is undertaking the following initiatives:

- *Target Small and Medium-sized Enterprises*

Government departments and agencies provide a variety of business programs and services aimed at small business. Unfortunately, eligibility criteria governing these programs — particularly those providing direct financial assistance — have been inconsistent in the past. To remedy this situation and to respond to private-sector recommendations that financial support be focussed on smaller enterprises, more consistent government-wide guidelines have been adopted for these programs.

Under the new Common Program Guidelines, direct financial support for international business development is being concentrated on firms with sales of less than $10 million, or fewer than 100 employees (50 employees for services firms). For smaller firms, the federal government shares the costs of participating in government-sponsored trade fairs, depending on the company's previous trade fair experience.

- *Identify Export-ready Companies*

Canada Business Service Centres (CBSCs) established in each province will continue to play a leading role in identifying export-capable firms, and providing them with one-stop access to the information they need to begin exporting. To ensure that firms receive the personalized attention they may require, the coming months will see the introduction of a new Account Executives initiative. Drawn from existing positions in key federal and provincial departments and regional development agencies, Account Executives will work with firms one-on-one, either to introduce them to exporting or to expand their current export operations. One of their most important roles will be to champion these client companies by helping them to access all available assistance.

- *Provide Timely, Opportunity-specific Market Intelligence*

The government is refocussing resources on acquiring value-added information and disseminating it to clients in the most accessible form possible. An example of this strategy was the launching of Strategis (http://strategis.ic.gc.ca), the largest and most comprehensive web site of business information in Canada.

The International Business Opportunities Centre (IBOC), established in 1995, has given more than 10 000 Canadian companies leads on international business opportunities fitting their export profile. Canadian businesses benefit from receiving up-to-date information about opportunities in foreign markets, while foreign firms are able to access their product and service requirements. IBOC will continue to match business leads provided by Canada's trade commissioners with the export interests of Canadian firms, particularly SMEs.

The bid-matching service (BMS) of the Canadian Commercial Corporation (CCC) enables Canadian firms to learn of U.S. government and other international opportunities. CCC reviews all U.S. government requirements to identify those on which Canadian firms may bid. These opportunities are then electronically matched against the capabilities of Canadian companies registered with CCC. When a match is found, the firm is automatically provided with a description of the requirement and details on how to proceed. Opportunities are also posted on the Open Bidding Service (OBS), thus making a greater number of Canadian companies aware of them.

The U.S. government is rapidly moving toward electronic data interchange (EDI) as its preferred way of doing business, and CCC is keeping pace with this change. By providing an EDI solution, the corporation will enable Canadian firms that are not EDI-ready to continue to have access to the lucrative U.S. market.

- *Improve Financing for Exporters, particularly New-to-Exporting SMEs*

To better meet the divergent needs of Canadian exporters, EDC (Export Development Corporation) has adopted a structure that offers clients access to sector and market expertise. The eight sector-based business teams provide more streamlined service, which is delivered by employees who have a thorough knowledge of the exporter's business sector. The Country Centres of Expertise support the business teams by providing timely market information.

One of the business teams, the Emerging Exporters Team, is responsible for maximizing support to firms with annual export sales of up to $1 million. EDC has also increased its financing options for firms with annual exports of up to $10 million. The Smaller Exporters Guarantee Framework increases available sources of export financing support by providing partial guarantees to participating Canadian banks. Another program, the Master Accounts Receivable Guarantee (MARG), makes it easier for smaller firms to access operating lines of credit on the strength of their foreign receivables.

In 1995, CCC, in conjunction with Canada's commercial banks, introduced a program whereby small firms can have increased access to working capital financing. The Progress Payment Program (PPP) extends funds through commercial banks for particular export sales based on CCC's involvement in the transaction. This program builds upon CCC's risk assessment and international contracting expertise. In its first year of operation, the PPP provided $47 million in financing to Canada's small exporters.

The Business Development Bank of Canada (BDBC) provides specialized financial and management services for SMEs, with a particular focus on knowledge-based businesses, exporters and other growth-oriented companies. It provides a wide range of working capital, loans and equity products that complement those available from the private sector. It also provides training and mentoring services such as NEXPRO, a training and counselling program for new exporters. In view of the government's objective of fostering the emergence of greater numbers of small exporters, BDBC's role with respect to providing growth capital and training for potential exporters is expected to increase.

In addition to helping small businesses financially, the BDBC has developed new ways to help SMEs develop their skills and access new markets.

- *Improve Canadian Participation in International Financial Institution Procurement*

Annual loans by international financial institutions (IFIs) to developing countries average about US$42.5 billion. Last year, the World Bank alone disbursed over US$22.5 billion. More than half of the IFI loans were for goods and services provided by suppliers outside of the borrowing country, providing excellent potential opportunities for Canadian exporters. With respect to IFI procurement, Canada ranks fourth overall for service contracts; however, it ranks 15th for manufactured goods, equipment, and civil works.

In 1995-96, the government created a Capital Projects Action Team (CPAT), to improve co-ordination of government efforts to help exporters procure IFI contracts. During the first year, CPAT developed several information products; redesigned and replenished the Canadian Consultants Trust Funds in the IFIs; arranged to co-finance several projects in China, India, Indonesia and several African countries; designed a new electronic system to integrate all IFI project information; and trained staff in International Trade Centres on how to do business with the IFIs. In the coming months, the team will focus its efforts on the electronic dissemination of IFI information on the World Wide Web and the Electronic Bulletin Board; the deployment of an IFI tracking system based on Lotus Notes, which will allow CPAT to manage efficiently the support mechanisms for private-sector firms pursuing IFI business and to exchange information concerning them. Further, the team will focus on integrating the CPAT initiative in the NSTs; and establishing new outreach initiatives (e.g. seminars, road maps, etc.) to more actively promote IFI business opportunities to Canadian exporters and manufacturers.

- *Target Exporters of Business Services*

The government is encouraging services industry associations to engage more actively in export promotion. To this end, a number of tools and training programs have been developed, and support is available to help associations set up export committees or awards programs to promote their members in new markets. A six-diskette self-help software package, *Take a World View*, has been developed specifically for exporters of services. It includes a one-stop resource guide listing public- and private-sector programs, contacts and publications.

Diversifying International Business Markets

While exports of goods and services account for more than a third of Canada's GDP, most are bound for a single market — the United States. In order to build on Canada's success in the U.S. market, and broaden its trade, technology and investment relations with other fast-growing priority markets (e.g. Latin America, Asia-Pacific), the government proposes to undertake the following initiative:

- *Play a Stronger Advocacy Role on behalf of Canadian Business*

In response to the enhanced importance of government advocacy as a competitive factor in international commerce, especially in emerging markets, and to the increased efforts of Canada's competitors in advocating their commercial interests, Canadian federal ministers, heads of missions, trade commissioners and trade officers, and private-sector decision makers will adopt a more aggressive approach to representing Canadian business interests abroad. To that end, a dedicated interdepartmental unit is being formed to co-ordinate appropriate advocacy support for Canadian firms. The unit is intended to mobilize high-level support to help Canadian companies achieve greater success in international markets.

Investment Development

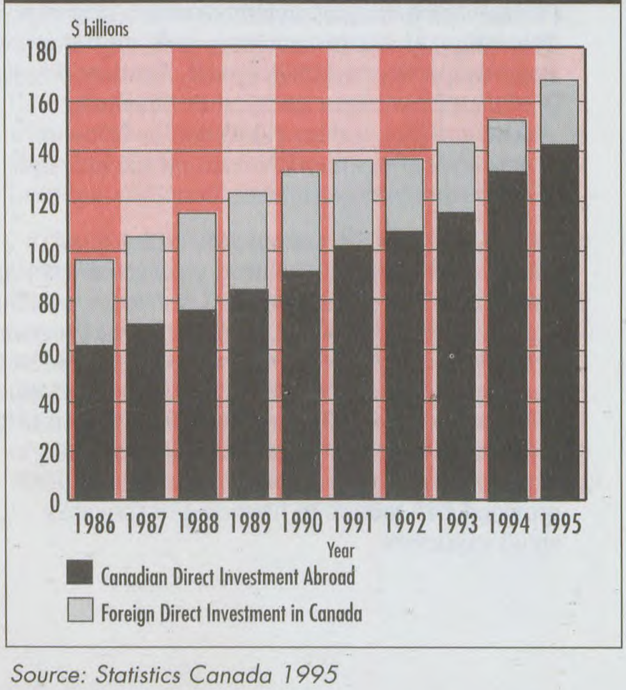
Increasing the level of international business investment in Canada is the objective of the government's strategy to support wealth and job creation across the country. Investment is a critical factor linking Canada and Canadian companies to an increasingly globalized world economy. Foreign direct investment (FDI) and Canadian direct investment abroad enhance Canada's global competitiveness by securing capital, jobs, technologies and market access for Canadians.

The government has committed itself, under its new Investment Strategy, to increase its efforts to attract FDI to Canada, and to facilitate the growth of Canadian-based, globally competitive companies.

In response to strong competition for investment, the government has developed clear priorities along with targeted, focussed programs. In pursuing these initiatives, it seeks opportunities to enhance co-operation with provincial and municipal governments and the private sector, in order to support the investment-attraction goals of local/regional economic development organizations.

Investment-attraction programs will focus on the following priorities:

Figure 3
Inward and Outward Investment
Canada, 1986-1995



Source: Statistics Canada 1995

Marketing Canada as an Investment Site to International Business Executives

To increase international awareness of the comparative advantages of Canada as an investment site within the North American Free Trade Agreement (NAFTA) region, potential investors must be made aware of specific opportunities and the positive aspects of Canadian policies. Each year, Canada responds to hundreds of inquiries from potential investors. The government will continue to increase the quality, timeliness and impact of its investment servicing capability, the primary objective being to convert inquiries into investment decisions that favour Canada.

Efforts to support this priority include:

- speeches and testimonials by Canadian chief executive officers (CEOs) to international business audiences regarding their confidence in Canada and the success they have enjoyed here;
- meetings with important investment clients involving the Prime Minister, other federal ministers and provincial premiers;
- a campaign that would include placing success stories in selected international media, briefings of international journalists, and forums on Canada as an investment site.

Sector/MNE-Specific Targeting and Customized Servicing

The government will continue its campaign to attract new investment from multinational enterprises (MNEs), which have been the major force behind the unprecedented growth of FDI in the last decade. The United Nations estimates that the world's largest 100 MNEs (outside the banking and finance sectors) account for approximately one third of the combined outward investment of their home countries, while each job in an MNE generates at least one additional job in a host economy through backward linkages. The concerned departments will focus efforts on those MNEs that can develop strong links with Canadian SME suppliers; bring capital and technologies to Canada; serve North American and global markets from Canada; and act as catalysts for technology diffusion within the country.

Efforts to support this priority include:

- meeting regularly with key corporate investors to communicate tailored investment cases to decision makers in foreign firms, and to influence their decisions in favour of Canada;
- targeting individual international corporations in selected major source countries, with regard to priority targets and arranging customized visits to Canada for potential investors; and
- promoting specific investment opportunities in Canadian priority sectors that offer investors a critical mass of specialized capability, skilled labour, research and development (R&D) strengths, and supply capacity.

Reinvested earnings by foreign subsidiaries account for a significant proportion of foreign investment in Canada — over 50 percent in recent years. Many MNEs have had to reorganize and rationalize their operations to find new ways to gain international competitive advantage. Subsidiaries, in turn, have had to seek out niches and mandates in their host markets as they compete with each other within parent MNEs. Government, in partnership with industry, will therefore work with foreign subsidiaries in Canada to develop custom business cases with a view to retaining existing operations and attracting new manufacturing and R&D mandates.

Investment Partnerships Canada (IPC), a joint venture between DFAIT and IC, is engaged in promoting investment in Canada by leading global companies. It undertakes research and intelligence collection to target priority investment prospects, and develops and manages investment campaigns directed at these companies. IPC also provides one-stop servicing of the investment interests of its client companies and other major investors.

Introducing More Canadian SMEs to International Investment Partners and Sources of Technology

Faced with escalating competitive pressures, companies of all sizes are looking more often to international alliances and investment opportunities to expand their reach. International strategic alliances are an important avenue by which Canadian companies can gain vital access to new technologies, markets, capital and skills. Such partnerships are particularly important for technology-based SMEs, which must look to foreign markets early on to maximize their opportunities for growth and profitability.

The government will continue to promote the growth of Canadian-based, globally competitive companies by working to introduce technology-based SMEs to international investment partners and opportunities. Key elements of this program include:

- the existing investment prospecting methodology has marketed Canadian SME capabilities and investment partnering interests to foreign firms primarily in Western Europe. These efforts will be expanded to selected Asian markets and to the United States. Companies will be profiled in sector kits, and their investment-partnering interests promoted abroad through group discussions and private meetings; and
- managing an international financing project to help SMEs from all regions of Canada to attract growth capital and strategic support from international private equity financiers. This project will help SMEs pursue technology development, commercialization and international expansion.

Addressing Investor Concerns: Making Further Improvements in Canada's Investment Climate

All countries are competing to attract new and retain existing international investments. In this atmosphere, a country's business environment or investment climate is of fundamental importance. Many factors determine the attractiveness of the investment climate, including: access to sizable markets; labour force quality and productivity; costs of capital; taxation levels; the business infrastructure; and government economic policies. Other less tangible factors also come into play, such as quality of life and social policies.

In recent years, Canada has done much to strengthen its business climate by improving its fiscal and macro-economic environment, by negotiating improved market access through the NAFTA and the World Trade Organization (WTO), and by facilitating business travel through the Open Skies Agreement. However, impediments still remain when Canada's investment climate is compared to that of its competition. If Canada is to continue to attract the foreign investment it needs, it will need to address systematically and continuously the principal impediments that are identified by existing and potential investors. This will involve deliberate action on the part of the government to:

- measure and assess the extent to which the existing environment can attract and retain investments;
- assess the impact of changes in public policies and in corporate behaviour on Canada's competitiveness as an investment site;
- compare ourselves regularly in priority sectors with our key competitors; and
- identify specific, recurring impediments and take action, including conveying that information to investors, in order to address the impediments that can be reduced or eliminated.

Building Partnerships with the Federal, Provincial and Municipal Governments and the Private Sector to Attract and Retain Investment

All governments compete for investments. In Canada, provincial and municipal authorities compete among themselves for international investment. Investors consider this healthy, but it means that co-operation on investment initiatives is more difficult to achieve unless mutual interest and opportunities for complementary efforts are identified. Under the new strategy, the Prime Minister has sought the support and participation of the provinces, municipalities and selected private-sector CEOs and labour leaders.

Science and Technology

As the globalization of business continues, science and technology become more important to the competitiveness of firms, and to Canada's broader economic and social well-being. Canadian companies benefit both from ready access to worldwide S&T knowledge and world-class process and product technology.

The statement of government S&T policy entitled *Science and Technology for the New Century* summarizes the overall focus and strategy as follows:

"Canada is but one of many players in the world's science and technology effort. In many areas affecting our quality of life, such as the environment, health and the advancement of knowledge, the scale and scope of the S&T effort increasingly require international collaboration among researchers, institutions and governments.

International R&D partnerships provide benefits that extend well beyond commercial or other advantages specific to the partners because the technology is quickly diffused to others, including firms and workers in the same industry. The longer-term effect is to increase the technological capability of industry as a whole.

As an extension of their domestic mandates, federal departments and agencies are developing explicit plans to promote international S&T collaboration for the benefit of Canadian firms. As well, they are evolving specific approaches to gathering and disseminating international S&T intelligence. Our missions abroad have a key role in this enterprise."

The international S&T network, consisting of science and technology counsellors and technology-development officers in missions to the major industrial countries, as well as trade commissioners and commercial officers in other key posts, will be enhanced. This network provides S&T-related services to Canadian firms, both directly and indirectly, through support of science-based departments and agencies. Provincial governments are also involved in developing plans for international S&T collaboration.

Government priorities in this area include:

Acquiring Best-practice Technologies

In the contemporary knowledge-intensive global economy, the use of best-practice technologies is fundamental to a company's success. Businesses that cannot match or exceed the technology benchmarks and capabilities of their competitors often have difficulty marketing their products and/or services. Also, firms need external benchmarks against which they can compare their own processes and operations, and assess their unique efficiencies and capabilities. Such information is essential to developing a strategic plan for long-term growth. Government departments and agencies are therefore continuing to help firms to identify best-practice product and process technologies that can help them compete successfully in international markets.

Improving Technology Intelligence, Acquisition and Dissemination

Firms must be agile and responsive to rapidly changing client needs, market conditions, standards, regulations and technological trends in order to preserve and expand their domestic and export market shares. Canada's technology development officers and commercial officers are therefore more specifically focussing on responding to the needs of Canadian firms — by improving the dissemination of technology intelligence to firms, helping companies to identify and exploit emerging technology and business opportunities, and alerting firms to impending business threats.

Expanding the Canadian Technology Network

The Canadian Technology Network endeavours to provide Canadian SMEs with quick, easy access to a broad array of services that address their technology concerns. As of early 1996, over 300 Canadian member organizations were involved, each of which can help client firms in specific technical or related business areas. Development of an international component of the network will allow members and clients to tap worldwide sources of technologies and business information.

Establishing Industrial Standards

Canada's participation in international standards-setting initiatives is being revised in order to improve dissemination of advanced information to Canadian firms, to provide companies with better opportunities to influence developing international standards, and to facilitate international accreditation of Canadian products.

Expanding Science and Technology Awareness

S&T awareness plays a significant role in the export performance of many SMEs. Technology and foreign perceptions of Canada as a scientific community have a subtle effect on defining the nature and structure of market demand, particularly for intermediate products such as parts and components, which can be important for Canadian businesses because they often constitute niche markets for SMEs. As well, foreign perceptions of Canada's S&T capabilities also affect the flow of investments from abroad. The government and its private-sector partners will address this twofold challenge by promoting S&T at home and abroad in all appropriate forums.

Encouraging International Research and Development

The government will continue to provide international arrangements that facilitate the participation of Canadian private- and public-sector institutions in international R&D programs. An example is the Canada-European Community Agreement for Scientific and Technological Co-operation. This agreement facilitates the participation of Canadian firms, universities and research institutes in European R&D consortia established under the European Union Framework Program on Research and Technological Development.

Trade Policy Priorities

In the area of trade policy, the federal government has identified the following main priorities:

Managing the Canada-U.S. Economic Relationship

Canada's economic relationship with the United States remains the most complex and substantial among any two countries in the world. Almost 80 percent of Canadian exports are destined for the United States. At the same time, the United States accounts for 65 percent of FDI in Canada. As such, management of the Canada-U.S. relationship must remain Canada's overriding priority.

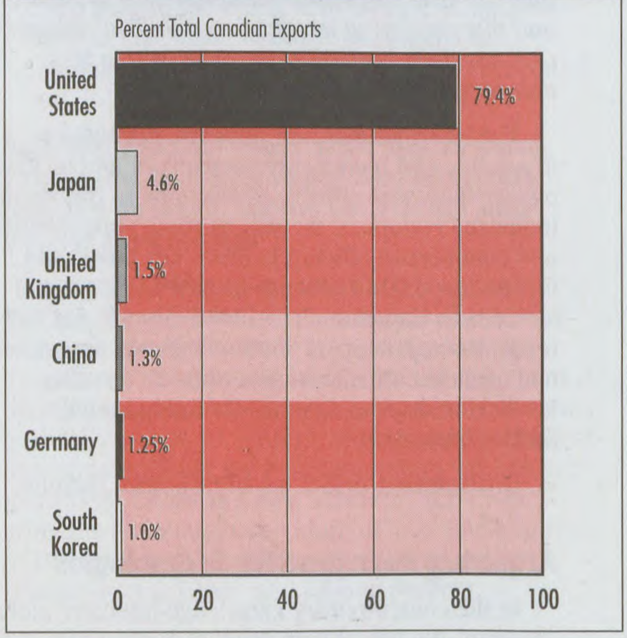
While the overall bilateral relationship has been extremely positive, careful management is required to ensure that Canadian interests are defended. Government will continue to seek the timely resolution of various issues that currently strain bilateral relations.

Canada attaches a high priority to finding solutions that reduce the possibility of disputes with the United States concerning the issues of subsidies, dumping and the operation of trade-remedy laws regarding such practices, and strives, through advocacy and coalition-building, to create a positive climate for change. In addition, the government seeks to expand access to the U.S. government procurement market and broaden opportunities for Canadian financial services firms, as well as collaborating with industry to develop and strengthen technology partnerships between public- and private-sector organizations and businesses.

Establishing an Effective World Trade Organization

The World Trade Organization is the centrepiece of the global trade regime resulting from the Uruguay round of multilateral trade negotiations. One of its main objectives is to provide a stable, transparent, rules-based international trading climate — essential for a trading country like Canada.

Figure 4
Canada's Major Export Markets, 1995



Source: Statistics Canada

The government's most important multilateral trade policy objective will be to work toward the full and effective implementation of the WTO agreements. In this regard, Canada will continue to support the WTO as the rules-based institution capable of overseeing the operation of the multilateral trading system and of conducting multilateral negotiations. Ensuring the integrity and effectiveness of the WTO dispute-settlement mechanism will also remain a high priority.

Canada also strongly supports the expansion of WTO membership, on terms that will secure improved, more predictable market access for Canadian suppliers of goods and services, as well as adherence by acceding countries to WTO rules. Negotiations continue with economies such as China, Taiwan, Ukraine, Russia and Saudi Arabia.

Other WTO priorities include:

- monitoring the implementation of the Uruguay Round agreements and, where possible, encouraging accelerated implementation of obligations;
- pursuing the ambitious agenda of negotiations already under way in such areas as basic telecommunications, financial services, information technology, government procurement, and trade and the environment, and building consensus toward a launch of negotiations in other important areas (e.g. tariffs, agriculture and subsidies);
- working to restrict the growing scope of protectionist domestic practices that effectively undermine hard-won market access gains. In this regard, continuing objectives include seeking to have the new issues of trade and investment and trade and competition policy examined, and working toward new ways of reducing the barriers caused by the proliferation of differing product standards. With respect to trade and environment, Canada supports work to ensure that rules in these different areas are compatible and consistent with the goal of further trade liberalization;
- developing greater coherence in global economic policy making (i.e. trade, monetary policy, finance) through enhanced co-operation among the WTO, the International Monetary Fund (IMF) and the World Bank; and
- improving the integration of developing countries into the global trading system, including promoting technical assistance as a means to facilitate and improve awareness of WTO rules and obligations.

Improving International Rules Governing Foreign Direct Investment and Anti-competitive Behaviour

Canada will continue to pursue a "multi-track" strategy to improve international rules governing FDI and anti-competitive practices. This strategy rests on:

- negotiating a new generation of bilateral Foreign Investment Protection Agreements (FIPAs) with developing countries and economies in transition. A FIPA is a bilateral reciprocal agreement designed to protect and promote foreign investment. Prior to 1994, Canada signed a number of FIPAs based on an old model. Since then, an improved model has been developed that incorporates new obligations consistent with the NAFTA and other international agreements. Nine such agreements have been signed, and agreement has been reached with three other countries. Moreover, negotiations are under way with 24 other countries including China, Indonesia and India;
- concluding the negotiations within the Organization for Economic Co-operation and Development (OECD) to achieve a multilateral agreement on investment. In May 1995, Canada supported the decision of OECD ministers to launch negotiations for an investment agreement with respect to access, protection and dispute settlement among all OECD countries. A number of new issues not currently covered by any existing agreement (e.g. technological protectionism, extra-territoriality) will be on the table. Negotiations are expected to conclude by June 1997;
- encouraging greater vigilance through international agreements regarding possible anti-competitive actions of large multinational firms;
- extending OECD and Asia-Pacific Economic Cooperation (APEC) forum guidelines on international technology co-operation to ensure open and transparent rules for national S&T support programs consistent with principles such as national treatment; and
- reaffirming WTO dispute-settlement provisions for the governance of trade relations by avoiding trade and investment measures that contradict WTO rules.

Widening Canada's Network of Free Trade Partners

The government will continue to widen Canada's network of free trade partners and improve market access for Canadian exporters. This objective will be pursued as follows:

- Expansion of the NAFTA: To ensure that it remains outward-looking and dynamic, the governments of Canada and Chile have pursued a bilateral free trade agreement not only to pave the way for enhanced trade and investment between the two countries, but also to facilitate Chile's eventual accession to the NAFTA.
- FTAA initiative: At the Miami Summit in December 1994, leaders of 34 countries in the hemisphere, including Canada, agreed that an FTAA should be negotiated by 2005.

  FTAA Working Groups, most of which focus on specific trade-policy topics, have been compiling information on the laws and regulations that exist in FTAA countries, with a view to identifying the issues to be addressed in the negotiations. The 11 Working Groups cover the following areas: market access; customs procedures and rules of origin; standards and technical barriers to trade; sanitary and phytosanitary measures; investment; services; intellectual property rights; subsidies, anti-dumping and countervailing duties; competition policy; government procurement; and smaller economies.

  Canada's view is that we and our FTAA partners are at the stage where we must soon define the details of the scope and timing of the FTAA negotiations, in order to pave the way for a timely launch of the negotiations. Canada is working hard to encourage early progress so that we will meet the challenge set by leaders in 1994.
- The APEC forum: In 1997, Canada will host the Asia-Pacific Economic Cooperation forum, culminating in November with a meeting of APEC ministers of foreign affairs and trade, and the APEC Economics Leaders' Meeting. Throughout the year, Canada will be responsible for advancing APEC's trade and investment liberalization and facilitation agenda, as well as for activities to promote economic and technical co-operation. APEC 1997 means jobs and growth for Canada, through support of broader efforts to increase exports to the fastest-growing region of the world. At the same time, Canada will aggressively pursue the 1994 commitment of APEC leaders to establish free trade in Asia-Pacific by 2020.
- Canada-Israel Free Trade Agreement: On July 31, 1996, the Honourable Art Eggleton, Minister for International Trade, and the Minister of Industry and Trade of the State of Israel, Natan Sharansky, signed the Canada-Israel Free Trade Agreement. The Agreement will allow duty-free access to each other's markets for industrial goods. Canadian exporters will also benefit from the reduction or elimination of tariffs on agricultural products. This agreement puts Canadian exporters on an equal footing with their U.S. and European competitors, who already enjoyed the benefits of free trade agreements with Israel. Implementation of the Agreement is scheduled for January 1, 1997.
- Building stronger ties with the European Union, while ensuring that our trade, technology and economic relations with Europe continue to be supported at the bilateral level. A proposed Canada-EU business dialogue would bring together business leaders from Europe and Canada to develop specific recommendations for improving the transatlantic trade and investment relationship.

Sustainable Development and International Trade

A key objective of DFAIT's first Sustainable Development (SD) strategy will be the provision of support to international business-promotion programs. The SD strategy will focus in part on helping Canadian exporters understand and respond to new environmental imperatives. The strategy may include, for example, the training of trade commissioners with respect to SD issues, and the provision of assistance to SMEs wishing to adopt environmental management standards. Along with efforts within the WTO and other multilateral forums aimed at making trade and the environment mutually supportive, the SD strategy will help to ensure continued Canadian access to vital export markets.

Contact

InfoCentre: 1-800-267-8376
Bulletin Board: 1-800-628-1581
FaxLink: (613) 944-4500,
from abroad (613) 944-6500
World Wide Web: http://www.dfait-maeci.gc.ca
Strategis: http://strategis.ic.gc.ca

UNITED STATES

Introduction

Canada's economic growth and job creation in the past three years have been driven by exports to the United States. The U.S. is not only our largest market, but is also the fastest growing, almost doubling in size from 1991 ($106 billion) to 1995 ($202 billion). This means that for each of those four years, Canadian exporters found new markets in the U.S. equivalent to our total annual exports to all other OECD countries. Total trade in goods and services between the two countries sustains more than 1.5 million jobs in Canada, and directly generates 28 percent of Canada's GDP.

The proximity of the market, its relative ease of access, similarity of language, culture and legal systems, and demand for virtually every type of product or service produced by Canadian companies, makes the United States the market of choice for first-time exporters.

The importance of the bilateral financial relationship is well illustrated by recent investment figures. Total U.S. direct investment in Canada of $113 billion in 1995 accounts for the largest share (67 percent) of total foreign direct investment, which reached $168 billion at the end of 1995. Similarly, Canadian total direct investment of $76 billion in the United States represented the largest share (54 percent) of the total $142 billion direct investment abroad at the end of 1995.

Finally, the United States continues to be the most important market for the Canadian tourism industry. In 1995, 13 million U.S. citizens travelled to Canada, an increase of 3.1 percent over 1994. This trade generated total revenues of $4.8 billion, up 9.2 percent from 1994.

Business Environment

Spurred by the globalization of markets and the technological revolution, U.S. industries continue to rationalize and reposition themselves in order to successfully face ever-increasing competition abroad and in the domestic market. U.S. companies readily look beyond their borders for products, technologies and services, as well as for strategic alliance partners that will help them maintain their competitive edge, hence opening new opportunities for Canadian companies. While the United States continues to be a major destination for traditional manufactured products, an increasing number of Canadian suppliers of knowledge-based goods and services look to the U.S. market to ensure growth.

The steady liberalization of trade through agreements such as the Canada-U.S. Free Trade Agreement (FTA), the NAFTA, and the WTO has consolidated and strengthened Canada's already extensive trade relationship with the United States. The improved market access brought about by these agreements, combined with a continued favourable exchange rate, provide many new opportunities for Canadian firms, particularly SMEs.

The FTA tariff reductions continuing under the NAFTA should further improve access to the U.S. market for Canadian suppliers of natural resources, as well as manufactured and consumer products. Most tariffs will be eliminated by January, 1998.

For high value-added industries such as the environment; business and professional services; information technologies; biotechnology; medical and health-care products and services; and advanced manufacturing technologies and materials, the NAFTA has furthered the substantial liberalization achieved under the FTA. In particular, access by Canadian firms to U.S. federal government contracts has improved; for example, Canadian construction firms and suppliers of Canadian building materials can now bid on major U.S. government construction contracts.

Priority Sectors

DFAIT's United States Business Development Program has been repositioned to emphasize an integrated approach to trade, services and investment development. The program gives priority to knowledge-based and value-added activities, including generating and disseminating market information and intelligence through electronic means, promoting strategic alliances and technology inflow, and increasing the export-readiness of SMEs. The program is focussed on the following priority sectors: computing technologies (hardware and software); environment; business and professional services; biotechnology; telecommunications; and cultural industries.

Computing Technologies

The demand for computer hardware is large and includes processors, memory and such peripherals as data storage, hard copy outputs, displays and graphics, input technology and robotics. The software market is even more extensive as it includes systems software (i.e. operating systems, desktop graphic user interfaces, systems utilities); distributed processing and open systems; client-server technology; database management systems; education and business applications software; and, of course, the emergence of Internet technologies and user services; telecommunications servers, as they relate to computer telephony integration; and ultimately, the full gamut of the multimedia universe.

The World Wide Web is the fastest-growing of the above elements. This phenomenon is best measured against the backdrop of the struggle between Netscape, JAVA language sponsors, Microsoft and the hardware giants to position themselves in this extensive market. The prospect of "dumb" PC terminals is just around the corner, once a few technical details have been resolved regarding such issues as transmission channels, processing languages and increased access to data warehouses, possibly through home television sets and television cable carriers.

With its population of 30 million, Canada constitutes a $50-billion information technology (IT) sector, which employs 343 000 specialists. Within the NAFTA-IT market, this represents the point of departure for an aggressive strategy to increase Canada's share of outsourcing services to the hardware/software giants in the United States. Such services tend to be provided by small businesses, 70 percent of which have nine or fewer employees (typical of the Canadian industry).

Another important trend is the fact that mainstream processors are becoming faster, smaller and less power-hungry. These developments are crucial to speeding up the access to and increasing the bandwidth of the Internet, as well as satisfying the ever-increasing demand for colour and graphics handling. In addition, major changes are coming to the fibre channel markets, which, in 1996, run at $500 million per year. The productivity, capabilities and performance benefits of products and services for these markets should create a $10-billion market by the year 2000.

In the same period, retailers of computer goods and services will remain profitable to the extent that they can exploit to the full the innovations of the big developers such as Microsoft.

The Environment

The U.S. market remains large and on the cutting edge, and offers tremendous opportunities for Canadian firms. Market segments are maturing, but new technologies will continue to find significant niche opportunities. The technology and expertise offered by Canadian firms give them a unique opportunity to meet this demand.

Current estimates of the environmental industry in the United States indicate a market exceeding US$180 billion. This figure is expected to increase to US$207 billion by the end of the decade, based on an annual growth rate of 4 percent. The present dollar value of Canadian exports to the United States in the environmental sector is approximately $1.3 billion, and this figure could increase by 20 percent over the next few years.

The level of commitment and amount of spending by companies, government and states are still closely linked. The process is largely regulation-driven, although both Congress and the Environmental Protection Agency (EPA) are talking of the need, if not to deregulate, at least to "reinvent" environmental legislation. The states and industry itself are to become accountable for environmental policies and practices.

The highest growth potential in the next few years to the end of the century will be in technology; equipment and services applied to water management; environmental energy sources; process-prevention technology; remediation for economic development; risk assessment; and cost/benefit analysis. The potential also exists for privatization of environmental services, mostly in municipal water delivery and treatment. There are also opportunities in international markets; the basic needs are for water- and waste-management infrastructure, areas in which Canada has expertise and could partner with U.S. firms.

Services

Implementation of the FTA and the NAFTA has opened major new opportunities for Canadian services firms in U.S. commercial and federal government markets. As well, the business and professional services market continues to be very strong. Canadian firms are succeeding in selling their services in this highly competitive market due to innovative approaches, the ability to move quickly and exploit niche markets, an excellent reputation, international experience, and favourable exchange rates. In 1995, the export of services to the U.S. rose to $19 billion.

Business, professional and educational services encompass a wide range of sectors, including: accounting; consulting engineering; management consulting; scientific services; architecture; construction; geomatics; legal services; design; personnel services; computer services; education and training; security services; financial services; communication services; transportation and logistics; distribution; and health-care services. These services are typically sold to businesses, rather than to final consumers. Business and professional services are ranked second after motor vehicles in terms of Canadian worldwide exports, and represent the largest component of non-merchandise bilateral trade with the United States, an estimated 60 percent of total Canadian services exports being destined to the U.S. market. With the continuing trend toward a more services-oriented society in North America, the services sector is expected to remain a major growth area in both Canada and the United States.

Biotechnology

The U.S. biotechnology industry comprises 1300 companies that employ about 103 000 people. Their interest is split among therapeutic products (35 percent); diagnostics (28 percent); biotechnology by-products and supplies (18 percent); agricultural biotechnology (8 percent); and other fields (11 percent). The industry had sales in 1995 of more than US$9 billion, with sales forecast to grow 25 percent per annum until 2001, when sales will exceed US$40 billion.

The U.S. medical, biotechnology and pharmaceutical industries continue to partner, merge/acquire, and enter into strategic alliances with companies around the world and with academic and specialty research groups. The result is the emergence of fully integrated drug/medical discovery and development organizations. This restructuring has opened many new opportunities for Canadian companies. Indeed, Canada's expertise in such areas as cancer and AIDS therapy; gene mapping; clinical trials; targeted drug development; gene identification; and specialty biotechnology in agriculture and the environment, is recognized by U.S. companies, which are eager to partner with Canadian biotechnology firms.

Foreign investment in Canadian biotechnology and related companies has ranged between $75 million and $100 million annually since 1994. U.S. companies continue to set up subsidiaries, specialty manufacturing plants, contract research organizations, clinical trial facilities, and other investments. Canada is a very attractive site for work in the biotechnology industry because of our R&D tax laws, the skilled and educated work force, a favourable exchange rate, and the biotechnology synergy created in many parts of the country. The United States Business Development Bureau actively promotes these advantages to potential U.S. partners in order to provide the Canadian industry with the investments, alliances, partnerships and long-term capital to enable it to reach its full potential.

Telecommunications

Canada is the second-largest supplier (after Japan) to the U.S. telecommunications market. Imports make up 27 percent of this market of US$12 billion, and the Canadian share is over 20 percent. From the viewpoint of Canadian suppliers, the United States is the primary export market. In fact, the vast majority of Canadian manufacturers in the sector export to the United States.

The United States will continue to offer numerous export opportunities for Canadian firms. For example, the trend toward the deployment of fibre-optic cable at the local level will generate growth in both fibre-optic equipment and new network equipment. The development of wireless personal communications services will increase demand for radio base-station equipment, satellite antenna systems, and new wireless customer premises equipment. Growth continues strong at the grass-roots level, with Internet use increasing, cable TV subscribers growing by two million per year, and cellular telephone subscribers increasing by eight million per year.

On the investment side, Canada is proving a popular location for call centres to serve all of North America. This presents opportunities for the burgeoning Canadian computer telephony integration subsector.

Cultural Industries

The U.S. arts and cultural sector is a vibrant and dynamic area of economic activity. The arts and cultural industries consist of the visual and performing arts, publishing, sound recording, film, and television production. The sector represents a very lucrative market for Canadian entertainment industries. Exports of cultural goods and services are estimated to have reached almost $3 billion in 1995-96. Today, the Canadian publishing industry is a leader among our cultural industries in export sales, with $120 million in sales of rights and finished products in 1993-94 in the United States. Another important Canadian activity is the filming of foreign productions in Canada, particularly those from the United States. Data compiled by the Ontario Film Development Corporation show that foreign producers spent some $502 million shooting in Canada in 1994. There is also tremendous opportunity for the Canadian sound recording and performing arts industry, as well as the visual arts sector.

The U.S. market is a natural extension of the domestic market. As a result, Canadian industries clearly have an edge over other countries in making deals in the United States. Proximity as well as shared culture are other reasons to forge strong business relationships with U.S. partners. Throughout all branches of the industry, the fact that Canada is different from the United States creates excellent opportunities for the Canadian entertainment industry for years to come. In the Canadian Foreign Policy Review, the government recognized the importance of projecting Canadian values and culture in order to foster Canada's presence in the world. This has a positive impact on the growth of exports of Canadian cultural products and services.

Other Sectors

The United States remains an important market for more traditional and mature natural resources, manufactured products and consumer goods. A number of business development initiatives, such as participation in key trade shows and incoming and outgoing missions, will be carried out to help maintain the presence of Canadian industries in the market.

Small and Medium-sized Enterprises

DFAIT plays a leading role in delivering the government's Jobs Strategy, the overall goal being to double the number of active SME exporters by The focus of this initiative is the identification and preparation of as many SMEs as are willing to seek opportunities abroad. Most SMEs gain initial international experience by entering the U.S. market. The priority of the United States Business Development Bureau is to work closely with export-ready SMEs by providing specific market information and encouraging them to participate in a wide range of promotional activities.

A key element in achieving that objective is the New Exporters to Border States (NEBS) program, which caters exclusively to SMEs. The program provides not only practical information on the intricacies of exporting, but also first-hand exposure to the U.S. marketplace. A solid introduction to the United States prepares new exporters to venture subsequently into wider world markets. A key objective is to bring new participants to activities organized by the U.S. Business Development Bureau. DFAIT also provides export assistance and guidance to SMEs enrolled in Canadian export development programs such as NEXPRO (New Exporters Program) or FITT (Forum for International Trade Training). Over the past year, almost 73 percent of companies participating in promotional activities organized by the Bureau were first-time exporters.

Tourism

The formation of the Canadian Tourism Commission (CTC) will present the Canadian tourism industry with additional opportunities for penetrating Canada's most important marketplace, the United States.

In 1995, Canada welcomed 13 million travellers from the United States, with resulting revenue totalling $4.8 billion. To illustrate the importance of this market, the CTC has dedicated financial resources of over $19 million to the United States, with additional funding coming from partnering opportunities with the Canadian tourism industry. The U.S. Business Development Program, through its headquarters tourism personnel and missions in the United States, will provide market information and deliver a series of tourism marketing programs and activities on behalf of the CTC and other major Canadian tourism industry players.

Investment

The United States remains by far the largest foreign investor in Canada and offers unlimited market opportunities in greenfield investing, strategic partnering, technology exchanges or subcontracting. Most recently, the use of equity, debt or other sophisticated financing vehicles has become a major component of all U.S. direct investment in our country.

Outward investment by U.S. companies in Canada is generally pursued with a view to acquiring key technologies, reducing costs of production, or strengthening a market position. With a high concentration of subsidiaries (7500), the United States exercises a critical mass that weighs heavily on Canadian investment patterns. The U.S. is also responsible for two thirds of all FDI, a major share of which is financed from profits earned and reinvestment by firms operating in the wood, paper, transportation equipment, and metals and minerals industries. (In 1995, from an estimated $15 billion in FDI, $12 billion alone originated from the United States.)

Among the most recent companies pursuing investment in Canada are pharmaceutical and biotechnology companies, particularly those involved in R&D and clinical trials; business services companies, particularly numerous suppliers and back offices targeting services industry companies and call centres; software and multimedia firms; and just-in-time assembly and manufacturing units. Other investment opportunities are actively being pursued in the electronics, information technology, automotive and agri-food sectors, to name a few.

The strategy of our missions in the U.S. focusses on marrying local needs with Canadian capabilities by targeting corporate greenfield, retention and expansion activities, promoting joint ventures and strategic alliances through proactive sector events in priority sectors, visiting technology and business clusters, working with investment intermediaries, participating in an active outreach program in both Canada and the United States, and servicing individual investment inquiries and qualified leads.

Priority is being given to fostering a Team Canada[1] approach with provincial and local economic development organizations to support departmental investment promotion efforts.

Special efforts are dedicated to target site locator specialists. Their receptivity to a Canadian option when advising on an investment decision offers an as yet untapped potential. An advocacy plan is being developed in order to influence their investment destination strategies. Similarly, the development of a proactive private equity sector will help Canadian technology-based SMEs to attract growth capital and strategic support.

Contact

Department of Foreign Affairs
and International Trade
United States Business Development Bureau
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 944-5726
Fax: (613) 944-9119

InfoCentre: 1-800-267-8376
Bulletin Board: 1-800-628-1581
FaxLink: (613) 944-4500,
from abroad (613) 944-6500
World Wide Web: http://www.dfait-maeci.gc.ca
Strategis: http://strategis.ic.gc.ca

[1] To serve business more effectively, the government is pursuing new approaches, based on a Team Canada partnership with the provinces and the private sector, to help Canadian enterprises compete internationally.

EUROPE

Introduction

Europe is a large market of 750 million consumers. It comprises both affluent and emerging economies, with the former offering immediate opportunities to increase export sales, to attract foreign investment and to co-operate in R&D. The latter represent nascent opportunities that require more patience and nurturing. A commitment to Europe opens up a wide array of possibilities to be exploited over time. The affluent markets should be considered as a base from which to venture into neighbouring emerging economies.

The Affluent Markets: A Wealth of Opportunities

France, Netherlands, Belgium, Luxembourg, Spain, Portugal, Germany, Liechtenstein, Austria, Switzerland, United Kingdom, Iceland, Sweden, Finland, Norway, Denmark, Turkey, Italy, Greece, Ireland.

Introduction

With 400 million consumers, the affluent markets of Europe lead the world in the import of goods and services, accounting for some 46 percent of world merchandise imports and 52 percent of world services imports. With the United States, they are among the largest, richest and most sophisticated markets in the world. These countries together are the world's leading source of investment, pacesetters in scientific R&D, and Canada's most important commercial partners after the United States. Canadian exports to this region are characterized by a large percentage of high value-added goods and a large volume of business services. Seven out of Canada's top 12 merchandise export markets are to be found in this group of countries. In spite of their current level of economic development, they still offer significant potential for growth and remain an essential market for Canadian SMEs.

In 1995, the value of Canada's total trade with the affluent European markets reached $42.3 billion. While there has been a decline since 1988 in exports of certain categories of food, inedible raw materials and fabricated products, there has been a steady increase in exports of high value-added manufactured or end products.

Europe is Canada's second-largest foreign direct investor as well as the second-largest destination for Canadian investment abroad. Europe's FDI in Canada more than doubled from 1985 to 1995, reaching $40 billion or 22 percent of all FDI in Canada. Furthermore, in recent years, an increasing share of Canadian foreign direct investment (CFDI) abroad has gone to Europe. Between 1985 and 1995, CFDI in Europe quadrupled, to reach $28 billion or 20 percent of all CFDI.

The affluent countries of Europe are world leaders in science and technology, and a key source for technology partnerships. Europe collectively accounts for about one third of the world's science and technology R&D expenditures. More than 300 co-operative scientific projects are under way between Canadian and European public-funded laboratories. Moreover, Canada and the European Union (EU) recently signed an Agreement on Co-operation in Science and Technology, which will allow Canadian companies, universities and research institutes to join with European partners to submit proposals for research and technological development (RTD) projects under the European Commission's 1994-98 Fourth Framework RTD Program.

With an average annual growth of over 3 percent in tourist traffic over the last five years, more than 2.14 million Europeans made overnight visits to Canada and spent an estimated $1.93 billion, representing about 20 percent of Canada's international tourism receipts. Canada's primary markets (United Kingdom, France and Germany) accounted for 70 percent of overnight visitors, and secondary markets (Switzerland, Italy and the Netherlands) for another 15 percent.

Business Environment

The affluent markets of Europe are gradually coming out of a recession. Four of the G-7 countries (U.K., Germany, France and Italy) belong to the affluent group. According to Organization for Economic Co-operation and Development GDP projections, all four economies are expected to grow modestly in 1997. Although this growth may seem meagre, it represents significant additional potential for Canadian exporters because of the sheer size of these economies. For example, a 1.5-percent increase applied to the German GDP of $2.5 trillion represents $37.5 billion.

Stable and democratic governments, market economies, high per-capita incomes and rules-based trading systems will continue to mean lower-risk markets to potential Canadian exporters and investors, particularly SMEs. This has been further enhanced with the establishment of the WTO in January 1995.

The consolidation of the EU into a single market also presents great challenges to Canada, including tougher trade competition, non-tariff barriers and competition to attract foreign investment. On the other hand, the single market (with a single currency not far off) will promote growth and stimulate demand for imports, creating greater opportunities for Canadian business. The notion of "Fortress Europe" is gradually disappearing with greater trade liberalization, market orientation and deregulation.

Market Opportunities

Programs

The affluent markets of Europe offer major market opportunities for Canadian exporters and service providers. Through extensive activities, including fairs and missions, investment promotions, the Technology Inflow Program (TIP), science and technology exchanges, the New Exporters to Overseas (NEXOS) program, mission-initiated activities, and the Tourism Promotion Program, it is expected that more companies will recognize this potential.

Fairs and Missions: Europe is home not only to national trade fairs, but also to Pan-European and international trade fairs, which are among the largest and most comprehensive fairs in the world.

Investment, Science and Technology Program: Over the years, investment activities have intensified. Leading Western European companies have come to realize that while exports still provide a basis for market penetration, investment and, more recently, strategic alliances are increasingly required to build and protect foreign market shares and competitive advantage.

The European investment, science and technology program strategy is designed to: promote Canada as an outstanding investment destination; foster strategic alliances between Canadian and European companies in selected high-technology, value-added sectors such as waste water, geomatics, software, hazardous waste, etc.; promote technology acquisitions and transfers between companies; and foster R&D projects between Canadian and European entities.

NEXOS Program: This educational program, which is aimed at SMEs, was previously available only to new exporters to Europe. In 1995, it was opened up to all overseas markets, but eligibility criteria are being redefined and the costs borne by participants have increased.

Tourism Promotion Program: With the creation of the new Canadian Tourism Commission in 1994, significant tourism promotional funds are dedicated to Europe. The marketing strategy will focus on primary markets (U.K., France and Germany), secondary markets (Switzerland, Italy and the Netherlands), and developing markets (Austria, Belgium and Spain).

The Emerging Markets: Open for Business

The Czech Republic, Slovenia, Slovakia, Croatia, Hungary, Poland, Estonia, Latvia, Lithuania, Albania, Bulgaria, Romania, Russia, Ukraine, Bosnia and Herzegovina, the Federal Republic of Yugoslavia, the Former Yugoslav Republic of Macedonia, the Russian Federation, Central Asia (Kazakstan, the Kyrgyz Republic, Turkmenistan, Uzbekistan, Tajikistan), Caucasus (Armenia, Georgia, Azerbaijan).

Introduction

The emerging markets of Europe include those countries that have moved from a central-planned to a market-based economy. These include the former Communist countries as well as the new countries created since the fall of the Iron Curtain. These markets represent a population in excess of 400 million.

Main Challenges

The main challenges in the emerging European markets include:

- the transition from command to market economies with rapidly evolving privatization programs;
- bilateral financing (Canadian lines of credit have been made available to many countries);
- dealing with non-convertible currencies;
- the revival of relationships between regional economies (customs unions like CEFTA and association agreements with the EU);
- protectionist trade policies to protect local industries;
- high tax rates and an entrenched bureaucracy;
- lack of transparency and slow implementation of laws; and
- coping with corruption.

Market Opportunities

Although opportunities may vary between countries, the most promising export sectors in the region include: agri-food, informatics and telecommunications, environment, transportation, construction, oil and gas, power and energy, chemical- and metallurgy-related industries, and wood processing, mining and infrastructure development.

Opportunities also exist for investment and technology acquisition in chemical and metallurgy-related industries, the food industry, textiles and garments, leather and footwear.

Programs

Renaissance Eastern Europe: Canada's Technical Assistance Program for the emerging economies of Europe assigns a high priority to projects that facilitate the privatization of enterprises and private-sector development in these countries. Directly related to this initiative is the Renaissance Eastern Europe (REE) Program, a cost-sharing program designed to assist Canadian business in developing joint ventures, partnerships and investment operations in the region. Since its inception in 1991, some 472 projects totalling $20.2 million have been funded under REE.

Business Environment

The break-up of the former Soviet Union (FSU), the coming of the market economy and the change-over from central planning to free markets have resulted in a breakdown of traditional business and social structures. The transition from former Communist-controlled command economies to new free-market economies is a major challenge in the region. Certain countries are more advanced than others and privatization programs are evolving rapidly, thereby creating opportunities for Canadian businesses and investors through projects funded by the World Bank, the IMF, the European Bank for Reconstruction and Development (EBRD), greenfield activities, or joint ventures.

In spite of the difficulties, the emerging economies will remain important markets, featuring a population larger than the NAFTA member countries, (400 million as compared to 373 million), plenty of natural resources (especially in Russia) and an established industrial base. At the same time, there is a need for extensive renovation of the existing industrial and resource development base, and consequently for large amounts of investment capital and expertise. There is a great deal of poverty, social dislocation and fear for the future, which have resulted in major problems with crime and corruption.

Debt reduction has become the main goal as the emerging economies adapt to free-market economy operations, allowing bilateral financing arrangements to be put in place. The Czech Republic's repayment of its entire IMF debt is particularly noteworthy. Canadian lines of credit are now becoming available to assist exporters in countries that have shown the most progress. The majority of currencies are non-convertible; however, many countries in the region are moving toward making their currencies convertible in the near future.

The emerging economies are adjusting quickly to align their markets to the more affluent European markets with a long-term goal of EU membership. Concerns relate to protectionist trade policies, high tax rates and entrenched bureaucracies that still exist. Membership or affiliation with multilateral associations such as the WTO, IMF, World Bank, OECD, North Atlantic Treaty Organization (NATO), and negotiations on special tariff status, double taxation agreements, and investment and insurance agreements, are being actively sought by countries in the region. Hungary has been a participating member of the General Agreement on Tariffs and Trade (GATT) since 1973.

A key to success in the market is to control the economic and political risks of doing business. It is important to adequately prepare for approaching these markets. Market research, legal, auditing and other Western business support services are now available in most capitals and important cities. However, local authorities are demanding a share of the business and asserting their decision-making, taxation, and territorial ownership rights. The business person must also deal with regulators, tax officials and import/export bureaucracies. There is considerable delay in implementing new laws, as well as a lack of transparency. Nevertheless, the transition from a command economy to a new market economy has begun, bringing with it the promise of smoother business operations. As countries in the region strive to become free-market economies, the market and investment opportunities for Canadian businesses should be very positive.

Western European Markets

The major potential Western European market sectors by country are as follows:

France

Economic relations between France and Canada have benefited from a period of unprecedented growth in 1995-96. France is Canada's seventh-ranking economic partner, and bilateral trade exceeded the $5-billion mark in 1995, with Canadian exports to France increasing over 41 percent in one year. Our relationship is focussed on leading-edge sectors such as aeronautics, transport, electrical and mechanical equipment, telecommunications, biotechnology and agri-food. A parallel relationship in services, led by the tourism sector, is also developing quickly. The relative strength of the franc contributes positively to the appeal of Canadian exports and of Canada as an investment market. As a European leader in science and technology, France is an important potential partner for the Canadian R&D sector. France is also a strong market for Canadian cultural products, with significant potential for growth in film and multimedia technologies.

France is now the fourth-largest direct investor in Canada, with a portfolio that has grown 3.5 times in the last 10 years to reach over $5 billion in 1995. Canadian investments in France have also increased tenfold this past decade, and are now worth nearly $2 billion. Priority sectors for future economic co-operation with France are information technology, including multimedia, as well as the environmental industry and transportation. The continuing development of strategic partnerships and private-sector linkages is another priority for the future, with the involvement of SMEs becoming increasingly important.

The Benelux Countries (Netherlands, Belgium and Luxembourg)

With two-way trade totalling $5.2 billion and Canadian exports amounting to $3.5 billion in 1995 ($1.8 billion to the Netherlands and $1.7 billion to Belgium), the Benelux group represents a large and attractive market for Canadian exporters. An important source of investment, technology and strategic-alliance partners, as well as tourists, the area is also considered attractive as an entry point to EU markets, as evidenced by the approximately 150 Canadian firms established there.

Total Canadian direct investment in the Benelux is $4 billion and investment in Canada from these countries is $7.1 billion. More than half of Canada's merchandise exports to this region consist of agri-food products or fabricated materials such as wood, paper, metals, chemicals and textiles. There are good market opportunities for finished products such as pharmaceuticals; medical equipment and supplies; telecommunications and related equipment; industrial machinery; transportation equipment; industrial instrumentation; office equipment; and a variety of consumer products, including sports and recreational goods. Other sectors of opportunity include defence, civilian security, environmental technologies, consumer software, and business services.

Iberian Peninsula (Spain and Portugal)

Spain is the world's 10th-largest importer and 10th-largest industrial power with a GDP of $697 billion in 1995. It represents Canada's 19th-largest export market ($628 million in 1995). Spain is made up of a series of regional markets joined to the two major hubs of Madrid and Barcelona. Canadian commercial activities centre on the export of raw and semi-finished materials such as mining commodities, pulp and paper, mineral fuels, wood and fishery products. To improve Canada's share of the Spanish market, Canadian companies must be active in carving out a specialty niche, bearing in mind competition from other EU members. Major market opportunities exist in the following sectors: environmental products and services; transportation; telecommunications; mechanical and electrical equipment; agri-food products; mineral fuels and oils; construction; and business services.

Since Portugal's entry into the European Union in 1986, the composition of its international trade has changed. Portugal's trade with the EU has grown to be almost 75 percent of the country's total trade. Nevertheless, the country has become a significant trading partner for Canadian firms involved in specific niches: telecommunications; environmental products and services; information technologies; software and design; and engineering services. Fuelled by a special fund (over US$30 billion) until 1999 and pushed by a need to modernize every facet of its infrastructure, Portugal has become a country of trade opportunities. With sales of products and services amounting to close to $300 million in 1995, Canadian companies that have taken the time to explore this market have been successful. Portugal is also entering into a major privatization process, which presents opportunities for strategic alliances and joint-venture agreements with Portuguese and European conglomerates. Moreover, in 1998 Lisbon will be the site of the last international exposition of this century. A number of Canadian firms have already taken advantage of this coming event, but more opportunities exist, especially in the fields of multimedia equipment and services, software and hardware, and major-events production.

Contact

Department of Foreign Affairs
and International Trade
Western Europe Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 995-8269
Fax: (613) 995-5772

Northern European Markets

Northern Europe offers a market as diverse as the countries themselves, ranging from fully developed and long-standing trading partners such as the United Kingdom to the small emerging markets of the Baltic States. In the midst of these two distinct types of market are the Nordic countries, each offering important trade and investment opportunities for Canadian companies. The major potential market sectors by country are as follows:

United Kingdom

The commercial relationship with the United Kingdom is Canada's most extensive in Europe. The U.K. is Canada's most important export market in Europe and the third-largest in the world, after the United States and Japan. It is also Canada's largest source of European investment and tourism, and our primary military exchange partner.

The U.K. has a large population (56 million) and is highly dependent on imports, with a predilection for North American products. It is a major market for Canadian primary products and is a growing market for manufactured goods and services. As well, the U.K. is the first and most promising point of entry within the European Union for a large number of Canadian producers of manufactured goods. In 1995, bilateral merchandise trade amounted to $9.2 billion, of which Canadian merchandise exports to the U.K. were valued at $3.7 billion.

The U.K. is Canada's second-largest source of FDI, with 1995 holdings estimated at $16.5 billion. Investments are concentrated in manufacturing (primarily food processing and chemicals), wholesale and retail distribution, finance, real estate, other business services, and energy. At the end of 1995, Canadian direct investment in the U.K. stood at $13 billion.

Market Opportunities

The following sectors represent the greatest potential for doing business with the United Kingdom:

Advanced Technology

Exports of high-technology goods to the U.K. continue to experience robust growth. There are several sectors of opportunity within the advanced technology market, with the small office/home market regarded as one of the largest growth areas. Internet usage and development are very high, driven by low-cost modems and competitive telecommunications, along with the rapid expansion of Internet service providers. In software, the U.K. has excellent vertical-market capability and sophisticated distribution channels, which offer great partnering potential for Canadian software companies.

The U.K. telecommunications market is the most open in Europe, but as a result, is highly competitive. Canada already enjoys a significant position through such companies as Nortel, Mitel, Newbridge, Gandalf, Bell Canada and Videotron. Computer telephony integration (CTI) is rapidly emerging as a major market opportunity.

Organizations in U.K. the play a significant role in international marine projects and constitute an excellent route for Canadian companies to expand globally through strategic alliances.

The U.K. fire and security market is growing steadily, creating ample opportunity both for leading-edge technologies and for value-for-money means of providing the same level of security as that offered by existing equipment. The market for home security in particular has boomed in recent years.

Agri-food and Fish Products

Opportunities in the food market are expected to arise in "own label or private brand" products; soft drinks; yogurt; mineral water; snacks; frozen pizza; biscuits; breakfast cereals; chilled and frozen "ready meals"; health foods; low-calorie "alternative" products; ethnic foods; and confectionery products.

The U.K. continues to be a market for Canadian bovine genetics. Depending on what policies are adopted for the eradication of "mad cow disease," there may be need for substantial numbers of replacement dairy cattle in the U.K. next year. As well, the U.K. continues to be an important market for wheat, oilseeds and pulses, offering excellent potential for joint activities with Canadian companies.

The U.K. is a significant source of investment in the Canadian agri-food sector, and the mission will intensify efforts to attract further investment.

Biotechnology, Medical and Health-care Products

The U.K. market for medical equipment is sophisticated, but there is always room for new technology or improved versions of existing products as long as they offer value for money and a genuine advantage. The U.K. is at the forefront of developments in biotechnology, as it boasts the second-largest biotechnology industry in the world. Several successful partnerships between Canadian and U.K. firms already exist in this area, and opportunities remain for further alliances. London is a potentially valuable source of venture capital in this sector.

Business, Professional and Educational Services

The U.K. is an open market for business services and has thereby become the world's fifth-largest importer of such services. In addition to being the home of many significant international service companies, the U.K. is also regarded as a major European base for foreign companies. Canadian earnings from business services in the U.K. have increased by 33 percent over the past five years. Opportunities for Canadian companies exist in architecture and design, environmental services, consulting engineering, business consultancy and marketing services, and geomatics. Also, the British market is an attractive one for trading houses.

Consumer Products

Canadian merchandise exports are shifting steadily to value-added products and services, which account for a growing share of exports. Canadian exports of consumer products to the U.K. were valued at $200 million in 1995. These exports have shown consistent year-to-year growth of 20 percent for the past three years. Canadian companies supply goods to most areas within the broad definition of consumer products, although certain product groups stand out as being significant successes, including clothing (particularly women's wear), footwear, toys and games. The most successful products are characteristically high value-added, top-end products in their respective markets.

Defence Programs, Products

The U.K.'s Ministry of Defence procurement policy has opened domestic competitions to international bids. The U.K. is increasingly purchasing "off-the-shelf" equipment. Demand exists for simulators of air and land equipment; communications systems; software and system security products; a type of extended-range regional jet; speciality clothing items; transportation security products; and a range of other equipment and services. Current defence research requirements are largely associated with sensors, "smart" weapons, electronic warfare, and command-information systems.

Environmental Equipment

The U.K. government stresses the importance of using technology to clean up the environment. Key areas in which Canadian companies may find entry include unique soil-remediation products, specialized water-treatment technology and gas scrubbing.

Forestry Products

Market opportunities are significant as the U.K. imports more than 80 percent of its value-added wood-based product needs. Specific opportunities are available in a wide variety of specialized solid-wood product groups such as dressed pine and pine-like woods, spruce lumber for the pine furniture market, and Canadian window systems consisting of dual-pane glass and vinyl- or aluminum-coated wood frames. It is worth noting that U.K. building regulations have been enacted that increase the need for energy conservation. Other product groups showing opportunity include "engineered" wood products and parallel-strand lumber used for prefabricated housing, which is growing in acceptance in the United Kingdom.

Oil and Gas

The U.K. market for oil and gas equipment and services remains one of the most active in the world. Ongoing commercial opportunities in this sector stem from the exploration and development of North Sea oil and gas fields.

Tourism

The U.K. is Canada's leading overseas tourism market (accounting for 30 percent of the European total) with overnight visits growing by 5.4 percent annually. Underlying any opportunity for Canada is a trend toward increasing long-haul travel in the United Kingdom. Over the next five years, North America is the destination to which British long-haul travel is predicted to grow at the fastest rate.

Opportunities for further product development are available in a wide variety of more specialized product groups, including soft outdoor adventures (e.g. resort activities, lodges, wildlife viewing, trail riding, hiking); winter experiences (e.g. skiing, snowmobiling, dogsled trips); the city experience (e.g. festivals, cultural activities, entertainment, shopping, attractions, dining); touring the various parts of Canada; and hard outdoor adventures (e.g. rock climbing, rafting, expeditions).

Ireland

In 1995, Canadian exports to Ireland were valued at $190 million as compared to imports of $562 million. While the relatively small population of 3.6 million limits the market, Canada is beginning to see growth in exports due to a combination of a much-improved Irish economy and the infusion of EU funds for major infrastructure projects. Canadian products are well suited for civil engineering projects and for Dublin's light-rail transport system. The liberalization and modernization of the Irish telecommunications sector will require sophisticated new investment (estimated $600 million) in advanced equipment and services. European Union directives have led to EU and Irish government funds being made available for environmental equipment in the areas of treatment facilities and pollution control.

Canadian investment in Ireland was valued at $4.4 billion in 1995, making Ireland Canada's fourth-largest destination for foreign investment. Over 45 Canadian companies are now located in Ireland, up from 30 in 1990. Ireland is now the second-largest exporter of software in the world after the United States, and is therefore an ideal platform from which to penetrate other European markets, possibly through partnering with an Irish developer. Some Canadian financial and insurance companies have opened subsidiaries in Ireland to take advantage of incentives for the Irish International Financial Services Centre.

Nordic Countries (Denmark, Norway, Sweden, Finland, Iceland)

The Nordic countries, with a combined GDP of $736 billion in 1995, have greater commercial potential for Canada than their population of 23 million would suggest. While the recession has caused a temporary decline in trade, except with Norway, the Nordic economies have bounced back, and trade with Canada has increased significantly. The economies of the Nordic countries are expected to continue to grow in 1997-98. The admission of Sweden and Finland to the EU in January 1995 has not had a negative effect on our overall bilateral trade relations.

Canadian exports to the Nordic countries amounted to $1.5 billion in 1995, with Norway alone importing $773.7 million, making this country our 17th-largest export market. This represented a significant increase of 25 percent over the previous year in our exports to the Nordic countries as a whole. Canadian exports have diversified, with about half consisting of manufactured goods such as oil and gas, transportation, and other equipment. However, the trade balance favours the Nordic countries in a proportion of three to one. Nordic exports to Canada totalled $4.5 billion in 1995.

The following sectors have been identified as offering excellent opportunities: oil and gas equipment; advanced technology products and services, including telecommunications and defence equipment; biotechnology, medical and health care; environmental equipment and services; transportation systems; food products; and leisure/sporting goods.

About 80 000 Nordic tourists visited Canada in 1995, 8 percent more than in 1994. The enhanced interest in Canada is helped by high living standards (higher than in Canada), travel habits and the availability of recently expanded air links. The Canadian Tourism Commission, Canadian partners and Nordic missions started a significant tourism development program in 1995.

Nordic investment in Canada is quite extensive (valued at more than $2 billion), and it continues to grow. Sweden and Norway have substantial FDI in Canada (in excess of $1.2 billion) in such sectors as mineral processing, high technology, biotechnology and finance. Canadian investments in the Nordic countries remain limited to about $150 million.

The Baltics

Canada does not have extensive trade relations with Estonia, Latvia and Lithuania, since they have only recently regained their status as nations. Since 1991 when they regained their independence from the Soviet Union, these countries have made great strides in strengthening their economies. Bilateral trade with the Baltic States for 1995 was $60 million.

With considerable success in implementing economic reforms, Estonia and Latvia offer a number of promising opportunities for Canadian businesses. Recent successes in building materials confirm that a substantial market has opened up in Latvia and Estonia, and to a more limited extent, in Lithuania. Opportunities in telecommunications appear plentiful, and a number of Canadian companies are already active in this area. Double Taxation Agreements have been signed with Latvia and Estonia, and an agreement is being negotiated with Lithuania. A FIPA has been signed with Latvia.

Contact

Department of Foreign Affairs
and International Trade
Northern Europe Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 995-9401
Fax: (613) 995-6319

Central European Markets

The major potential Central European market sectors by country are as follows:

Germany

Germany is the third-largest economy in the world and the largest in Europe, having a population of 81.4 million and a GDP of $2.5 trillion. It is also the second-largest importer and largest tourism spender in the world. It is the third-largest contributor to R&D and the fourth-largest foreign direct investor in the world. In summary, it is a rich market, an outstanding technology partner and an important source of FDI.

Germany ranked as the fifth most important export destination for Canadian goods in 1995 ($3.3 billion). Major Canadian exports to Germany are pulp and paper machinery; mechanical appliances; ore slag and ash; articles of wood; electrical machinery and equipment; and aircraft. Most of the export growth during 1991-95 is attributed to the sale of end products with high value-added content.

Germany is Canada's fourth-largest source of FDI, with approximately 300 German-owned companies operating in Canada. These companies employ over 65 000 people, pay nearly $1 billion in salaries and wages, and produce some $5.1 billion in goods and services. Reciprocally, Canada is an important investor in Germany, where major Canadian companies in automotive, telecommunications and aerospace hold significant assets. Moreover, a number of projects indicate strong potential for alliances and joint ventures between the two countries.

Canada is one of the top 10 destinations for German travellers. In 1995, Canada welcomed 422 500 visitors from Germany who spent some $448 million, an increase of 15 percent over 1994.

Germany is Canada's largest European partner in formal scientific and technical (S&T) co-operation; this year marks the 25th anniversary of the Canada-Germany Scientific and Technical Co-operation Agreement. Scientists have collaborated on over 300 ventures, in fields such as agriculture; aquatic sciences; energy; environment; forestry; geosciences; health/medical care; space applications; and information technologies. The Agreement endures due to the complementary nature of scientific interests and capabilities. At the same time, the scope of collaboration also recognizes the importance of S&T as a prelude to economic competitiveness, investment and trade.

The market offers a highly sophisticated financial and communications infrastructure. Transportation facilities are excellent and professional services are widely available. Preferences are clearly for high-quality products, and income is available to afford them. Consumers are not reluctant to buy from foreign suppliers, but there is a strong preference to purchase from companies established in Germany, particularly in the service industry. German companies favour long-term strategies and market share over short-term profits. They look for partners and suppliers that are committed to stay in the market. Germany is also an excellent location to serve neighbouring markets to the east or west.

Sectors offering excellent opportunities to expand export trade, to attract foreign investment, to enter into strategic alliances or to favour technology co-operation include: computer software and systems; telecommunications equipment; housing and building products; agri-food; the environment; automotive; geomatics; machinery; tourism; medical products and devices; and farm equipment.

Austria

This is a small and prosperous country that offers good potential for Canadian business interests. In 1995, Canadian exports to Austria were valued at $295 million, while imports totalled $536 million. Manufactured products represent approximately two thirds of Canadian exports. Austria joined the EU in January 1995, enhancing its favourable position as a source of partnerships for new business in the countries of both Eastern and Western Europe. Major opportunities for Canadian exports, joint ventures and technology transfer exist in the aerospace; automotive; forestry; informatics and telecommunications; environmental; and agri-food sectors.

Switzerland

Canada's exports were valued at $550 million in 1995, while imports accounted for $763 million. Canada is the second most favoured overseas destination for Swiss tourists. Switzerland is Canada's sixth most important source of FDI. With a population of seven million and an anticipated GDP growth of 1.5 percent in 1997, Switzerland is a good country in which to do business. Major opportunities exist in environmental technology and services; health-care products; informatics/telecommunications technology; sporting goods; and tourism.

Czech Republic

International interest continues to grow in the politically stable Czech Republic as the country develops more open market facilities and builds on its economic successes. The Czech automotive sector has benefited from foreign investment, as have telecommunications systems from the recent privatization of the SPT, the state-owned operator. Numerous opportunities exist throughout the country in many sectors, with the strongest trade opportunities for Canadians in construction (environment, agriculture, mining) and in the upgrading of road, rail and energy infrastructures.

The heavily industrialized regions of the Czech Republic are also addressing the need for new environmental regulations. As a result, there are significant opportunities for Canadian equipment and related services in waste water treatment, air pollution and water treatment. In the transportation sector, the Czech aircraft industry has a long tradition within the country, and its privatization and restructuring also offer attractive opportunities for Canadian exporters. Although EDC has several lines of credit available to Canadian exporters, the main challenges are to find the right partner and to deal with the evolving infrastructure in the legal, banking and accounting sectors. The Czech Republic is now a member of the OECD.

Hungary

Sectors currently offering the best commercial prospects for Canadian companies in Hungary include transportation; construction; energy; environment; tourism development; and infrastructure development. Many investment opportunities, whether greenfield or joint venture, also exist.

Additional opportunities for exports can be found within the framework of multilateral bank projects (World Bank, EBRD), government privatization programs, and in the area of municipal affairs. Others exist in agriculture; training; distribution and retailing; commercial legal services; health care and administration; and cultural industries. Hungary is now a member of the OECD.

Poland

The main opportunities for Canada in Poland can be found in construction; telecommunications; informatics; geomatics; agriculture and food processing; and environmental technologies and services. Poland also offers opportunities in forthcoming World Bank projects in forestry; energy; highway construction; telecommunications; steel; health care; and rail equipment. In addition, there will likely be increased demand for pharmaceutical products in the years ahead. Poland is now a member of the OECD.

Slovakia

Slovakia's economy has turned the corner, and in 1995, the country registered a GDP growth of 7 percent. Its exports continue to grow.

Canadian priority sectors include construction; energy; environmental technologies; and transportation.

Contact

Department of Foreign Affairs
and International Trade
Central Europe Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 996-2858
Fax: (613) 995-8756

Southern European Markets

The major potential Southern European market sectors by country are as follows:

Italy

Italy is the world's fifth-largest market and Canada's seventh largest trading partner. Two-way trade between Canada and Italy amounted to $5.1 billion in 1995, with Canadian exports reaching $1.8 billion. Although the bulk of these exports are commodities, an increasing proportion is composed of manufactured goods and niche-oriented value-added products and services. Canadian companies should look to Italy for partnerships that can provide access to innovative manufacturing technology and machinery manufacturing capabilities suitable for the EU market. Excellent opportunities exist in information and communications technologies; environmental technologies; medical equipment; and automotive and industrial machinery.

Turkey

Turkey's economy improved substantially in 1995 with GDP growth of 7.5 percent. Two-way trade in 1995 was $436 million, with Canadian exports accounting for $286 million, an increase of 103 percent from 1994. In addition to primary commodities such as iron, aluminum and durum wheat, Canada exports value-added goods, particularly from the telecommunications and transport sectors. Canadian exports of services to Turkey are increasing, and Canada is currently one of the top 10 foreign investors. Through its Industrial Co-operation Program, the Canadian International Development Agency (CIDA) provides assistance to Canadian firms interested in partnerships with the Turkish private sector. Major opportunities for Canadian exporters exist in the services sector and for goods principally in agri-food; information and communications technologies; construction; defence; energy; and the environment.

Greece

Notwithstanding its current economic difficulties, Greece will offer opportunities for export growth in 1997. Two-way trade in 1995 was $190 million, with Canadian exports totalling $123 million. Over the next seven to 10 years, Greece will be the recipient of substantial funding (about $18 billion) under the EU's Delors II Program. This will be matched by funds from the Greek government, and will create a total expenditure program expected to top some $30 billion, which will be dedicated to a large number of infrastructure projects in the transportation, telecommunications, information technology and environment fields. Other opportunities exist in agri-food; consumer products; renewable energy equipment; power systems; building products; construction equipment; electrical equipment and machinery; medical equipment; and defence.

Albania

Albania is Europe's poorest country, with a per-capita GDP of about US$500. However, the country's GDP growth rate of 8.6 percent in 1995 was among the highest in Europe, albeit from a very low base. The government has made rapid progress in stabilizing the economy following the demise of Eastern Europe's last Communist government in 1991. The current government is saddled with a significant budget deficit, and lack of financing remains a critical factor in this market. Canada's best trade and investment opportunities appear to be with World Bank and multilaterally funded infrastructure development and rehabilitation projects, as well as in the sectors of oil and gas, and mining and metallurgy. The World Bank considers Albania's infrastructure to be the weakest in Europe, and its lending to the country now exceeds US$240 million.

Bulgaria

Although Bulgaria has economic potential and despite the fact that it had reached a higher level of industrialization and product distribution than many of its neighbours, progress in economic reform is being hindered by endemic corruption and the lack of access to financing. Canadian companies are advised to seek good, qualified local partners, and to move one step at a time. Market development efforts could concentrate on export opportunities that exist in minerals (zinc, copper, aluminum chloride) and manufacturing equipment components. Other areas of opportunity include packaged food; food processing and distribution; packaging equipment; telecommunications equipment and services; geographic information systems technology; and residential and commercial construction materials.

Romania

With a stable political climate, a relatively large market of 23 million people and steady economic growth (6.9 percent in 1995 and 4 percent in 1996), Romania offers increasing opportunities, and foreign business interests are responding. More than 2000 companies have been privatized, over 85 percent of them through domestic management-employee buy-outs. Foreign investment is slowly growing, and would accelerate if the process were less complex and lengthy. The number of Canadian companies with operations in Romania, either investments or distribution and sales operations, is growing rapidly. Manufacturers, including Canadians, are taking advantage of the relatively low cost of labour, good skills, and large surrounding markets. Imports are showing double-digit increases, more in consumer goods than in industrial goods. World Bank loans (of an expected US$400 million per year) and other foreign investment are now financing the rehabilitation of Romania's infrastructure and industrial base. Significant opportunities for Canadian companies exist or are emerging in energy projects (CANDU Unit #2, thermal plant upgrades); oil and gas (restructuring of existing facilities, new exploration); transportation (aircraft, airport improvements, rail restructuring); telecommunications and information technologies; construction and building materials; environmental protection and pollution abatement; agricultural equipment; and food-processing technology.

Slovenia

Slovenia is an example of successful transition to a market-oriented economy, with a per-capita GDP of just over US$9000 in 1995. Its role within the former Yugoslavia was heavily market- and export-oriented, and it has maintained this focus. As a result, its bilateral trade with Canada ($81 million in 1995) rivals that of other much larger Central European nations. Slovenia has recently concluded an association agreement with the EU, and will likely be among the first of the formerly Communist countries to join that body. Slovenia has one computer for every nine people, and 46 percent of Slovenian firms used computer networks in 1995. Slovenia is also a net food importer. Those sectors representing the best trade and investment opportunities for Canadian firms include transportation; energy; information technologies; and agri-food.

Croatia

Croatia has embarked on a major program of reconstruction and modernization and has enacted financial and legal reforms to strengthen its market economy and attract FDI. Much of this development will be funded through domestic Croatian resources, while some will be funded by IFIs such as the EBRD and the World Bank. The parts of Croatia damaged in the conflict in the former Yugoslavia may also benefit from the reconstruction efforts associated with the peace process. Croatia has the lowest inflation rate (3 percent) in this region, a stable currency and foreign exchange reserves of US$1.9 billion. The main opportunities for Canadian companies are in the sectors of transportation; communications; energy; construction; tourism development; and agriculture (including technology transfers).

Bosnia and Herzegovina

The Peace Agreement for Bosnia and Herzegovina provides for a massive reconstruction effort to restore normal civilian life. The World Bank and the EBRD have earmarked US$5.1 billion over three years (1996-98) to meet priority needs in Bosnia and Herzegovina, as well as the war-damaged parts of Croatia. Opportunities for Canadian companies will arise very quickly, as fast implementation is the keystone of this program.

Priorities include rebuilding municipal water, waste and heating systems; restoring power, gas and telecommunications networks; clearing land mines; rebuilding the health and education systems; repairing housing; and resuming economic activity in agriculture and industry. Direct contact with the banks and local authorities will be essential to participate in the reconstruction program.

Federal Republic of Yugoslavia

Successful implementation of the Bosnia Peace Agreement should result in the lifting of UN sanctions on the Federal Republic of Yugoslavia. Serbia and Montenegro were damaged little in the war, but their economies have suffered. Markets will be limited by the lack of financing; however, opportunities for investment and market development may arise out of Montenegro's privatization plan (and Serbia's, if it is implemented.)

Former Yugoslav Republic of Macedonia (FYROM)

FYROM was not physically damaged by the conflict in the former Yugoslavia, but its economy has suffered from the sanctions imposed on the Federal Republic of Yugoslavia and from a trade blockade imposed by Greece in 1992-95 in a dispute over the country's name. Export opportunities are limited by lack of financing and FYROM's low GDP of about US$800 per capita. FYROM is undertaking a massive privatization and structural adjustment program, providing opportunities for market development through investment. Opportunities also exist in infrastructure rehabilitation projects funded by the World Bank.

Contact

Department of Foreign Affairs
and International Trade
Southern Europe Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 996-0105
Fax: (613) 995-8783

Eastern European Markets

The major potential Eastern European market sectors by country are as follows:

Ukraine

The economic prospects in Ukraine have improved, and the economy has stabilized. In September 1996, the country introduced the Hryvnia as its currency, replacing the interim coupons that had been in use since independence. The introduction of the Hryvnia is a major step in the economic evolution of Ukraine. Full economic recovery remains some way off, however, and will rely on continued progress in economic and political reform, and on the ability to access foreign technology, equipment and capital.

Market Opportunities

The following sectors represent the greatest potential for doing business with Ukraine:

Energy, particularly Oil and Gas

Ukraine's long-term economic revival depends on its capacity to reduce dependency (and foreign exchange expenditures) on imported energy, particularly oil and gas from Russia and Turkmenistan. Endowed with vast reserves of coal and large oil deposits, Ukraine has the resources necessary to achieve energy self-sufficiency. This process, however, will be highly dependent on foreign technology, expertise and capital.

Agriculture

Once the breadbasket of the Soviet Union, Ukraine has been reduced to being a net importer of food. Poor agricultural practices, inadequate sowing and harvesting equipment, and meagre storage and food-handling facilities plague the country. Nevertheless, the rich black soil and the indomitable spirit of the Ukrainian farmer hold the promise of a better future. Again, the key to recovery is foreign technology, expertise and equipment.

Construction and Building Materials

There is a desperate and growing shortage of housing and commercial space in Ukraine. In addition, existing buildings show the signs of abuse and neglect under the previous regime.

Central Asia (Kazakstan, the Kyrgyz Republic, Turkmenistan, Uzbekistan, Tajikistan)

Central Asia is a vast storehouse of natural resources, most notably oil and gas. Among the mineral riches are some of the world's largest gold fields. Under the Soviet system, these resources were largely untapped, and those that were developed were seriously mismanaged. The development of these resources is the number one economic priority of the Central Asian republics, and foreign investment is a key part of the solution.

Caucasus (Armenia, Georgia, Azerbaijan)

Continuing conflicts between Armenia and Azerbaijan and within Georgia limit economic opportunity. Nevertheless, interesting small-scale opportunities do exist, and there are prospects for very large projects in the future. Azerbaijan has potentially the largest oil reserves in the world, although development is hampered by disputes over the ownership of offshore reserves in the Caspian Sea, along with the need to transport oil across neighbouring states to get it to market. In addition, the years of neglect under the Soviet system have created a need for extensive renovation of the infrastructure.

Russian Federation

Changes in the Russian marketplace have occurred at an unprecedented pace in the last five years, creating tremendous longer-term commercial opportunities. Russia offers vast untapped natural resources, a well-educated population and a large incipient consumer market. Canada's interests in Russia have evolved accordingly, and our commercial activities now span many sectors.

Market Opportunities

The following sectors represent the greatest potential for doing business with the Russian Federation:

Oil and Gas

The Russian oil and gas sector provides excellent opportunities for Canadian firms. Over 30 Canadian companies have been active as investors (total investment of approximately $300 million), joint-venture partners and suppliers of goods and services to Russian companies and to foreign investors. Despite problems related to taxation, access to pipeline facilities, production sharing and customs, Canadian companies will maintain a keen interest in the Russian market, especially over the longer term. Canadian companies have also won significant contracts for associated construction and engineering projects.

Agri-food

One third of Canada's exports to Russia are in the agri-food sector. Russia imports over 50 percent of its food, and this figure rises to as much as 80 percent in areas like the Far East. Opportunities exist for Canadian companies in processing, packaging, sales of equipment, distribution, and direct sales of all kinds of food products. Sales of agri-food products in 1995 were up 29 percent over 1994; sales in the first six months of 1996 have already reached approximately 80 percent of total 1995 sales.

Mining and Metallurgy

There is considerable potential for sales of Canadian expertise, technology and equipment in the mining and especially the coal sector. Gold mining is also an area of significant interest to Canadian companies.

Advanced Technologies

Telecommunications and aviation/aerospace companies lead the way here. Several telecommunications companies have established offices in Moscow to support their activities, which range from modernizing the Moscow telephone system to R&D activities. There are important opportunities in the area of telecommunications products, technologies and services.

The entire aviation industry in Russia is undergoing a major overhaul, creating opportunities for sales of technology, engines and aircraft. Several major Canadian aerospace and aviation companies are pursuing sales in Russia.

Construction

With the return of 750 000 military personnel from Central and Eastern Europe, the Russian Federation is facing a severe housing shortage. Canadian companies are pursuing sales of construction materials and technology. Successful model housing projects in Siberia showcase Canadian expertise in the field of cold climate construction.

Forestry and Forest Products

Russia is home to over one third of the world's total forest reserves. Opportunities exist for sales of equipment, technology and services as well as for licensing agreements for the technology to manufacture equipment.

Services

Trade in services continues to grow, making up approximately half of Canada's total trade with Russia. Canadian companies are providing professional services such as engineering; design; legal and business services for banks, hotels and restaurants; as well as education and training.

Contact

Department of Foreign Affairs
and International Trade
Eastern Europe Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 996-2633 (Russia)
Tel: (613) 996-6429 (Ukraine, Central Asia, Caucasus, Belarus, Moldova)
Fax: (613) 995-1277

Investment and Alliances — Europe

Outside the NAFTA market area, Europe is Canada's leading source of direct investment, advanced technology and partners for strategic alliances. As noted in the government's foreign policy statement "Canada in the World," our business-development efforts in Europe will focus on "investment, technology and strategic alliances," which offer strong potential for wealth and high-quality job creation here in Canada.

Business Environment

In recent years, the investment promotion activities of our competitors have intensified, with an estimated 9500 jurisdictions now actively pursuing European firms to attract direct investment. The NAFTA allows Canada to compete as a gateway to over 360 million consumers with a combined GDP of over $8 trillion. At the same time, in the NAFTA market area, European parent firms are critically evaluating Canadian subsidiary performance in direct comparison and competition with their affiliates elsewhere in the NAFTA market.

The European Investment and Alliance Opportunity

Canadian jobs and economic growth depend on foreign investment. The most important capital exporting sources for Canada are respectively, the United States, Western European countries and Asia, most notably Japan. An estimated 1.3 million jobs are directly attributable to FDI, while an additional 2 million are indirectly created by FDI. Some 75 percent of manufacturing exports and 50 percent of all exports are attributable to FDI.

As European companies expand globally, they are investing more in Canada. European investment in Canada is up nearly 129 percent to over $40 billion in 1995, from $17.6 billion a decade earlier. This growth is significantly faster than the growth of overall investment in Canada, which rose 86 percent from 1985 to 1995. Europe's importance to Canada as a source of direct investment is also growing. In 1985, only 19.5 percent of Canada's stock of FDI came from European firms; now that figure is over 24 percent. Only the United States, with the sheer size and proximity of its economy, provides more FDI to Canada, with Japan contributing less than 4 percent.

For Canada, as a small, open economy, diversifying investment sources is a strategy for muting the impact of the U.S. business cycle on Canada. Europe provides nearly 74 percent of Canada's FDI from sources other than the United States. Europe is also Canada's second most favoured destination for Canadian direct investment abroad (CDIA).

The top 10 European sources of FDI for Canada are the United Kingdom, France, Germany, the Netherlands, Switzerland, Belgium, Sweden, Norway, Italy and Austria. Interest in Canada from all of these countries has grown significantly over the decade from 1985 to 1995. The U.K. and Germany increased their investment in Canada over 90 percent during this time, France over 248 percent, and the Netherlands over 115 percent. Belgium (up 636 percent), Norway (up 1071 percent) and Italy (up 553 percent) are examples of smaller markets that have dramatically increased their participation in the Canadian economy over the last 10 years.

The Jobs Strategy

In light of the government's emphasis on jobs, it is useful to look at the contribution of European firms to Canadian jobs and wealth creation. Direct investment means companies locating in Canada, creating jobs and contributing to economic growth. Of the world's top 100 transnational corporations, more than 50 percent are based in Europe *(World Investment Report 1994)*. These are among the world's leading developers of technology and sources of innovation.

There are over 4000 European subsidiaries located in Canada. We can look to the performance of German and French subsidiaries as examples of the contributions of European firms to the Canadian economy. In 1993, the latest year for which data are available, German firms employed over 65 000 people in this country, an increase of 82 percent over 1985, with a payroll of nearly $1 billion, up 152 percent over the same period. French firms employed over 40 000 Canadians, thereby contributing $1.5 billion to Canadians in salary and wages. German manufacturing shipments increased 145 percent from 1985 to 1993, to a value of over $5.1 billion; French firms in Canada shipped $6 billion in manufactured goods in 1993, up over 154 percent since 1985. In 1993, German firms spent $69 million in R&D in Canada, up substantially from the $16 million spent in 1985. French firms invested $52 million in R&D in Canada in 1993, again up significantly from the 1985 figure of $10 million.

If the performance of French and German firms is indicative of a good proportion of the 4000 European subsidiaries in Canada, it underscores how important these channels are for the transfer of R&D management expertise and advanced technologies to Canada. In the 1990s, when U.S. firms' R&D expenditures in Canada were steady or declining, European firms significantly increased the proportion of their R&D performed in Canada.

Attracting Technology-intensive Investment and Alliances

Ongoing wealth and job creation derive, in part, from the ability of Canadian firms to export technology-intensive goods and services. But we cannot "grow" it all on our own. Canada produces about 3 percent of the world's R&D. As a group, European countries represent over US$123 billion of R&D expenditures annually. Germany, France and the U.K. rank respectively as the world's third-, fourth- and fifth-highest R&D spenders.

European Investment and Alliance Program Elements

The Europe Bureaus have an active investment-attraction program in all capital-exporting European countries, and have made investment attraction a top priority for 1997-98 within the government's Jobs Strategy.

European Investment & Alliance Program Elements 1997-98

Initiative	Canadian Clients	European Targets	Objectives
European Strategic Alliances Program (ESAP): HQ & missions	300-350 technology-based firms in 11 strategic sectors	Technology-based European firms, large and small	• facilitate strategic alliances for market access, technology exchange, product development, equity • create awareness in the target market of Canada as a source of advanced technology and a destination for technology-based investment and alliance partners
European Venture Capital Program (EVCAP)	Technology-based SMEs seeking strategic sources of venture financing	Institutional investors, merchant banks, investment bank, financial intermediaries	• facilitate formation of strategic relationships to provide financing and market access • create awareness in the target market of Canada as a source of advanced technology and a destination for technology-based investment
Corporate liaison and investment outreach	Canadian subsidiaries, mandate clients, provinces regional economic locations	European multinationals, priority sectors	• expand investment through product-market or R&D mandates, attract greenfield investment, aftercare • create awareness in the target market of Canada as a destination for investment to serve the NAFTA market • identify and overcome any perceptions of Canada that may act to reduce our attractiveness as an investment destination
Canadian executive speakers	Canadian firms, provinces regional economic locations	European investors, companies, investment intermediaries	• make strategic use of expert testimonials to increase awareness of Canada as a competitive investment location within the NAFTA market • increase the number and quality of investment leads
Awareness building and branding	Canadian firms, provinces regional economic locations	European investors, companies, investment intermediaries	• use vertical trade and general business publications, in-flight videos and collaboration with the Canadian Tourism Commission to disseminate messages designed to increase awareness and interest in Canada as an investment destination • use direct response methods to encourage investors to connect with Canadian officials to pursue investment opportunities
Mission initiatives, investor relations & servicing, investment information booths	Canadian firms, provinces, regional economic locations	European investors, companies	• influence investment decision makers to locate in Canada • influence foreign firms to seek Canadian alliance partners • pursue and close investment deals in collaboration with domestic network participants

Strategic Objectives

- to increase awareness in Europe of Canada as an investment destination;
- to increase the amount and quality of European direct investment in Canada; and
- to increase the number and quality of opportunities for Canadian technology-intensive companies to form technology-based strategic alliances with European counterparts.

Sector Priorities

The sectoral priorities for investment and alliances are driven by three main elements: the government's Jobs Strategy; the opportunities in the target market; and agreement within the business-planning framework on priorities for sector-based SME support by the government. Within DFAIT's investment mandate, many elements are driven neither by sectors nor by the needs of individual firms, but rather respond to non-sectoral market opportunities.

Contact

Department of Foreign Affairs
and International Trade
Investment Section (representing
Europe Bureaus)
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 995-6439
Fax: (613) 995-6319
greg.meredith@extott04.x400.gc.ca

InfoCentre: 1-800-267-8376
Bulletin Board: 1-800-628-1581
FaxLink: (613) 944-4500,
from abroad (613) 944-6500
World Wide Web: http://www.dfait-maeci.gc.ca
Strategis: http://strategis.ic.gc.ca

Europe Investment & Alliances Strategic Sectors CIBS 1997-98

Other European Priorities (e.g. German Action Plan)	Jobs Strategy	ESAP\EVCAP
Agri-food and fisheries	Agri-food	Agri-food biotechnology; processing
Construction and forestry	Forestry and building products	
Environment	(reflected in strategic alliances)	Industrial waste water; clean air technologies
Information technologies and telecommunications (IT&T)	IT&T	IT&T-broadband, CTI, telecom, Internet
Life sciences	(included in biopharmaceuticals medical devices, pharmaceuticals)	Life sciences (biopharmaceuticals, medical devices, pharmaceuticals)
Machinery		Advanced manufacturing technologies (AMT); sensors; processing and packaging equipment
Chemical and petrochemical	Chemical and petrochemical	
Transportation (automotive and aerospace)	Transportation (automotive and aerospace)	Oceans technology

LATIN AMERICA AND THE CARIBBEAN

Introduction

While Canada's economy is moving forward, it is doing so at a relatively slow pace compared to certain Latin American countries. In 1995, a crisis that could have assumed major proportions actually interrupted growth only in Argentina, Mexico and Uruguay. This large and growing region, expected to attain a regional GDP of $2.8 trillion by 2000, recorded a cumulative rate of increase in GDP in the period 1991-95 of 15 percent, led in this by the South American countries with a growth of 20.3 percent for the period in question. The population, of an average age of under 20 years and predicted to reach 500 million by 2000, benefits from an 85-percent literacy rate compared to 75 percent in East Asia-Pacific and 46 percent in South Asia.

The implementation of a Canada-Chile interim free trade agreement in advance of Chile's accession to the NAFTA will fuel a competitive advantage for Canadian exporters. Other instances of greater market liberalization such as privatization, unilateral tariff reductions between Brazil and Argentina and regional trade agreements will provide an impetus to the economies in the region. The conclusion of a Western Hemispheric Trade Agreement will increase intra-regional trade and investment and stimulate an openness to international competition in the region. The heads of government at the Miami Summit in 1994 agreed to move toward meeting this objective by the year 2005. Canada supports this initiative as its top goal for the region.

Business Environment

Growth in Latin America, spurred by a burgeoning middle class and increasing economic collaboration among the region's countries, is expected to be uneven in 1997. Chile and Peru will continue with sustainable growth rates whereas Argentina and Mexico will show modest growth, led primarily by investment and exports. Domestic demand will guarantee 4.5-percent economic growth in Brazil. Despite a difficult economic climate, and harsh IMF-inspired measures, Venezuela's GDP this year is expected to grow by 2.5 percent, reflecting unexpected windfalls from increased oil revenues and signalling improvements in the economy. The overall hemispheric growth is forecast to be about 3 percent for 1997. In efforts to improve their long-term economic prospects, governments will continue to emphasize fiscal restraint, market liberalization and the privatization of state-owned enterprises.

Over the last 10 years, Canada's interest in several areas — particularly the political sphere, trade, investment, research and technology — has converged with that of many Latin American countries. In these areas, Canada is regarded as a source of investment, know-how, technology and trade. As a result, the number of joint ventures between Canadian and Latin American companies has increased. Many Latin American countries are putting natural resources at the core of their economic development strategies. Like Canada, these countries are rich in agricultural, forestry, fishing, mineral and energy resources. Given Canada's own expertise in these sectors, the opportunities Latin America presents for Canadian businesses are significant.

The range of goods and services Canada exports to the region is well diversified, including both commodities and manufactured products, and totalled some $5.9 billion in 1995, a growth of 21 percent over 1994, ahead of the growth in Canada's exports to the United States (14 percent). Canada's sales in the services sector account for an additional estimated 33 percent (i.e. approximately $2 billion). Our objective is to reach $10 billion in merchandise exports by the year 2000. With a particular focus on SMEs, we will prioritize initiatives aimed at increasing the number of exporters to the region and at facilitating access to market intelligence and reducing market barriers.

Investment

Canada's growing presence in the region is also reflected in an impressive level of investment, valued at some $15 billion. This includes $1 billion in Argentina and Venezuela, $3.5 billion in Brazil, and actual and planned investment of over $7 billion in Chile. To support and enhance this growth in investment, Canada has already signed a number of FIPAs in Latin America and is pursuing others. FIPAs are bilateral, reciprocal agreements to promote and protect foreign investment through legally binding rights and obligations concerning national treatment, transfers of funds, trade-related investment measures, transparency and dispute settlements. Agreements are in place with Venezuela, Argentina, Uruguay, Trinidad and Tobago, Barbados, Panama and Ecuador. One is being concluded with Peru; discussions have reached the proposal stage with Cuba, Brazil, El Salvador and Colombia; and offers to negotiate have been made to other Central American and Commonwealth Caribbean countries. For Chile, these provisions will be rolled into the bilateral agreement, as is the case for Mexico under the NAFTA.

As Canadian businesses explore new opportunities in Latin America and the Caribbean, they can be thwarted by barriers that include inadequate infrastructure, protectionist or incongruent domestic policies and complex laws and regulations that can defy transparency and undermine the predictability of the business environment. The many economies of the region are in various stages of adapting to the globalization of business and liberalization of trade. In developing their market-entry strategies, Canadian firms pursuing business in the region must take into account not only factors such as financial risk, the regulatory environment, the legal structure, and staffing and supplier agreements, but the cultural differences both within Latin America and between that region in general and Canada.

Understanding the cultural factors such as language, family, trust, respect, heritage and regional influences can be crucial in determining the success of a business undertaking. To effectively address these challenges, it is in many cases a prerequisite to successful market entry to form alliances or partnerships with a local market presence (an agent, representative or joint venture). The Free Trade Area of the Americas (FTAA) process will help to harmonize the business environment in the hemisphere.

Action Plan

Canada's commercial edge in Latin America includes our strength in key sectors such as resources, telecommunications and environmental management, NAFTA credentials, major investments in selected markets and recognition as a high-technology and advanced economy. Building on this, the action plan developed by the South America and Inter-American Relations Division (LSR) and the Caribbean and Central America Division (LCR) and their partners will focus on the following priorities: expanding market access (NAFTA expansion, NAFTA/MERCOSUR dialogue, FTAA); market information and intelligence; building partnerships; political/economic analysis and risk assessment; and assisting market reforms. The 1997-98 Action Plan identified areas of strong future growth potential of particular interest to Canadian exporters. The priorities, as detailed below, are in the following fields: informatics and telecommunications; agriculture and agri-food; oil and gas; transportation; environment; forestry; metals and minerals; power and energy; aerospace and defence; and business, professional and educational services. A specific business plan and business guide have been developed for Chile, as a country of focus, and will be used as a framework for co-ordinating Team Canada priorities and initiatives in this market. Brazil, which has grown to surpass Mexico as the largest market in the region for Canadian exports, will be a priority in our activity plan.

Informatics and Telecommunications

Many trading partners in Latin America are liberalizing their investment and competition laws and regulations, while encouraging privatization, private-sector concessions and the development of private networks. Brazil, Colombia, Chile, and Argentina have become major markets for telecommunications, computers, peripherals and software. Most other Latin American countries, including Peru, Venezuela, Guatemala, El Salvador, Panama and the Caribbean, show similar potential for expansion and growth in the telecommunications sector. Canadian suppliers of telecommunications equipment to rural areas, microwave systems, switches, private networks, cellular base stations and spectrum-management services are well positioned to benefit.

In informatics, Canadian firms should perform well in Latin American markets. Most, if not all, Latin American countries are signatories to the new Trade in Intellectual Property (TRIP) agreement under the WTO. This agreement provides strict guidelines regarding copyright protection and enforcement. In Brazil, the redefinition of import regulations has led to a significant market for foreign software suppliers. The market still needs leading informatics technologies, and opportunities exist in all industrial and commercial sectors. Good opportunities for Canadian companies exist in database management systems, local and wide area networks (LANs and WANs) and their management systems, connectivity products, and interoperability and asynchronous transfer mode (ATM) products.

The region is also expected to be an important growth market for geomatics products and services (such as cadastral mapping), with anticipated expenditures between $650 million and $1.5 billion over the next five years. The geomatics market in Latin America is in a state of transition, with technologies such as digital mapping, geographic information systems (GIS), remote sensing and global positioning systems (GPS) just beginning to take hold in the public and private sectors. The market is dominated by government and public enterprises, but growth is anticipated in the private sector, particularly in the resource area (agriculture, forestry, mining and energy). Argentina, Bolivia, Colombia, Peru, Chile and Brazil, in particular, offer good market prospects.

Agriculture and Food Products

Latin American and Caribbean countries import some $25 billion worth of agri-food products per annum with Canada's share in 1995 being more than $1.1 billion. This represented an increase of about $15 million from 1994, despite a sharp reduction in the sales of non-durum wheat. There were substantial increases in sales of other agri-food products, and this trend is expected to continue. Reformulating policies is a priority in the liberalization process in Latin America; trade distortions and agricultural subsidies have been reduced in most countries. The Caribbean basin, with a population of 31.5 million and many diverse markets (23 countries/territories), has a long-standing association with Atlantic Canada. Eighty percent of Canadian exports to South America and 60 percent of those to Central America and the Caribbean are oilseeds and grains, chiefly wheat.

Some of the constraints on Canadian agri-food exports that have been identified include: stiff competition from U.S. products, which dominate the market, many "name" products made locally under licence, high transportation and duty costs, complicated product approval and/or certification requirements, lack of financing, high inflation and currency devaluation.

The growing purchasing power of the some 50 million middle- and upper-income consumers in the region provides increasing opportunities for the export of value-added food products. Within this market, Brazil will continue to receive emphasis because of its size, economic potential and current propensity to import Canadian products. In 1995, the Brazilian market ranked second after Mexico in the region, importing $228 million in Canadian agri-food products. A secondary emphasis will be on expanding exports of processed products to Chile (1995 exports of $77 million), Colombia (1995 exports of $75 million) and Venezuela (1995 exports of $121 million, which, to the end of September 1996, had increased to $128 million). Because of traditional links, Cuba and the Caribbean will continue to be good markets for Atlantic and Central Canadian exporters. The growing role of Miami as a large international distribution centre for the Caribbean, Central and South America will be the focal point for Canadian export efforts.

Increased opportunities exist in Brazil for beverages and processed food such as high-quality, deli-type cold cuts, pasta, frozen prepared meals, microwave entrees, and biscuits and crackers. Argentina, Chile, the Caribbean and Colombia are emerging markets for value-added foods and food-processing equipment and technology. Research links are well established between Canada and Latin America in agri-food biotechnology, and there is increasing interest in finding capable local partners in the region. Market information/intelligence, bilateral promotion agreements (such as the one being developed with Brazil), joint programming with Agriculture Canada, the promotion of specialized events in Canada and in the region and the facilitation of high-powered missions to and from the region will assist in positioning Canadian exporters.

Latin America is also a major market for wheat and barley malt, and constitutes the largest market for Canadian seed potatoes. Canola and special crops are a medium priority in Colombia and a low priority in Cuba and in Venezuela, which, however, offers excellent opportunities for lentils. Canada is the second-largest supplier of wheat, lentils, and canary seed to Brazil, and enjoys good prospects for malting barley and canola. Canada traditionally exports wheat and special crops and seeds to Peru, with good opportunities to be found in corn (yellow), pulses and barley. Chile is a well-established and growing market for seed and special crops, while offering good prospects in durum and red spring wheat, pulses, barley, canary and potato seed.

Opportunities also exist to expand exports of livestock genetic material to all key markets in the region. In Brazil, the livestock industry must work to improve productivity to meet domestic market demand. Canada currently has a 24-percent share of the livestock and genetics market, and prospects are promising for exports of frozen semen, embryos, dairy and beef cattle, sheep, goats, and laying and broiler chickens. Chile, Argentina, Peru, Central America and Colombia continue to be important markets for Canadian genetics: Argentina is improving its huge bovine herds and Colombia is creating a strong dairy sector. As Chile liberalizes its agriculture sector, more Canadian agricultural commodities will find solid markets in that country.

Oil and Gas

Latin America's primary energy demand is expected to show a relatively high rate of growth because of increasing urbanization and consumer demand. Producing countries in South America continue to encourage foreign participation, and are reducing restrictions on investment and imports of petroleum equipment. Increased use of gas for industry and domestic fuel will continue to open new opportunities. The National Petroleum Show (NPS) in Calgary is the major event to raise awareness about Canadian capabilities. In off years like this one, priority will be given to the Argentina Oil and Gas Show and various missions to capitalize on natural gas developments.

This sector is a high priority in Venezuela, Chile, Colombia, Trinidad and Tobago, Ecuador, Argentina, Peru and Bolivia for exploration development, production and pipeline investments. The privatization of the Argentinean oil and gas industry, which is currently under way, will create a need for up to $3 billion annually for expansion and upgrading over the next several years, hence improving the prospects for exports of gas processing, compression and transportation equipment, oil field control and monitoring equipment, and oil field services. In Brazil, Venezuela, Bolivia, Peru and Colombia, there are opportunities for sales of oil production, refinery and maintenance equipment, exploration software, training, and, in the expanding natural gas sector, pipeline and distribution systems. Venezuela is the largest market because of the size of the industry and the known reserves. Investments in the order of $49 billion will be required over the next eight years.

The proposed gas pipeline projects from Bolivia to Brazil and Argentina to Chile will present numerous opportunities for Canadian suppliers of gas pipeline materials and services, including off-highway vehicles, well services and consulting services.

Transportation (Urban and Rail)

Transportation systems and infrastructure, which are often outdated and not adequately maintained, are a priority for most, if not all, governments. It is acknowledged that these need to be upgraded and maintained in order to sustain economic growth and social development. The poorest countries in the region will need IFI financing; all countries are planning to finance this massive undertaking through the use of privatization, concessions and equity financing. The Western Hemispheric Transportation Initiative is an attempt by Latin America to plan transportation development. Canada's participation in this process in close co-operation with the private sector, a planned federal ministerial mission (early 1997) and more emphasis on market information/intelligence will be key to positioning Canadian expertise in this sector.

In Guatemala and El Salvador, the most critical deficiency is in the railway systems. Privatization is under consideration by the Guatemalan government. In Jamaica, the government's transportation policies aim at reducing government ownership in this sector. While urban transportation will stay under government control, the Jamaica Railway Corporation is being privatized, and passenger and freight services are expected to resume.

While Chile's growth over the last decade has averaged 6 percent, investment in transportation infrastructure has been lagging. Railways are a potential object of privatization, and with Chile's membership in the MERCOSUR, the country would be a logical choice as a transportation corridor for southern cone trade with the Pacific Rim. This sector features substantial foreign competition. Peru, Bolivia and Brazil are also planning railroad privatization. Argentina's long-distance freight railways and the commuter railways servicing metropolitan Buenos Aires have now all been privatized, and activities are under way to increase efficiency and reliability. Despite differences with Canadian railroad standards, potential for Canadian suppliers is beginning to materialize for track material, the rebuilding of rolling stock, and control and communications systems. Brazil is also witnessing considerable activity, particularly for cargo transport by rail.

Environment

From a global perspective, Latin America offers excellent potential; the market is expected to expand from US$6.6 billion in 1994 to US$13 billion in 2000. The area represents an important emerging market, one that ranks only behind Asia as one of the fastest-growing environmental markets worldwide to the year 2000. Reflecting the progress and growth in environmental activity in the region, Canadian embassies in Argentina, Uruguay, Colombia, Venezuela, Chile, Guyana, Guatemala, Barbados and Jamaica have all made this sector a high-priority area. Canadian Embassies in Peru, Ecuador, Costa Rica, Trinidad and Tobago and Brazil assign secondary priority status to this sector.

The region benefits from large IFI investments and offers a wide range of market opportunities for Canadian interests. In South American markets, water treatment and waste water management, the management of hazardous and solid wastes, emission reduction (oil and gas), remediation technologies (oil and gas), pollution control (oil and gas and mining), environmental monitoring and surveillance, and coastal management plans are some of the areas that offer potential. In Central America and the Caribbean, decontamination, resource preservation, the improvement in the management of services and systems, pollution prevention, coastline preservation, watershed management, and environmental action plans, among others, offer market opportunities. While programs will continue to encourage appropriate buyers to participate in the 1998 Globe event in Vancouver, the year to come will focus on direct follow-up to the federal ministerial environmental mission to South America (November 1996) and potential return visits by Latin American officials.

Forestry

Chile and Argentina consider forestry a priority sector, while Barbados, Guyana, Cuba, Peru and Brazil also view it as presenting opportunities. Export opportunities are emerging in selected Latin American countries for Canadian wood, paper and allied industries. In Peru, there are good prospects for sales of newsprint; wood pulp; kraft, carton and fine paper; sanitary paper; packaging containers; and carton boxes. With global wood supplies on the decline, Chile is one of the few growing sources of industrial wood. Forestry is one of the most dynamic sectors in the Chilean economy, growing at a rate of 9 percent per year since 1978. By 1997, the estimated size of the market for forestry and woodworking machinery will be US$80 million; for pulp and paper machinery, US$100 million; and for logging and sawmill equipment, US$80 million. The availability of wood from Chilean plantation forests is expected to triple by 2005, creating strong demand for harvesting, sawmilling, processing and transportation equipment, and for engineering and environmental-impact consulting services.

Because the forestry sector is growing, many investment/expansion plans are under way, which provide opportunities for Canadian firms. In Guyana, there are good market prospects for sales of logging and sawmilling equipment and tools for the wood-products industry. In Argentina, forestry has become a priority sector, with government now giving it renewed support through legislation and promotional policies. Traditionally, Canadian sales of forest products to Argentina have been limited to paper and lumber products, and current demand is for Canadian paper products.

Canadian exports to Venezuela have reached a mature level, with continuing opportunities for sales of newsprint, pulp, machinery parts, engineering services, and fine paper. The forestry market is estimated to be $350 million, with 80 percent of the equipment imported. Opportunities also exist in Brazil and the Caribbean. In Barbados, traditional business in this sector has been slipping for a number of reasons. Opportunities exist, but pricing and transportation will be crucial. In Cuba, the high priority assigned to the development of the tourism industry is creating a market for lumber and wood products.

Metals and Minerals

Canada's large metals and minerals industry has spawned supporting industries that are now actively exporting high-technology products and services. Products include mining, exploration, transportation, processing and related environmental equipment and consumable products. Services range from engineering, maintenance and earth sciences to surveys, analyses, transportation, software, education, training and management. Five countries consider mining and minerals to be a priority sector: Brazil, Argentina, Guyana, Peru and Chile. Cuba identifies it as a secondary sector. Mining is the priority sector in Panama, where Canadian investments could reach $1 billion over the next five years. In Venezuela, privatization and a new mining law will result in increased opportunities for investment.

Mining represents the top sector priority in Peru. Peru is becoming the Latin American mineral investment "hot-spot" with planned investment for the 1995-99 period now surpassing US$7 billion. There are some 20 Canadian mining companies firmly established in Peru with planned investments of more than US$2 billion. Peru's increasing stability, the privatization of public mining companies, and the framework of a new investment law fuel this phenomenal growth. Opportunities exist in exploration technologies, engineering and consultancy services for mining infrastructure, as well as suppliers of all types of equipment. The industry spends some $1 billion annually in supplies and equipment, with some $350 million spent on imported goods. An important Latin America Mining Ministers' Conference will coincide with the XXIII Mining Congress and International Exhibition to be held in Arequipa in September 1997. Canada will participate in this Congress.

The favourable treatment of foreign investors, a stable government and economy, and rich mineral deposits have combined to significantly increase private-sector participation and make Chile a hotbed of mining activity. The Chilean mining sector is particularly attractive to both local and foreign investors. Canadian actual and planned investment in Chile exceeds $7 billion, with the bulk of that investment ($5.5 billion) in the mining sector. Exploration investment has boomed in Chile, and the start-up of several projects now in the planning stages will thrust mining to even higher levels this decade, especially with regard to copper, silver and gold. Chile's Deputy Minister of Mines has estimated the volume of mining investments to be in the range of $12.5 billion for the period 1992-97. The increased level of mining activity in Chile has generated a high and continuous demand for mining equipment. The annual market for mining equipment alone is valued at over $650 million. Imported equipment requirements will continue to increase over the next five years as new projects valued at US$5 billion proceed to the construction stage. The priority event in the region will remain the biennial Expomin in Chile, in which the industry will play a lead role in 1998. We will encourage the organization of a ministerial mission for the occasion, and promote return visits by Latin American officials.

Argentina's new federal mining legislation is attracting interest from Canadian mining companies. There are over 70 mining companies involved in some 120 exploration and production projects, involving investments of almost $2.5 billion by the year 2000. Opportunities exist in prospecting, exploration and geological services and equipment, geochemical analysis and economic/technical feasibility studies, as well as in joint ventures to develop properties with mineral potential, and in development services and equipment.

The reopening of Brazil for mining companies (removing the restrictions on the ownership of mining operations by foreign companies) is being welcomed by the international mining community. Brazil's improved economic scenario since early 1994, combined with a set of stable rules regarding repatriation of earnings and capital, is expected to significantly increase interest in mining once the legal road block concerning foreign mining ownership is removed. The expected surge in foreign mining investment will bring downstream benefits for Canadian equipment and service suppliers. However, in contrast to other South American countries, Brazil does have a strong local industrial base for the mining industry, making competition fiercer for international firms.

The mining sector is an important contributor to Guyana's economy. There are opportunities for the exploration and mining of gold, and for geological and mining services and equipment. The government welcomes wholly owned foreign investment for large-scale operations and joint ventures with local claim holders for medium-scale operations. In Venezuela, Canada has a well-established and growing share of the market for metals (copper, zinc, nickel and scrap iron), gold mining equipment, metal products (carbon electrodes, steel tubing), and engineering services. A growing number of Canadian companies are exploring mining opportunities in Bolivia. The government is privatizing the state mining company, COMIBOL, which will offer good prospects to Canadian suppliers.

Power and Energy

It is likely that energy consumption (averaging 1150 kwh per capita) will double over the next 13 years. Major investments will be required to repair and improve generating and distribution facilities. Potential new markets for Canadian electrical equipment can be found in Peru, Colombia, Chile, Brazil, Argentina, Venezuela, Guatemala and Jamaica. In Guyana, anticipated multilateral and bilateral financing for the expansion and rehabilitation of the electricity sector will create opportunities for Canadian suppliers of equipment, as well as consulting services. In Chile, extensive investment is planned in the hydro, gas transportation, and power generation sectors. With Canada's strong technology in these fields, there are prospects for the sale of bituminous coal, boilers and parts, engineering services, environmental services and products, and gas technology.

Aerospace and Defence

Trade liberalization and the resultant economic growth are laying the basis for increased domestic and international travel, particularly in Brazil, Argentina and Chile, which have the three largest air transport networks in South America. Colombia also offers excellent ongoing prospects. This market is considered to be of medium- and long-term strategic interest for the industry, although the United States has traditionally dominated the civilian and military markets in this region. To a lesser extent, Italy, Israel, Germany, France and the U.K. have been present in the market. With the exception of Brazil's Embraer, there is very limited manufacturing in the avionics sector in South America.

Canadian activities have focussed on participation in FIDAE, South America's largest avionics air show, which takes place on a biennial basis in March at the Los Cerillos airport in Santiago. On the whole, military spending is on the decline in the region, and as a result, much of the focus is on overhaul, upgrades and new technology. Anti-terrorism and anti-drug requirements also provide niche markets throughout the region. Visibility on high-level incoming and outgoing missions such as Team Canada missions will be a critical element in future efforts. Participation in FIDAE 1998, which will see a larger role played by the industry, will also prove useful for selected companies positioning themselves for future opportunities.

Business, Professional and Educational Services

The Latin America and Caribbean region is emerging as an excellent growth area for Canadian business, professional and educational service firms over a wide array of sectors, which correspond to the investment priorities of governments as they strive to reform and modernize economies and social structures. All sectors offer opportunities for skills upgrading and human-resources development. There are high-growth areas for franchising in Latin America (Brazil, Chile, Argentina and Colombia) and strong opportunities exist for geomatics services (agribusiness, transport, utilities, communications). Promising markets also exist for second language training in Brazil, Venezuela and Argentina. Trading houses have been especially active in the region, and have been essential in expanding Canadian merchandise exports into the Caribbean, Central America and the southern part of the region.

Partnering, joint ventures and subcontracting arrangements with local firms are recommended as part of any company's market-entry strategy. The participation of local service firms in projects will serve to improve knowledge of Canadian supply capabilities and the acceptance of Canadian standards. A pilot project to follow up on projects financed by the World Bank will assist companies in pursuing IFI opportunities.

Canadian businesses will be encouraged to participate in the FTAA process to capitalize on the development of the business and regulatory environment in the region and to network with key contacts in priority sectors such as banking and financial services, telecommunications and natural resources development.

Contacts

Department of Foreign Affairs and International Trade
South America and Inter-American Division (LSR)
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 996-3877
Fax: (613) 943-8806

Department of Foreign Affairs and International Trade
Caribbean and Central America Division (LCR)
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 992-0384
Fax: (613) 944-0760

InfoCentre: 1-800-267-8376
Bulletin Board: 1-800-628-1581
FaxLink: (613) 944-4500, from abroad (613) 944-6500
World Wide Web: http://www.dfait-maeci.gc.ca
Strategis: http://strategis.ic.gc.ca

MEXICO

Introduction

Following Mexico's devastating economic/ financial crisis, which began in 1995 and was exacerbated by the dramatic political developments of the previous year, certain sectors of the Mexican economy began to see gradual growth in early 1996. The export sector, which had benefited from the devaluation of the peso, has led this recent growth. Interest rates — after spells at over 100 percent — have returned to reasonable levels and the peso has stabilized, thanks to expectations of lower inflation and a revival in capital inflows. Better than expected GDP numbers in the first half of 1996 vindicated the government's policy of "staying the course" on fiscal and monetary policy. Domestic sectors of the economy, however, were still stagnant, and it was clear that it would be some time before the general population felt any improvement. Throughout 1995, inflation far outstripped wage increases, net job losses from the crisis were estimated at over one million, and consumer and enterprise debt loads were still significant. Estimates of GDP growth for 1996 were steadily revised upwards during the early part of the year. Most analysts agree that growth rates of 3 percent to 4 percent will be attainable.

The weak banking sector may continue to restrain growth, the government's policy of ensuring that no bank will fail — through support programs for banks and debtors — will result in significant costs over the next several years. Nevertheless, the government is continuing, albeit slowly, with the structural reforms (privatization, deregulation, pension reform) that are necessary for Mexico to achieve high levels of growth in the longer term. Mexico is in full compliance with the conditions of its IMF program, and by mid-1996 had repaid the bulk of the funds supplied to it under the emergency stabilization program.

The Mexican government has stated that it remains firm in its commitment to conclude the privatization/de-monopolization process during the next two years. Officials admit that creating a competitive environment in sectors previously subject to government monopoly has been much more complex than was anticipated, and resistance has been encountered in several quarters.

Business Environment

When the new government of President Ernesto Zedillo came to power in December 1994 in an atmosphere of considerable political and economic instability, it quickly moved to set in place a recessionary policy to stem burgeoning inflation. During 1995, these events had become known in Mexico as la crisis. By the beginning of 1996, the situation had begun to stabilize. Estimates of GDP growth for 1996 range from about 3 percent to 4 percent, and the inflation rate is targeted by the government to fall to 20.5 percent in 1996, although private-sector forecasts are closer to 28 percent.

Several political factors contributed to an improved business climate during 1996, and are expected to continue in 1997. The Zedillo administration has, among other things, undertaken to eliminate electoral corruption and to give more power to the individual states, and the opposition parties are already playing a larger role, after some 70 years of domination by the Institutional Revolutionary Party. Moreover, the 1994 election was the most honest in the history of the country.

The peso has strengthened since the market instability of last November, and is stable at around 7.5 to the US dollar, with no government intervention. International reserves are US$16 billion, of which US$14 billion is IMF credit. The stock market, buoyed by capital inflows, has been performing well and has regained its pre-crisis level in peso terms. The government has successfully returned to international capital markets, with bond placements of US$1769 million. Nevertheless, markets will continue to be susceptible to any bad news, either economic or political, for some time to come.

Opportunities for Canadian suppliers can be found throughout the Mexican economy for products and services, as well as for investment and technology. No industrial sector or public enterprise has escaped the forces of change that have swept through Mexico since the late 1980s. Manufacturers are rationalizing their operations and modernizing to meet the influx of foreign competition. Service providers are struggling to become more efficient and to offer their customers the latest innovations. Government agencies have been forced to consider new approaches for the first time in decades as they react to budget cutbacks. On a broader scale, the federal and state governments have embarked on ambitious plans to modernize Mexico's outdated infrastructure, and increasingly, they are turning to the private sector to help make this happen. This environment offers many opportunities to Canadian companies.

Priority Sectors

Advanced Manufacturing Technology and Industrial Machinery

Manufacturing is at the centre of Mexico's economy, representing one quarter of the country's total GDP. Companies that are experiencing export-led growth are expected to continue the modernization trend that was established before the devaluation, since the higher cost of equipment can be more than offset by the dramatic rise in dollar export sales.

In the short term, demand from smaller domestic manufacturers will be severely curtailed by high prices in peso terms. Nonetheless, Canadian companies that can use their expertise to help Mexican manufacturers modernize to meet export requirements will find interesting niche opportunities despite the devaluation.

New tax incentives have opened a further window of opportunity for suppliers of advanced manufacturing equipment, and the assets tax has been suspended.

In the longer term, there is strong potential for increased sales of all types of manufacturing equipment. Mexican companies have come to understand the benefits of flexible manufacturing, and as young, foreign-trained engineers take over leading industrial firms, they bring with them a demand for foreign equipment as well as the ability to use it effectively.

Agriculture and Agri-food

There are excellent opportunities in Mexico for a wide range of Canadian agricultural and processed food products. Mexico was Canada's seventh-largest agri-food market in 1995, with sales of $361 million. Because the average farm in Mexico is only about five hectares, the country's agricultural sector is inefficient.

Shortages of high-quality feed and modern genetics have constrained meat production, and much of the country's farmland consists of rough terrain, not suitable for mechanization. Drought conditions in the northern states have further limited production, and food processors are hard pressed to meet the growing demand for attractively packaged convenience products.

Wheat and canola seed are our most important export products, since Mexico does not produce enough of either to meet its own needs. Canadian wheat has excellent milling properties, and observers believe that Canada could double its exports to 2 million tonnes annually. Mexicans are large consumers of cooking oil, and canola oil is increasingly popular. Other plant products considered to have good potential include barley, apples, seed potatoes, and pulses such as coloured beans, lentils and peas.

Mexico has a growing need for imported livestock and genetics, especially on the part of dairy and swine producers. Herds have been reduced because of the drought, and there will be a strong demand for replacement stock in the near future.

Mexico lacks the technology required to improve agricultural productivity. Although recent agrarian reforms have made it feasible for small farm operators to form co-operatives, lease or sell land, and to increase economies of scale, they will need foreign expertise to improve productivity. Capital shortages and high interest rates are hampering modernization efforts, and this is creating new opportunities for joint ventures.

There are also opportunities for Canadians in the Mexican processed-food industry, which has not grown fast enough to keep up with population growth. Moreover, the demand for packaged foods has grown relative to the population. Much of the Mexican industry is devoted to processing meat and dairy products, along with corn and flour milling.

There are substantial opportunities for higher value-added products, including low-fat yogurt and cheese, ultra-pasteurized milk, flavoured milk, and confectionery products. While high prices for imported products have sharply curtailed sales in the short run, Mexico's high rate of internal inflation is expected to restore competitiveness for some products. Processed meat, especially pork, offers good possibilities.

Canadian bakery products and pasta are highly regarded in Mexico. They are made from high-quality Canadian wheat flour and, until the devaluation, were competitively priced. The rising cost of wheat in Mexico is expected to offset the price effects of the devaluation over the medium term.

Fish products are another area of opportunity for Canadian producers. Demand for innovative canned fish products has been increasing. Salmon for processing in Mexico also has considerable untapped potential.

The main constraints limiting increased Canadian exports of agricultural and food products are the high cost of financing, non-tariff trade barriers and an inefficient distribution system.

Government regulations, particularly sanitary and phytosanitary regulations, present significant barriers to trade. Many products require prior import authorization. Where there is an established business relationship, the importer can often expedite shipments.

Mexico has begun to replace its system of guaranteed fixed crop prices with a program of direct rural support known as PROCAMPO, which covers corn, wheat, dry beans, soybeans, rice, cotton and sorghum. The objective of this 15-year program is to gradually align domestic prices with international prices. Analysts have predicted that in the long run, this will benefit Canadian exporters, as Mexican producers shift away from wheat toward more valuable horticultural products.

The distribution of food products in Mexico is not very efficient. Government agencies that deal with agri-food imports lack the infrastructure to facilitate shipments. Large supermarket chains typically expect individual delivery to each store, and they demand extensive after-sales support from the supplier. This is an advantage for U.S. chains that have joint ventures with Mexican retailers. Canadian firms entering this market will need help from a Mexican partner, ideally one with warehousing facilities. Joint ventures with Mexican manufacturers are another way around these constraints.

Cultural and Educational Products and Services

The process of trade liberalization has encouraged Mexicans to look beyond their borders more than ever before. In particular, the need to adopt foreign technologies and business methods is driving a strong demand for technical, business and language training.

Canadian educational institutions continue to enjoy a good reputation in Mexico. Relatively low costs, simple visa requirements, safe and clean urban communities, and a reputation for quality could lead to an even stronger position if individual Canadian universities become better known.

The book-publishing sector is a particularly promising market. Publications from Spain are widely used, but they are not always appropriate for Mexican readers because of differences in the language and culture. There are opportunities for Canadian publishers to obtain the Mexican rights to Spanish-language manuscripts and publish them in Mexico using Mexican editors. Adaptations for the Mexican market are sometimes marketable in other Latin American countries, where markets are too small to warrant local editions. Mexico also offers good opportunities for literature for children and teenagers, as well as "how-to" handbooks.

Mexico is rapidly expanding its education system, and there is an ongoing need for books for public and academic libraries. The market for CD-ROM publications is promising but constrained by the limited availability of computer equipment.

Mexico has two IMAX movie theatres, and there are opportunities for co-productions. The Mexican film industry also needs access to new technologies, expertise and equipment.

In the visual-arts market, Mexico has many private collectors, which creates an important opportunity for Canadian galleries. In addition, Mexican museums may be interested in Canadian technology.

The restructuring of the Mexican economy is driving demands for increased industrial training with about 10 000 Mexicans having pursued such training abroad during 1995. There is a strong need for train-the-trainer programs so that Mexicans who travel abroad for training can transfer their new knowledge to others upon their return. A preoccupation with costs is also leading to increased demand for packaged courseware.

Mexico is making major efforts to expand its public education infrastructure. This is creating demands for consulting services, especially on major projects sponsored by the World Bank and the Inter-American Development Bank.

In response to government initiatives, public and private schools are actively seeking alternatives to traditional methods of education, especially distance learning, in order to make education more accessible at lower cost.

Language training is another emerging market. There are some 600 language schools registered in Mexico, and the market there is considered saturated by most observers. However, immersion training abroad represents an important opportunity. Even after the devaluation, an estimated 43 000 students were enrolled in non-university English-as-a-second-language (ESL) programs in Mexico and abroad during 1995. About 10 percent of them studied in other countries. French is less popular as a second or third language for Mexicans, but the country is still an attractive market for Canadian French-as-a-second-language (FSL) providers.

The principal obstacle to more substantial participation in these markets is the fact that, although Canada enjoys an excellent general reputation in Mexico, individual Canadian educational and cultural institutions have a low profile. The relatively large market share is thus spread across many institutions. The main providers of information about Canadian universities complain that calendars and other literature are hard to obtain. Industry observers say that Canadian industrial trainers have been less adept than their U.S. competitors in adapting their products and services to the Mexican market. Publishing opportunities are primarily associated with co-publishing arrangements, since the market for English and French publications is very small. Contacts with potential Mexican partners are therefore a critical market-entry strategy.

Electrical Power Equipment and Services

In a dramatic reversal of past policies, the Federal Electricity Commission (FEC) will now rely on private-sector turnkey projects for about 60 percent of its expansion program. Until recently, energy was excluded from the government's privatization process because it was reserved for the state under Mexico's constitution.

During the term of former President Carlos Salinas, these restrictions, as they applied to electricity, were gradually relaxed. A new electricity law came into force on December 1, 1992. It retained the monopoly of the FEC over the generation and distribution of electricity sold to the public, but for the first time, the private self-generation of electricity by industrial users was allowed.

Under the high-demand scenario of the Secretariat of Energy, Mines, and State-Owned Industries, the nation would need 14 639 megawatts of new generating capacity to meet projected electricity demand in the year 2003. Of this, 6479 megawatts are being built by the FEC. Mexico would therefore require an additional 8160 megawatts of generating capacity from private-sector sources, plus associated transmission and distribution systems. This is in addition to new plants for private consumption by individual companies or groups of companies. Moreover, PEMEX (Petróleos Mexicanos), the national oil company, operates some 2000 megawatts of its own electricity-generating capacity, and it has a continuing need for expansion and modernization of its facilities.

Under a new environmental regulation, which will come into force in 1998, new government power plants will be fuelled by natural gas. Private plants will also be encouraged to use natural gas, and many older plants will be converted.

No FEC power plants have yet been built by the private sector, and the major plants that have been proposed have run into serious delays. Nonetheless, the Commission is proceeding with contracting procedures to put this plan into action. Early in 1995, a consortium of U.S. and Mexican utility and engineering companies received a concession to construct a thermoelectric plant in northern Chihuahua State. The plant, called Samalayuca 11, will have a total production capacity of 700 megawatts generated in three separate units, and will cost US$650 million.

In August 1995, the FEC announced that tenders for the construction of six more electricity-generation plants would be issued soon. The announcement also revealed that by the year 2000, the Commission will require 13 new generation plants, worth an estimated US$8.5 billion, to be built by private producers. The plants will most likely be constructed under the build-lease-transfer (BLT) option allowed under Mexican law.

Industry experts caution that the current 10-year plan for the development of Mexico's electricity sector is flawed in a number of respects. For one thing, it is based on GDP growth projections that are no longer realistic. The plan also does not take into account the effects of rising energy prices on consumer demand. A new energy plan for 1995 to 2000 was released by the Secretariat of Energy in 1996. This plan is still being evaluated by energy experts, and it is not yet clear what effect it will have on the short-run demand for equipment and services.

Another problem is that BOT financing is new to Mexico, and progress is likely to be slow, especially since top government officials are now preoccupied with other problems. The construction of private plants has also been hindered by the lack of clear ground rules, including a price schedule for surplus power that must, by law, be sold only to the FEC.

In spite of these constraints, it is clear that Mexico's power sector will have to expand to serve a growing population, as well as to facilitate industrial growth. In a study released in 1995, after the devaluation of the peso, the FEC projected that electricity consumption would continue to grow at more than 5 percent per year and forecast a need for investments of US$30 billion in the electricity sector. While the details of this expansion remain murky, the direction is clear: there will be major opportunities for companies that adopt a medium- to long-term strategy.

To take advantage of these opportunities, Canadian companies must be registered with the FEC. They will also have to become more visible to Mexican buyers, which will require the establishment of a long-term presence.

Oil and Gas Equipment and Services

Energy is the most important sector of the Mexican economy. The nation holds about 5 percent of the world's oil reserves, about 1 percent of its natural gas reserves, and accounts for 4.5 percent of world petroleum production. A few of Mexico's oil fields are as prolific as any in the world.

Ninety-five percent of Mexico's primary energy production of 7.8 quadrillion BTUs is in the form of oil and gas. Petroleum alone makes up more than three quarters of the total, although the government has announced a new policy to exploit natural gas.

PEMEX is the only producer of oil and gas in Mexico. Under Article 27 of the Mexican constitution, it has exclusive authority for all exploration and production of petroleum products. Until recently, regulated prices and protectionist procurement policies have discouraged the achievement of world levels of efficiency, but this has begun to change as a more liberal commercial environment has evolved. PEMEX has launched a massive modernization program, much of it based on imported technology. In particular, the natural-gas industry, including distribution, storage and transportation, is already opening up. Mexico's efforts to simultaneously modernize, expand and clean up the energy sector will create substantial demands for imported equipment, supplies and services.

Production and exports were boosted in 1995 and continued in 1996 as part of the effort to stabilize the economy following the devaluation of the peso. But further expansion will be needed to keep pace with Mexico's rapidly growing population. By some estimates, Mexico will have to double its refining capacity.

The devaluation has had the effect of accelerating plans to further expand the role of the private sector. So far, the government has announced that 61 existing secondary petrochemical plants will be sold, and that transmission, distribution and storage of natural gas will also be privatized and opened up to foreign investment.

Contact

Department of Foreign Affairs
and International Trade
Mexico Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 992-0385
Fax: (613) 996-6142

InfoCentre: 1-800-267-8376
Bulletin Board: 1-800-628-1581
FaxLink: (613) 944-4500,
from abroad (613) 944-6500
World Wide Web: http://www.dfait-maeci.gc.ca
Strategis: http://strategis.ic.gc.ca

ASIA-PACIFIC

Introduction

The Asia-Pacific region offers some of the fastest-growing markets in the world. These markets are as varied as the countries themselves, and they present opportunities for almost every sector of Canadian business. From the economic giants of Japan, China, India and Korea, to the emerging economies of Indonesia, Malaysia and Thailand, to Australia and New Zealand, the region holds the key to world economic growth.

These markets are not without their challenges, including language, culture and business methods very different from those found in North America. The challenges are balanced, however, by the dynamism and innovation of Asia-Pacific societies. Binding the diverse cultures and countries together are multilateral mechanisms such as APEC and subregional groupings such as the Association of Southeast Asian Nations (ASEAN). Within Canada, we have the advantage of a large community of Canadians of Asian origin who bring an enormous reserve of creativity, language skills and cultural understanding to our efforts.

In 1995, Canadian merchandise exports to the region totalled over $26 billion. Significantly, these exports have begun to diversify into higher value-added sectors. While Canada continues to be an important exporter of canola and wheat, wood pulp and lumber, and coal and aluminum, we are fast becoming major exporters of telecommunications equipment, software, executive jets and helicopters. Canadians are making enormous strides in the burgeoning service sectors of Asia-Pacific economies, where skills in transportation, communication, energy, environment, finance and education are proving an excellent match for Asia's huge infrastructural demands of over $200 billion a year.

Higher personal incomes and changing lifestyles are making Asia a booming market for tourism, cultural industries and processed agri-food products. Saving rates in excess of 30 percent in East Asia provide an enormous source of potential investment capital for manufacturing, resources, and R&D.

The development of export markets in Asia-Pacific has been a key aspect of the government's efforts to foster job creation and growth in Canada. The Team Canada missions to China in 1994 and to South and Southeast Asia in January 1996 were a watershed in Canada's approach to trade promotion. During Team Canada's visit in January 1996, led by Prime Minister Chrétien, business deals amounting to $8.7 billion were signed. In January 1997, a Team Canada mission visited South Korea, the Philippines and Thailand.

Team Canada missions have demonstrated that Canada is a strong competitor in Asian markets and have generated substantial new business for Canadians. They will continue to open doors for Canadian business in these emerging markets, and will encourage, by the example of their successes, more companies to explore opportunities in Asia.

APEC

In 1997, Canada will host the APEC forum, culminating in November with a meeting of APEC Ministers of Foreign Affairs and Trade, and the APEC Economic Leaders' Meeting. Throughout the year, Canada will be responsible for advancing APEC's trade and investment liberalization and facilitation agenda, as well as activities to promote economic and technical co-operation.

Canada's APEC policy continues to be guided by consultations with business representatives, as a crucial means of ensuring APEC's relevance to the interests and aspirations of the Canadian private sector. A partnership approach — involving all levels of government and the private-sector — is an important element in Canadian efforts for 1997. To promote awareness of business opportunities in the region for Canadian firms with a view to encouraging existing and new exporters, events will be staged across Canada. All APEC 1997 events will be fully supportive of and consistent with the goals stipulated in *Canada's International Business Strategy.*

CYAP

To contribute to and capitalize on the focus in Canada on APEC and on Asia in general, 1997 has been officially designated as Canada's Year of Asia-Pacific (CYAP). CYAP will be multisectoral (business, academia, culture, youth, media, etc.); will focus on all of Asia, not just APEC economies; will span the calendar year; and will involve all of Canada. CYAP is intended to build awareness of Asia on the part of Canadians. Its program will be designed to enhance Canadian capacity to participate in the approaching "Pacific Century," as it is sometimes called.

The Government of Canada's role in CYAP will involve provision of the umbrella framework, including logo, publications (guides, newsletter, etc.), assistance with fund raising and promotional activities, and taking the lead on key events during the course of the year. Partners will include provinces, municipalities, the business community, Asian ethno-cultural groups, educational institutions, various Asian government representatives in Canada, the Asia-Pacific Foundation of Canada, and others. Many CYAP initiatives will be existing events that are given an Asia focus, while others will be specially designed for the year.

Japan

Introduction

Despite a recent recession and structural adjustment difficulties, Japan's $5-trillion economy continues to exercise enormous influence abroad and specifically on Canada. The country continues to experience significant changes politically and socially, all of which combine to offer remarkable opportunities for Canadian companies. Canadian exports to Japan, at $12 billion in 1995, were up 23 percent, this on the heels of two years of annual increases exceeding $1 billion per year.

At the same time, Canada faces important challenges in its second-largest export market. A significant portion of the $12 billion in exports to Japan is made up of raw materials. While Canada must maintain market share in these traditional export areas, real long-term growth lies elsewhere. A strong yen, domestic deregulation and increasing consumer sophistication are forcing basic manufacturing out of Japan and boosting imports of value-added goods.

Canadian companies are achieving success in the growth sectors of this economy. This has prompted Canada's business community to develop a vision for what can be accomplished over time in the Japanese market. This vision is captured in *Canada's Action Plan for Japan.* Supported by both federal and provincial levels of government, the Plan articulates a set of private-sector strategies designed to realize Canada's potential in Japan's high-growth sectors.

Business Environment

Japan's average economic growth rate through the 1980s and early 1990s was the highest among major industrialized countries, establishing it as the second-largest economy in the world, surpassed only by that of the United States. Despite the current slowdown, the fundamentals are strong, and Japan will continue to be Canada's largest overseas trading partner. Japan has evolved into a dynamic and broadly based market with a growing appetite for imports, offering unique and profitable opportunities for foreign suppliers.

Establishing a presence in the Japanese market is not easy. Indeed, few markets are as costly or as time-consuming to enter. Nonetheless, a rapidly growing number of Canadian companies are finding that, despite the effort and expense required, the market is stable and profitable, and it is indispensable to a global business strategy.

Market Opportunities

Canada's Action Plan for Japan identifies the following priority sectors of opportunity:

Fish Products

Japan is the world's largest market for imported fish products, absorbing more than one third of total world exports, and Canada is its eighth-largest supplier. Prospects are good for imported fisheries products, as the domestic catch continues to decrease and farmed product is unable to keep up.

Imports are becoming a more important part of the Japanese domestic supply, having risen from 25 percent in 1987 to more than 42 percent in 1994. As the value and volume of imports increase, Canada is keeping pace. The proportion of Japanese male marine fishery workers 40 years of age and over has risen from 60.3 percent in 1988 to 66.5 percent in 1994. This is affecting both the volume of fish caught and the cost of labour in fish-processing firms, and has led to greater Japanese investment in overseas processing facilities, some in Canada. There is potential for more investment in this area.

Forest and Building Products

For several years, Japan has been Canada's leading overseas market for forest products, mainly lumber, and pulp and paper. In 1995, Canadian exports of these products to Japan exceeded $4.8 billion, with lumber, plywood and other wooden building products accounting for $2.6 billion of this total. Canadian softwood lumber supplies a major share of Japan's requirements for its burgeoning housing sector — the world's largest — with some 1.5 million starts annually. Canada's share of the market for finished products such as doors, windows and kitchen cabinets is expanding; in 1995, Canada became the leading supplier to Japan of imported, manufactured housing. Our promotional efforts have resulted in a doubling of our export sales of finished products, and this growth is expected to continue for the foreseeable future.

To further facilitate Canadian exports of value-added building products to Japan, we are engaged in bilateral discussions aimed at the mutual recognition of building product standards. An important milestone was reached on December 19, 1995, when Japan's Ministry of Construction granted Underwriters' Laboratories of Canada (ULC) "Foreign Testing Organization" status, thus enabling ULC to test certain building products for conformity to Japanese standards. Further progress is expected in the near future in such areas as three-storey wooden apartment construction and approval of National Lumber Grades Authority (NLGA) lumber grades. Such initiatives are aimed at helping to reduce the cost of Japanese housing by one third by the year 2000. For a growing number of Canadian companies, the dynamic Japanese market has proven in recent years to be quite lucrative compared to the depressed Canadian and U.S. markets.

Processed Food Products

Japan is the world's largest net importer of agriculture and food products. Companies that are prepared to make long-term commitments to the marketplace, to adapt products to consumer demands and to produce to stringent quality standards, stand to benefit from this dynamic and growing market.

With a 5-percent share of the market, Canada is Japan's fifth-largest supplier of agricultural and processed food products, and Japan is Canada's second-largest market. Agri-food imports will continue to grow, as consumption rises faster than domestic production. Labour shortages, land-use policies and price-support programs are driving up domestic production costs, making imports more competitive. These factors also create greater interest by the Japanese in establishing offshore production facilities for low-cost production. While much of the offshore investment is in other Asian countries, there are opportunities for Canadian companies, particularly in frozen foods, cookies, confectioneries and snack items.

Changing demographics are also creating new market opportunities. The number of two-income families is increasing, family size is shrinking and single households are replacing the traditional extended family. These demographic changes are increasing the market for convenience foods, since consumers have less time to devote to shopping and food preparation. Competition among food-service purveyors is increasing, and the sector is expanding, as restaurants cater to greater numbers of clients. Restaurateurs are open to new ideas to maintain and expand their clientele and to reduce costs. This is especially true, where labour required for food preparation can be minimized.

Tourism

Incentives to travel include a substantial appreciation of the yen against foreign currencies, a five-year program that encourages outbound travel, changes in the Japanese lifestyle, and extremely competitive promotional efforts by the Canadian travel industry. Despite the slowing of economic growth, industry observers predict that, by the year 2000, over 20 million Japanese citizens will travel overseas annually. To expand and enhance tourism between Canada and Japan, the two governments have announced a program called "Two-way Tourism 21." This program represents a co-ordinated effort to promote broad-based international tourism now and into the 21st century. While the major objective of increased revenue-generation will be met partly through increased arrivals, another key variable of the strategy is to increase spending per trip. Targeting high-yield Japanese travel segments will continue to be emphasized.

Information Technologies

Software: Japan is the world's second-largest software market. Imports totalled 259 billion yen in 1994, 90 percent of which was shipped from the United States. Canadian exports to Japan accounted for only 3 percent of the imports ($100 million).

The entry of imported packaged products has been accelerated by Windows 3.1J and Windows 95 (Japanese), which have simplified the localization of software, i.e. translation into Japanese and moving to local software platforms. Sales of Windows 95 in Japan have been very strong, with more than 3.8 million copies sold from November 1995 to March 1996. Sales in the remainder of 1996 were expected to double.

Multimedia and networking represent two significant new markets for Canadian software manufacturers, as smaller, more flexible systems with powerful servers continue to replace mainframes. PC sales in Japan are booming; growth was estimated to increase 30 percent in 1996 to 7.5 million units (domestic).

Telecommunications: Japan is the largest and most sophisticated telecommunications market outside of the United States, with enormous potential for Canadian companies. Planned investment in a fibre-optic infrastructure in 1996 will top $6.8 billion. The domestic and international pressures for deregulation in telecommunications such as the restructuring of Nippon Telephone and Telegraph (NTT) continue unabated; the resulting breakup of NTT into smaller regional carriers will open new markets for equipment and services. (The Ministry of Post and Telecommunications has estimated that this will take place in 1998.) The underdeveloped Internet and cable TV markets are experiencing solid growth as well. Cellular phone usage continues to surpass expectations, with total subscriptions rising from just over 4.6 million to almost 11 million in a 12-month period from April 1995 to April 1996 (an increase of 136.1 percent).

Canadian equipment suppliers, systems integrators and service providers can benefit from improved access to the Japanese market, which has resulted from the framework negotiations between the U.S. and Japan.

Canadian manufacturers of wireless telecommunications equipment may find the regulatory environment in Japan complicated. Wired and wireless telecommunications products are tested through two separate agencies in Japan, and the mutual recognition agreements between Canada and Japan only cover the testing of wired equipment.

Consumer Products

Health-care and Medical Devices: The demand in Japan for medical and health-care products and services has grown rapidly in the last five years. The medical-devices market has increased at a steady 5.4 percent per annum, and the health-care market is projected to grow at 8 to 10 percent annually over the next 10 to 15 years. Estimates of this market range from ¥8 trillion to ¥20 trillion (source: Japan Export Trade Organization), depending on the definition of the sector.

The Japanese government is planning increased expenditures for improved home health-care, and products and services for the elderly and the disabled. The competitive position of imports has been improved by the high costs of manufacturing in Japan, internationalization, and the willingness of Japanese firms to enter into partnerships and alliances with foreign companies.

The most promising subsectors are diagnostic imaging equipment, dental equipment and supplies, implant devices, home health-care products and emergency medical equipment. Health-care products most in demand are wheelchairs, hearing aids, disposable diapers, rehabilitation equipment and portable toilets.

Furniture: The total domestic production of furniture in Japan was estimated at ¥2 trillion in 1995 (reported figures from large manufacturers plus estimates of small-company production figures). Japan imported furniture and components valued at ¥230.3 billion (10.3% increase from 1994). These imports are broken down as: wooden furniture: ¥122.5 billion (15.9% increase); rattan furniture: ¥13.4 billion (8.8% decrease); metal furniture: ¥42.2 billion (17.6% increase); other: ¥6.3 billion (5.6% increase); and furniture components: ¥45.7 billion (0.9% increase).

Most imports come from Southeast Asia, with the remainder shared almost equally between the United States (¥27.7 billion, a decrease of 0.1 percent from 1994) and Europe. Canadian furniture sales to Japan are increasing as the Japanese become more aware of Canadian capabilities and price points. Exports rose from $3.2 million in 1991 to estimates of $14 million in 1996. Growth is expected to continue as the favourable exchange rates and the high cost of manufacturing in Japan encourage Japanese wholesalers, retailers and manufacturers to shop in Canada. The rising popularity of western-style housing has triggered an interest on the part of consumers to switch to imported furniture in styles popular in North America and Europe. However, high freight costs to Japan and within Japan remain a problem. Institutional and contract furniture-sales prospects for hospitals and residential-care facilities are improving, as Japan moves forward with its strategy for the silver-generation market, but the office furniture market remains stagnant.

Contact

Department of Foreign Affairs
and International Trade
Japan Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 995-1281
Fax: (613) 943-8286

China and Hong Kong

Introduction

Already the world's seventh-largest economy in GDP terms, China is emerging as the economic motor of Asia-Pacific. The scope and scale of its dramatic economic transformation will ensure continued strong growth for the foreseeable future, with a GDP increase of 10.2 percent in 1995. For the next three years, Canadian business should expect a continuation of gradual economic reform, tight macro-economic management, and growth in a still healthy 8- to 9-percent range.

China is now Canada's fourth-largest export market, with bilateral trade totalling a record $8.1 billion in 1995. Canadian exports accounted for more than $3.2 billion of the total, an impressive 50-percent improvement over 1994 exports of $2.1 billion. Grain sales valued at more than $1.2 billion remain Canada's leading export to China, but manufactured goods have grown consistently in importance over the past 20 years and now represent 43 percent of total sales.

The broadening of Canada's trade relations with China is primarily due to the perseverance of Canadian companies seeking access to China's markets. Furthermore, the successful management of Canada's long-standing relations with China is an important factor. Canada and China witnessed the twenty-sixth year of diplomatic relations in October 1996. Numerous bilateral trade-oriented exchanges, notably Prime Minister Chrétien's Team Canada mission to China in November 1994 and the visit of Premier Li Peng to Canada in October 1995, have created an atmosphere conducive to the continued expansion of commercial relations.

Hong Kong continues to be a dynamic market with a growing level of integration with China. As a major warehouse for trade with China, Hong Kong is responsible for an estimated 37 percent of China's world-trade flows, and about 69 percent of China's investment is funnelled through Hong Kong. Canadian exports to Hong Kong exceeded $1.38 billion in 1995, up from $898 million in 1994, making Hong Kong Canada's 10th-largest export market.

Business Environment

China's Ninth Five-year Plan (1996-2000), announced in the spring of 1996, stresses economic and social stability over radical reform, a strengthening of central government macro-economic control, and the efficient use of existing capacities before developing new ones. Key priorities are strengthening of the agricultural sector; gradual reform of state-owned enterprises; science and technology; and narrowing the developmental gap between coastal and interior regions.

As China continues negotiations to accede to the WTO, Canada offers its strong support on terms that benefit both Canada and China while protecting the integrity of the multilateral trading system.

It is important to see China as a collection of large, distinctly different, regional markets sharing similar geographic boundaries, industrial bases and cultural factors. Recent market studies suggest concentration on six regional markets in particular (each with a population of over 100 million and a GDP exceeding $27 billion): 1) Northeast (Heilongjiang, Jilin and Liaoning); 2) greater Beijing (Hebei, Beijing, Tianjin and Shandong); 3) Central Provinces (Shaanxi, Henan, Hubei, Anhui, Hunan and Jiangxi); 4) Sichuan; 5) Shanghai and East China (Shanghai, Jiangsu and Zhejiang); and 6) South China (Guangdong, Fujian and Hainan).

On a more practical level, the most important issue to be considered by any Canadian firm contemplating doing business in China is that the market is still quite protected. Non-tariff barriers are highly developed, including the recent quotas for certain agricultural commodities, and administrative barriers are formidable. Changes to China's tariff policy have eliminated import-duty exemptions for foreign-financed projects, although a number of preferential policies remain in place such as advantageous tax regimes for investors.

Finding the appropriate business partner, agent/distributor, representative office or joint-venture partner remains an important consideration in the China market. Any investment in China requires detailed negotiation and usually includes substantial requirements for technology transfer. Canadian firms with investment interests should study all aspects of a prospective investment carefully, and commit resources with caution and with a clear understanding of the details of Chinese investment policy and law. Concerns with inflation and the debt of state-owned companies have led the State Planning Commission to restrict certain investments and to indicate that priority will be given to projects that seek to renovate existing industries and, geographically, to the central and western provinces.

China is also starting to experiment with BOT projects, and central government guidelines on this form of investment are anticipated. Canadian direct investment in China rose from $15 million in 1991 to $339 million in 1995. Firms contemplating business ventures are advised to establish early contact with the Embassy in Beijing, the consulates in Shanghai and Guangzhou, the Commission in Hong Kong and/or the Canada-China Business Council.

The business environment in Hong Kong remains excellent. With a free-trade regime, the territory is an important source of investment for Canada and a fertile market for Canadian technology, goods and services. Hong Kong is totally dependent on trade in goods and services, and maintains its position as the banking, financial, transportation and regional sales centre of East Asia. Hong Kong will retain its own economic and financial system, and the British common-law system after its return to China on July 1, 1997, and it is not unrealistic to expect that it will remain as robust an economy under China's aegis.

Market Opportunities

The following sectors represent the greatest potential for doing business with China and Hong Kong.

Agriculture

Although the Chinese government has an official strategy of self-sufficiency, the market is growing fast enough to allow the absolute level of imports to rise. Major competitors in the sector for Canada are the United States, Australia and the EU. Canada's historical export sales to China have been dominated by grain; grains and oilseeds represented 90 percent of total agri-food exports in 1995. Significant gains are being made in the export of other agri-food products: in 1995, Canada exported $1.39 billion of agri-food products to China, up from $691 million in 1994. Good potential exists for Canadian products in grains and oilseeds (where demand for malting barley, canola and soybeans is on the rise);

value-added agriculture (where demand is increasing for greenhouses, grain-handling equipment, and animal genetics, health, feeding, husbandry and processing); and processed foods. The Chinese market is complicated by a lack of reliable distribution and storage systems, and an unclear licensing and regulatory regime.

Opportunities in Hong Kong include beef; seafood; beverages; confectionery products; breakfast cereals; pet food; bottled water; poultry; and plant by-products for medicinal use.

Advanced Technology Products/Systems and Related Exports

Opportunities in advanced technology fall into three categories, as follows:

Telecommunications: China regards the telecommunications sector as critical to its continued national development. Telecommunications exports to China surpassed $318 million in 1995. Prospects for expanding Canadian business are promising, and areas of opportunity include data, fibre optics, and satellite, rural and mobile telecommunications. Foreign management of domestic telecommunications has been restricted to date, but companies have been active in establishing manufacturing joint ventures. The Ministry of Posts and Telecommunications of China is considering loosening the ban on certain value-added services, which opens up possibilities for Canadian suppliers of services in the electronic mail, information and cellular fields.

Space-related Products and Services (global imaging, remote sensing and satellite systems): Earth observation, satellite communications, ground stations and robotics all hold promise for Canadian industry, both in China and Hong Kong.

Computers: The market in China in 1996 is estimated at $10 billion and is projected to grow at 25 percent per year. The main opportunities in both China and Hong Kong are in advanced hardware systems, systems integration and applications software.

Construction

China's strong economic growth has unleashed a massive building boom throughout much of the country. Construction of modern skyscrapers, highways, residential units, resorts and commercial complexes is on the rise. To meet the demand of an estimated increase in population of 500 million people by 2030, new housing and renovation of existing stock are key priorities for the Chinese government. Opportunities exist in insulation; windows and doors; roofing; siding; energy-saving technology; villas and apartments for expatriates; light construction materials; products for heating, ventilating and air conditioning; automated controls and metering devices; architecture; and building-management services.

In Hong Kong, there is interest in interior finishings, fittings and fixtures; furniture and architectural/interior design services; project engineering and management services; residential construction; and development along the new railway route to the airport.

Power and Energy Equipment and Related Exports

China has the most ambitious power-development program in the world. Installed capacity has reached 200 gigawatts (Gw), and the Chinese government has set goals of 300 Gw by the year 2000 and 400 Gw by 2010. Although thermal power plants still provide the majority of the output due to relatively short project cycles and cost efficiency, China is also focussing on hydro and nuclear power. The environment for investment in the power sector is expected to improve under the pressure of necessity, as is evident in the growing interest in development of BOT guidelines and regulations. Opportunities exist for equipment supply and consulting work in thermal, nuclear, hydro, co-generation, transmission and refurbishment, as well as in smaller thermal projects.

Transportation

Development of the transportation infrastructure remains a strategic priority for China. Considerable opportunities exist in the rail, aviation, maritime and highway sectors. The Ministry of Railways (MOR) is currently pursuing the most ambitious railway expansion program in the world, having budgeted over US$600 million per year for the acquisition of foreign technology, goods and expertise to develop the railway system. Opportunities for Canadians span virtually every aspect of railway construction and operation. China has plans to upgrade 60 airports and build 90 new airports over the next 10 years, as well as to acquire over 800 new aircraft, most of which will be imported. Opportunities exist for Canadians in aircraft and major-parts procurement, airport construction, and training and management. Shipbuilding and shipping continue to offer potential for Canadian exporters. Total spending on highways will total over $52 billion in the next five years. There is considerable potential here for small projects and BOT projects. While large Canadian companies are already active in China in many of these areas, certain niche areas remain, such as subcontracting to consortia or strategic alliances.

In Hong Kong, areas of promise include the new airport and expanded port on Lantau Island, which require bridges, roads and tunnels, traffic-control systems, highway interchanges and toll plazas. There are opportunities in support services for mass transit and railway development, such as the installation of air-conditioning and ventilation systems, fire-detection systems, security and traffic-management systems.

Environment

More attention is now being placed on the substantial environmental problems in China resulting from intense agricultural and industrial development. To address these problems, the Chinese government has identified areas for foreign participation under the Ninth Five-year Plan (1996-2000), which are: flue-gas desulphurization, BOT sewage-treatment plants, advanced pulp and paper technology, energy efficiency, organic treatments for wastes in confectionery, and the printing and dyeing industries. Environmental projects are financed primarily by the Chinese government ($5 billion by 2000) and foreign sources, especially the World Bank and the Asian Development Bank (ADB), to the tune of about $5 billion for the next five years. The best opportunities for Canadian environmental goods and services are to be found in foreign-funded projects, which insist on environmental standards higher than those required by local regulations.

In Hong Kong, opportunities exist in the areas of feasibility studies, urban planning for potentially hazardous installations, waste management, marine water-cleaning systems, industrial waste-control equipment, water-treatment plants and solid waste-disposal equipment.

Oil and Gas

Sino-Canadian petroleum-industry trade and investment have expanded solidly in recent years. Alberta has been recognized for its aggressive trade-promotion program since 1979. China became a net oil importer in 1993, and demand continues to race ahead of supply. China has therefore redoubled its exploration efforts and expanded opportunities for foreign involvement in onshore and offshore exploration and production, as well as investment in enhanced oil-recovery in existing oil fields. New discoveries, particularly in the still largely unexplored Tarim Basin, will lead to investment in production facilities and pipeline-extension projects. The Chinese petroleum industry is especially interested in the following areas of Canadian strength: heavy oil/oil sands development, enhanced oil-recovery, natural-gas processing, sulphur recovery, horizontal drilling, thermal recovery, pipeline construction and operation, deep drilling, computer systems and software, pumps, separators, generators, drilling rigs, laboratory equipment, and engineering and consulting services.

Contact

Department of Foreign Affairs
and International Trade
China Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 992-7359
Fax: (613) 943-1068

Korea and Taiwan

Introduction

South Korea and Taiwan are among the fastest growing economies in the world. In 1995, Canada's two-way trade with South Korea was $5.9 billion, a 27-percent increase over 1994; Taiwan was close behind at $4.5 billion, an 18-percent increase over 1994 values.

In the Asia-Pacific region, as Korea and Taiwan rapidly join Japan, Australia, New Zealand, Singapore and Hong Kong in the ranks of "industrialized" and "developed" economies, Canadians have had to rethink and reorganize traditional business objectives and strategies to capture an increased share in these transitional markets.

Business Environment

As liberalization takes hold, the business climate for Canadian companies will improve significantly in both Korea and Taiwan.

In spite of remarkable progress, the reform process is far from complete in Korea. Many formal and informal barriers to trade and investment remain to be addressed. These include: high tariffs, an inefficient financial system, costly import procedures, and a lack of adequate intellectual property-rights protection. On the other hand, Korea's continuously strong economic performance over the last three decades and the government's efforts to reduce government interference in the economy, as exemplified by the introduction of a five-year economic plan and by the application for membership in the OECD, should be important factors in Canada's future success in the market. The quest for globalization and improved competitiveness will mean that the Korean industry must continue to import highly sophisticated equipment and technology. As emphasis on upgrading continues, Canadian companies will have the opportunity to negotiate further and to take advantage of market openings.

In Taiwan, there are signs of an economic slowdown as GNP growth has moved from over 7 percent annually to just over 5 percent. While exports continue to grow, and the trade balance is healthier than ever, declines in consumer demand and construction starts are the main cause for the slowdown. The Industrial Production Index registered negative growth for the first five months of 1996. During the same period, unemployment rose to a 10-year high of 2.35 percent, and bankruptcies were up. On the positive side, this slowdown is forecast to fuel demands to increase productivity, which will result in further deregulation and, consequently, increased opportunities for Canadian suppliers.

In both Korea and Taiwan, there is a prevailing mood of having "arrived" as economies. As a testament to this new-found prosperity, both Taiwan and Korea are now among the leading investors in Asia, particularly in Vietnam, whereas only a generation ago, they were the recipients of such inflows from Western nations. With greater disposable income and more leisure time, Korean and Taiwanese citizens are aspiring to a better quality of life accompanied by an increased demand for consumer products and services.

Market Opportunities

Korea

Canada and Korea are in the process of solidifying a special partnership. The idea was first broached at the 1993 APEC Summit between Prime Minister Chrétien and President Kim Young Sam, and was pursued during International Trade Minister MacLaren's visit to Seoul in April 1994. By 1996, an Industrial and Technical Co-operation Agreement has been struck, and joint committees are actively seeking solutions to market access and industrial co-operation issues, which will result in strategic partnerships between Canadian and Korean entities.

Canada's trade and economic goals revolve around the Korea Strategy, which consists of the following objectives:

- increasing trade in manufactured and high-technology products;

- expanding agri-food exports through continued pressure on Korea to address market-access issues and to give priority to processed/ value-added goods;
- increasing two-way investment;
- promoting co-operation/partnerships between Canadian and Korean firms pursuing third-market opportunities; and
- establishing stronger long-term and commercial links in newly emerging services and technologies.

Korean information technologies and telecommunications markets have been expanding at about 20 percent annually for the past three years. Ongoing liberalization, coupled with improving intellectual-property rights in Korea, should result in increased interest by foreign equipment and services suppliers.

Korean emergence as a manufacturer of transportation equipment is unprecedented. The country is now a major exporter of transportation equipment, but rapid industrialization and urbanization have created demand in many areas in which Koreans lack expertise. In the short term, this is a high-profile sector with a focus on the aerospace, aviation, marine and automotive industries. Korea will soon upgrade air-traffic control and airport facilities. Canadian firms have been successful in transportation technologies and related services.

The power and energy sector is important for maintaining Canada's role as a major trading partner of Korea. There are opportunities in CANDU-related equipment and support, and electrical transmission and distribution. There is also potential for strong and significant partnerships with Korea in vital third markets.

Environmental technologies, equipment, and consulting services represent a key sector, where success has been achieved by a number of smaller firms. A strength of Canadian companies has been in services, where there is a significant role to be played by consultants. DFAIT is playing a role in the development of a number of initiatives such as the Arrangement for Industrial and Technological Co-operation, to promote strategic ventures between Canadian and Korean firms in the environmental, as well as other fields.

There are also opportunities for the export of Canadian agricultural, food and beverage products. Korea's agricultural base does not allow for increased production of commodities and foodstuffs that consumers demand. Value-added food products with excellent potential include bottled water, honey, confectionery products, bakery mixes, processed meats, spirits (liquors and wines) and fish-meal products.

Korean defence spending is continuing to grow, and the government is attempting to diversify its suppliers, thus providing a promising opportunity for Canadian defence companies. Korea is presently Canada's third-largest overseas market for defence equipment.

Tourism is also a high-growth industry for Korea. The increase in the number of travellers to Canada during the first half of 1996 was 55 percent over the same period in 1995, but down from the 96-percent growth recorded during the 1994-95 period. The dramatic increase in traffic between Korea and Canada is attributed to Air Canada's new routes to Korea and the elimination of visitor visa requirements.

Taiwan

Due to the massive scale of Taiwan's National Infrastructure Development Plan, there are market opportunities within the infrastructure sector (building materials, construction, engineering and consulting industries). Demand for consumer and agri-food products remains strong.

The rising cost of labour and an appreciating currency are forcing Taiwanese industry to rationalize and improve process technology and quality in order to remain globally competitive. As a result, there is significant potential in advanced equipment technologies, environmental goods and services (especially waste water and solid waste), and engineering consulting services.

Taiwan is positioning itself to become a regional operation centre in this decade. This long-term, ambitious goal will foster new commercial opportunities for Canadians in the areas of telecommunications, financial services, transportation (air and ship) and media broadcasting.

Tourism is also a high-growth industry in Taiwan with an increase of around 60 percent over 1994. Canadian Airlines International is expanding its service to Taiwan to keep up with the demand.

Taiwan is an excellent potential source of investment for Canada with emphasis on the high-technology, environmental, telecommunications and biotechnology sectors.

Both EDC and the Canadian Commercial Corporation are active in this market.

Contact

Department of Foreign Affairs
and International Trade
Korea and Oceania Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 995-8705
Fax: (613) 996-1248

Australia and New Zealand

Introduction

The economies of both Australia and New Zealand are growing substantially. New Zealand has worked through its economic reforms, and, although real growth slowed in 1995 to 2.5 percent, confidence remains high. Once one of the world's most highly regulated and protected economies, New Zealand has undergone drastic restructuring to make its industry internationally competitive. The reforms are proving successful, and New Zealand's industries are modernizing and rationalizing, often using imported equipment and expertise. In recent years, Australia has also undertaken significant economic deregulation, and has achieved renewed economic growth, recording 4.5-percent growth between July 1994 and June 1995. As Australia's economy continues to expand, based on imports of advanced technologies, capital equipment and manufactured goods, there is mounting pressure on the current account.

Business Environment

Australia and New Zealand are essentially agriculture and resource exporters. Both governments are active and aggressive proponents of freer trade, and are in the forefront of trade liberalization in the WTO, APEC and elsewhere. There is, as well, an openness in business and industry to international partnership, as they seek to build new export industries and new markets, particularly in Asia. Canada is seen as a preferred partner in many of these ventures, based on a long history of successful investments, and on the similarity of business and legal systems. To mark the centenary of official Canada-Australia relations in 1995, a Trade and Economic Co-operation Arrangement (TECA) was signed, which will encourage greater business co-operation among SMEs. Initially, the work program will focus on information technologies, environmental technologies and services, mining and oil-field equipment and services, distance education and entertainment industries.

New Zealand and Australia are modern sophisticated markets with legal systems based on British Common Law and business law, and practices rooted in their British heritage. Canadian exports to both markets are heavily oriented toward high value-added, labour-intensive manufactured goods, usually produced by Canadian SMEs. Businesses in both countries are accustomed to and comfortable with dealing with foreign suppliers, although normally a local agent or representative can significantly improve sales performance and customer support. Indeed, the degree of similarity in the business environments of Canada and these two countries creates significant opportunities for the formation of business alliances, which can prove beneficial in reaching out into other parts of the Asia-Pacific region from Australia or New Zealand or, for that matter, into other markets of the Americas from a base in Canada.

Market Opportunities

As economic growth based on imported equipment and services continues, four sectors have been identified for priority attention in both Australia and New Zealand: advanced technology; environmental equipment and services; forestry machinery; and agri-food. These are discussed in more detail below. Other priorities for the Australian market include biotechnology, health care, agricultural machinery, mining and metals machinery, food-processing equipment, transportation equipment, defence and aerospace equipment, and fisheries products. For New Zealand, another priority sector is consumer products.

Advanced Technology

Australia and New Zealand are technically sophisticated markets that are highly receptive to new technology. They also rely to a large extent on technology imports. Although economic growth will be fuelled by agriculture and resource exploitation, the application of state-of-the-art telecommunications, manufacturing and other technologies will be the focus of large capital expenditures. In particular, deregulation of telecommunications in both countries is opening up opportunities for Canadian exporters. As well, Canadian computer services and software are highly regarded in the marketplace.

Environmental Equipment and Services

Environmental sensitivity in Australia and New Zealand is high. New Zealand, in particular, has imposed new rules on waste-water treatment that are creating significant opportunities; clean-up of effluent from the forest industry is a high priority. At the same time, Australia is working to improve the handling and treatment of hazardous materials, remediate soil, improve air quality and treat waste water. These efforts feature extensive local and foreign participation, and often include partnerships with foreign firms for ongoing work in Australia and in other, principally Asian, markets.

Forest Machinery

It is not generally appreciated that Australia has a large and economically important forest industry. With over 43 million hectares of native forests and 1 million hectares of plantations, forestry is big business, and a new round of capital equipment purchase and renewal is forecast. In New Zealand, privatization and the need to modernize existing mills are factors stimulating demand for state-of-the-art equipment. Imports constitute the bulk of these new installations.

Agri-food, Food-processing Equipment

Both Australia and New Zealand are major producers of food, notably beef, lamb and wheat.. At the same time, however, there is a growing sophistication in the marketplace that is opening new opportunities for processed food products. There is also an increasing need for state-of-the-art equipment for food preparation and handling, as local firms gear up to furnish quality prepared foods sought by consumers. Canada has established a significant reputation as a source of quality food products, and it is making extensive efforts to position Canadian equipment manufacturers in the market.

Contact

Department of Foreign Affairs
and International Trade
Korea and Oceania Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 995-8705
Fax: (613) 996-1248

India and South Asia

Introduction

In 1995, Canada's merchandise exports to South Asia totalled $688 million, a 36-percent increase over 1994, as the region becomes a market of choice for Canadian goods, services and investment. In India, for example, Canada was the 10th-largest foreign direct investor in 1995, with investments totalling in excess of $150 million. The countries of South Asia, including India, Pakistan, Bangladesh, Sri Lanka, Nepal and Afghanistan, are, for the most part, turning away from inward-looking economic policies to freer competition, as they become more engaged in the world economy. India and Pakistan are actively looking to foreign companies and investors to assist them in expanding and improving their infrastructure, particularly in the areas of energy, telecommunications and transportation, and in other sectors such as the environment and food processing.

The importance of India as a large emerging market must not be overlooked. With a burgeoning middle class of close to 250 million people, India has the largest block of middle-class consumers in the world. In recognition of the great potential that exists for increased Canada-India trade, DFAIT has published a document, *Focus India*, which details Canada's trade and economic strategy for that country. The strategy was developed as a Team Canada initiative through extensive consultations with the private sector, and between federal and provincial governments. It emphasizes sectors in which Indian requirements are matched with Canadian strengths and capabilities, identifies challenges and constraints in the Indian market, and details available information sources, programs and activities for exporters.

Business Environment

Canadian commercial interest in South Asia has grown exponentially over the past five years. This interest is beginning to be translated into actual business contracts, especially in India. Canada's currency in the region is well founded on development assistance, co-operation through the Commonwealth and the United Nations, and strong human bonds through emigration of large numbers of South Asians to Canada. The fact that the countries of South Asia have considerable English-language capability, experience with democratic institutions, functioning judiciaries and are familiar with market structures enhances business development in the region. The Prime Minister's visit to India and Pakistan in early 1996 has created a significant interest in Canadian goods and services. Approximately $4.4 billion in deals were signed by Team Canada during the visit.

The financial sector is well-developed in South Asia, and EDC has a good appetite for the region. For SMEs, EDC offers financial services for sales of Canadian goods and services. IFIs such as the World Bank and the ADB are also active in the region. In addition, aid-related trade prospects exist for most countries.

Market Opportunities

In South Asia, Canada is perceived as a highly developed country with a reputation for supplying sophisticated, high-quality goods and services. The countries of South Asia see particular advantages in pursuing partnerships, joint ventures and licensing agreements with Canadian firms, especially in light of their advanced technologies and industrial capabilities.

The major sectors of opportunity throughout the region include power generation, oil and gas development, environmental goods and services, telecommunications and the most recent emerging sector, agri-food. Opportunities also exist in education and training. Services in demand in South Asia include consulting engineering, geomatics, environmental consulting and general management services. Investment is increasing in some sectors, such as telecommunications, mining and food products, while, in others, such as insurance, interest by foreign investors is relatively new.

The major potential market sectors by country are as follows:

India

By far the largest market in the region, India offers enormous scope for commercial co-operation. The key sectors are energy; telecommunications; environmental products and services; aviation;

chemicals; food processing; electronics; medical equipment; and transportation, but opportunities exist in virtually all sectors, especially under the reform and liberalization policies introduced by the former government. Canada had a banner year in 1995. Exports to India reached $427 million, a 64-percent increase over 1994. In addition, foreign direct-investment from Canada became a factor in the Indian economy, with Canadian companies investing in excess of $150 million.

Pakistan

Canada's exports increased dramatically to $122.6 million, an increase of 100 percent over 1994. There is a renewed interest in Pakistan in strengthening our bilateral trade relations. The Pakistani Minister of Commerce has visited Canada twice in the last year, and with the Team Canada mission in early 1996, business between Canada and Pakistan is on the rise. There are good opportunities in telecommunications equipment and information technologies; wood pulp and paper; oil and gas development; agri-food; metals and minerals; and transportation equipment, to name a few. As with any developing economy, power is in tremendous demand. There are excellent opportunities in this sector for equipment and services.

Bangladesh

Despite political instability, the potential for increased trade between Canada and Bangladesh is considerable. Opportunities exist in the energy and telecommunications sectors, while the top Canadian exports in 1994 were agri-food, tobacco, wood and paper, metals and fertilizers.

Sri Lanka

Exports to Sri Lanka have remained steady, particularly within the energy and telecommunications sectors. Export markets exist for printed paper products; specialized building materials; chemicals; machinery; fabrics; metals and minerals; and foodstuffs.

Nepal

Main exports to Nepal in 1995 included printed paper products; metals and minerals; precision optical equipment; manufactured fibres; and mechanical equipment. Additional opportunities exist in the power, road transportation and aviation sectors.

Afghanistan

While small in size, the Afghanistan market presents opportunities for adventurous Canadian exporters in agri-food, processing equipment, power generation and electrical goods. The country's infrastructure has been virtually demolished over the last 10 years due to the ongoing civil war. Once the political situation settles down, there will be many opportunities stemming from the reconstruction of the country.

Contact

Department of Foreign Affairs
and International Trade
South Asia Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 996-1989
Fax: (613) 996-5897

Southeast Asia/ASEAN

Introduction

Southeast Asia promises to be the world's most active economic area throughout the next decade; even long-standing barriers to business are tumbling down. The members of ASEAN are Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Laos, Cambodia and, eventually, Burma hope to become members. This impressive market, with its population of over 430 million, is a strategic one for the future.

The enormous growth in the past years will continue, as momentum shifts to these economies from the older, increasingly expensive Asian tigers. This growth will fuel pressure on infrastructure to expand and improve, so that it does not impede economic development and progress. Such progress will require significant infusions of public- and private-sector capital from both domestic and offshore sources, and the development of creative financing schemes, including recourse to BOT and BOO (build-own-operate) mechanisms, and to international agencies such as the World Bank and the Manila-based ADB. The ADB can advise potential suppliers and contractors on procurement for its program of regional-development projects.

Business Environment

Bureaucratic bottlenecks to business are also diminishing as governments in the region compete with each other and around the world for international investment. Internal deregulation and privatization are gradually improving the climate for business. Conducting business is also easier as a result of the move to freer trade through the WTO, APEC centred in Singapore, and the ASEAN's own proposed Free Trade Agreement (AFTA), which is to ensure internal free trade by 2003. Tariffs are already dropping and non-tariff barriers, especially in services and intellectual property, are the next target.

ASEAN offers a less risky business climate than many of its larger neighbours. The private sector is increasingly adopting North American-style business practices, although the public sector can be slow moving and, at times, opaque.

Market Opportunities

Except for Singapore, which already enjoys a standard of living on a level with Canada, the region is experiencing the emergence of a sizable middle class with spending power and an attraction to the latest in consumer goods, including cars and processed food products. While traditional Canadian commodity exports will continue to be strong, this market is ideal for Canadian value-added exports of services and operational expertise. By their nature, such exports are cost-competitive in faraway markets, since their value is based on knowledge, not freight costs. However, they presume a close relationship with a client. To build trust and a sense of partnership with Asian clients, Canadian exporters must do their homework, be ready to deal face-to-face, and be comfortable adapting to quite different business customs and languages. In many cases, to achieve export sales in these markets, it is recommended that exporters be prepared to establish a visible presence in the market, through joint ventures or other arrangements. There are still some barriers to investment, however, which impede export opportunities in areas such as media communications and retail franchising.

Canada has focussed its international business-promotion efforts on the following key sectors in ASEAN: power and energy; advanced technology, especially geomatics; information technology and telecommunications; transportation; the environment; and agri-food. The kinds of opportunities vary with the stage of development in each country. The major potential market sectors by country are as follows:

Indonesia

As an archipelagic country of 14 000 islands and almost 200 million people, this market has an enormous natural resource base, and a need to manage it. Canadians are known and respected for our expertise in these areas. With a well-connected partner in the local market, Canadians stand to do well in accessing the many opportunities that exist in the full range of natural resources and infrastructure sectors in this region, which is the most important export market for Canada in ASEAN. Promising sectors include: power (geothermal and hydro-electric equipment); informatics and telecommunications (systems integrators); environment (water resources, natural resource industries, construction sites); mining (equipment, training and consulting); transport (airport systems and navigation aids, road/rail/port upgrades, and rolling stock and ferries); agri-food (processed food, halal products); and construction (housing materials, steel and ceramic pipe).

Malaysia

With the third-highest economic growth rate in Asia (after China and Singapore), Malaysia is well on its way to achieving its goal of attaining developed-country status by 2020. The Commonwealth "connection" and the use of English give Canadians a certain comfort level, but the strong Malay-Muslim sense of independence should not be overlooked. Malaysia demands a distinct marketing plan. Promising sectors include: the environment (hazardous-waste and air-pollution control); power (transmission and distribution systems); health care (equipment and emergency medical-systems); advanced technology (informatics, geomatics and telecommunications); education (in Malaysia and study in Canada); and agri-food (halal products, fruit and bulk commodities).

Philippines

The Philippines has experienced an economic transformation in the last three years. It is more stable politically and is focussing on business. English is the language of business, which makes this a good Asian "starter" market. As well, the Philippines is accustomed to the North American style of conducting business due to 50 years of U.S. influence. Promising sectors include: information technology and telecommunications; agri-food; energy (geo-, hydro- and fossil-fuel generation, conservation and management projects); mining (exploration technologies, and copper/gold mining primary equipment and parts); the environment (waste handling and technologies for the mining sector); and forestry (reforestation and other management expertise).

Singapore

This is a sophisticated, wealthy (highest per-capita income in Asia-Pacific after Japan), English-speaking market, which is the transport, communications and financial hub for the region. Promising sectors include: the environment (municipal waste-handling, noise pollution and waste water); agri-food (meat products and processed foods); aerospace (frames and engine parts); petroleum (to reach the multinationals based in Singapore to service the region); construction (building materials and advanced niche expertise); informatics (telematics and convergence technologies); and defence/security (training and policing equipment).

Thailand

A booming market in its own right, Thailand is central to the economies of Indochina (Vietnam, Laos, Cambodia and Burma) and southern China. It is aggressively courting foreign business. Promising sectors include: power (hydro-electric generators and co-generation); transport (urban transit, rail and road); the environment (industrial waste-management and remediation); health care (instrumentation, diagnostics and dental products); and agri-food (franchising and dry goods).

Vietnam

As Vietnam has recently taken the first steps toward development, and with the state-sanctioned doctrine of "Doi Moi" (renovation), there is a heady, gold-rush atmosphere. Vietnam is still, nonetheless, very much a socialist state with limited capital at its disposal, a burdensome bureaucracy, a people largely unfamiliar with accepted business practices, and a legal and financial system and other infrastructure incapable of sustaining large-scale economic activity. The greatest opportunities for Canadian firms are in activities that have been funded by bilateral donors or IFIs. Promising areas include infrastructure-related industries (road construction); transportation (port management, air-traffic control); agri-food (high-quality livestock, food-processing equipment); telecommunications and informatics (digital switching-equipment, rural telecommunications, multiplexing equipment, software, training); and energy (hydro- and thermal-distribution technology, equipment and expertise).

Brunei

Brunei is a small, oil-rich economy, tightly managed by the Sultan, with money to finance chosen projects. In 1995, Canada and Brunei opened high commissions in their respective capitals to expand trade, investment and political relations.

Cambodia and Laos

Cambodia and Laos are small, poor countries that have recently opened to foreign investment. Cambodia has embraced a free-market economy, while Laos, like Vietnam, is a socialist state that is only now, and very tentatively, embarking on market reforms.

There are limited opportunities for Canadian firms, primarily funded through aid sources. Promising areas in Cambodia focus on the rehabilitation of infrastructure. Opportunities in Laos are concentrated in hydro power, transportation and forestry.

Contact

Department of Foreign Affairs
and International Trade
Southeast Asia Division
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 996-8187
Fax: (613) 944-1600

InfoCentre: 1-800-267-8376
Bulletin Board: 1-800-628-1581
FaxLink: (613) 944-4500,
from abroad (613) 944-6500
World Wide Web: http://www.dfait-maeci.gc.ca
Strategis: http://strategis.ic.gc.ca

AFRICA AND THE MIDDLE EAST

Introduction

The dynamic region of Africa and the Middle East is steadily growing in importance. In 1995, total Canadian exports to the region reached $3.2 billion, to which can be added $800 million in services. This represents an increase of 28 percent over 1994 in total exports to the region, and a 45-percent increase since 1990. Preliminary figures for 1996 indicate that this excellent growth in exports will continue.

Access to these countries is no more difficult than to Asian and Latin American markets, although certain cultural factors make doing business in this area different. A carefully developed strategy and sustained effort can provide profitable business opportunities and a significant return on investment. While oil and gas, telecommunications and high technology, transportation and agri-food generally offer the best prospects, other sectors such as services (education, banking/financial), the environment, mining and energy are also very active and poised to benefit from substantial developments as a large number of African countries move toward privatization and trade liberalization, South Africa becomes a more active player in the region, and the Middle East peace process asserts itself.

Africa

Business Environment

In 1995, Canada's total exports to Africa increased by 40 percent over the previous year to reach $1.5 billion (this figure excludes exports to Egypt of $130 million). Preliminary figures for 1996 indicate that exports to such major markets as Algeria, South Africa, Morocco and Tunisia will increase again over 1995. Fully 59 percent of Canadian exports went to North Africa. Africa is also a prime market for Canadian services, with an estimated annual value of some $400 million. In 1995, in particular, Canada was awarded $52.5 million for projects in Africa from the African Development Bank (AfDB).

Canada's commercial involvement in Africa has increased remarkably over the past 25 years. Development assistance programs, EDC's funding programs, Canada's involvement in the Francophonie and the Commonwealth, and initiatives with respect to apartheid and debt forgiveness have led to a very good image for Canada on this continent. In addition, our bilingualism, the complementary needs of the Canadian and African economies, and Canada's sector expertise give Canadian exporters an important advantage.

In recent years, an increasing number of African countries have undertaken political and economic reforms, primarily to establish multiparty political systems, liberalize foreign trade, streamline public finances and develop the private sector. Canada actively supports these initiatives, which in many cases are facilitated by significant funding from the World Bank and the AfDB while also receiving support from CIDA. They are widely expected to open up new business opportunities for equipment, services and investment. There is a renewed emphasis on education and training, and important new opportunities for expertise in consulting, training, management and financial services have been opened up by privatization programs.

Canada's business development activities in Africa are intended to take advantage of the many trade and investment opportunities stemming from the economic restructuring programs that are under way. Strong emphasis will be placed on developing commercial and investment relations with the emerging private sectors of these countries, and on the opportunities generated by IFI-funded initiatives. Export development initiatives will also be complemented by the promotion of joint venture and technology transfer opportunities.

Export financing is a critical issue in many African countries, and will require that exporters consider seeking offshore guarantees while focussing on revenue-generating sectors and/or development initiatives supported by IFIs.

The range of Canadian exports to Africa varies considerably, from basic products such as wheat, timber and minerals to high-technology products like telephone equipment, flight simulators, helicopters, and equipment for resource-extraction industries and for the generation and transportation of energy. Africa is now an important market for Canadian service firms in oil and gas, engineering, management, education, health care, informatics, and financial and banking services, to name a few.

In South Africa, the dismantling of Canada's trade restrictions continues to spur rapid growth in Canadian exports. Success is being achieved in a wide range of sectors, and the prospect of future business opportunities for Canadian companies is bright. In 1995, total sales of Canadian goods to South Africa — valued at $321 million — constituted an increase of 42 percent over 1994. Average pre-sanctions two-way trade levels of almost $500 million have already been exceeded. In addition, a significant proportion of Canadian sales is in manufactured and high-technology products. As the country integrates into the regional and global economy, new business opportunities are expected to emerge in the fields of mining; telecommunications and informatics; geomatics; the environment; security products; and medical products and services.

Close to 60 percent of Canada's exports to the continent still go to North Africa. These include cereals, dairy products, sulphur, lumber and minerals, as well as a wide array of manufactured products such as locomotives, telecommunications equipment, helicopters, construction machinery, chemical products, oil and gas equipment, and hydro-electric generation and transmission equipment. North Africa is also an important market for such services as engineering, consulting, education, health care, computers and financial. At the end of the first quarter of 1996, Canada's domestic exports to North Africa had increased dramatically.

Priorities

The countries and sectors providing the most promising opportunities for Canadian exporters in Africa are described below.

Algeria

This is Canada's single-largest market on the continent, with total sales of $530 million in 1995, an increase of 16 percent over the previous year. Opportunities exist in oil and gas; transportation; construction; telecommunications; irrigation; agriculture; industrial development; and services (engineering; management; education and training; banking and financial). Recently, Algeria has indicated that it will give priority to imports of agricultural commodities, construction materials and pharmaceutical products.

Morocco

The most promising sectors include agriculture; telecommunications; transportation; industrial infrastructure; oil and gas; energy; the environment; computer equipment and services; education and training; and financial services. A vast privatization program and Moroccan willingness to deal with new trading partners outside of the EU could attract Canadian interest. The Canada/Morocco Bilateral Commission met in Ottawa on October 8-9, 1996. The intent of the Commission meeting and of the Partnership Declaration (Déclaration de Partenariat) signed by Canada's Minister for International Trade, Art Eggleton, and Moroccan Secretary of State for Foreign Affairs and Co-operation, Taieb Fassi-Fihri, is to reorient bilateral relations toward private sector-led trade expansion.

Tunisia

Areas of interest here include oil and gas; the environment; telecommunications; transportation; electricity generation and transmission; and financial services.

South Africa

Bilateral trade grew 145 percent from 1993 to 1995, and Canadian exports to South Africa surpassed $320 million in 1995. Promising sectors for Canadian firms include telecommunications; mining; agriculture and agri-food; environmental technologies; health care; transportation; computer equipment, services and software; professional services; and education and training. Gradual privatization of state enterprises could open up new opportunities.

In sub-Saharan Africa, with the exception of South Africa, available resources dictate that Canada focus on the more promising markets. Under the Southern and Eastern Africa Regional Action Plan (SEARAP), Canada will adopt a regional approach to better target market opportunities in countries such as Angola, Kenya, Zimbabwe and Tanzania. SEARAP priority sectors are mining, telecommunications, transportation, and power and energy. Other African countries of interest include: Senegal, Chad, Gabon — where the forestry sector presents particular opportunities — Ghana, Cameroon and the Ivory Coast.

Middle East

Business Environment

The growth of exports to the Middle East in recent years is very encouraging, Canada having posted a 14.2 percent increase in 1995. Our sales to this region in 1995 were approximately $1.7 billion, and better than $2.5 billion if services are included. These figures speak for themselves and underline the dynamism of the area, which absorbs approximately $200 billion worth of imports of all kinds each year. The importance of the Middle East for the Canadian economy is all the more clear if we consider the fact that, apart from the United States, it is the only region in the world with which we have had trade surpluses during the past few years.

In 1995, Saudi Arabia was Canada's largest export market in the Middle East, followed by Iran, Israel, the United Arab Emirates, and Egypt. Emerging markets are Lebanon and Jordan, while Syria, Yemen, Oman and Qatar have considerable potential as future markets for Canadian firms, and should be cultivated now to ensure that potential is realized.

Although Canada is continuing to export an appreciable volume of primary products to the Middle East, the proportion of value-added products and services is growing steadily. Moreover, joint venture formation has markedly increased. Canada is increasingly seen in these markets as a world leader in telecommunications, information technology, energy, the environment, and biomedical technology, as well as in the agri-food sector.

Services exports also represent a significant amount of Canadian sales to the Middle East, estimated at several hundred million dollars per year. Consulting engineering in the oil and gas and the power generation sectors has traditionally formed the core of this kind of export. Year after year, Canadian expertise finds its way into these markets in different fields like the environment; livestock management and dairy genetics; architectural services; education and training; geomatics; and financial services.

In recent years, DFAIT has worked closely with the Canadian private sector to increase the share of Canadian exports to the Middle East. In this regard, DFAIT, trade associations and other private-sector representatives co-operate frequently to raise the awareness of Canadian firms regarding the business opportunities available in the region's various markets. Two recent examples of this collaboration are the conclusion of a Free Trade Agreement between Canada and Israel, and the Canadian participation in the Middle East and North Africa Economic Summit process. The common denominator of these two initiatives is the Canadian government's concern to ensure that more Canadian firms are in a position to capitalize on Middle East business opportunities flowing from the peace process.

A number of Canadian firms have been very successful in the past year in the Middle East market. Currently, our companies are pursuing business opportunities estimated at around $15 billion in the fields of telecommunications and information technologies; oil and gas; construction; transportation; environment; agriculture; and engineering and consulting services.

EDC is present in most markets in the region in order to support Canadian exporters. In particular, it has lines of credit with Kuwait, Israel and Lebanon. The Corporation offers exporters competitive services similar to those provided by other OECD export credit agencies. DFAIT holds regular consultations with EDC to explore new avenues or mechanisms that could help Canadian firms to set up various types of financial agreements with partners in the Middle East, and to keep up with the competition in the marketplace.

Priorities

The major potential market sectors by country are described below.

Saudi Arabia

This country is our prime market in the Middle East. Major opportunities worth several billion dollars are to be found in the following areas: security and safety equipment and services; defence-related equipment; high technology and informatics; transportation (particularly civil aviation); grains and food products; medical equipment and services; oil and gas services and equipment; services for the electricity sector; a wide variety of industrial machinery and equipment; and forest products.

Iran

The best prospects in this market are in the agriculture and services sectors. Strong potential also exists in transportation, high technology and education.

Israel

With the implementation of the Free Trade Agreement between Canada and Israel on January 1, 1997, Canadian exporters will be in a better position to compete in a full range of goods including commodities, manufactured goods and advanced technology equipment. Other interesting prospects are to be found in biotechnology, the environment, and power generation. Opportunities also exist for greater joint venture co-operation.

Jordan

Opportunities exist in telecommunications, agri-food, mining equipment and services, industrial machinery and transportation.

Lebanon

With the reconstruction effort estimated at $10 billion over the next eight years, Lebanon offers a number of business opportunities to Canadian firms in the areas of agriculture; energy; health products and services; and construction.

Syria

Interesting potential exists in transport; mining and industrial machinery; oil and gas; agri-food; telecommunications; and power generation.

Kuwait

Sectors offering potential for Canadian sales include transportation; security equipment and services; agri-food; geomatics; telecommunications;, oil and gas;, health care; and power and energy.

Egypt

Good potential exists in agri-food; transport; the environment; advanced technologies; and commodities.

United Arab Emirates

In April 1993, a consulate was opened in Dubai to service Canadian companies pursuing opportunities in the UAE; the importance of the market was further recognized by the reopening of the Canadian Embassy in Abu Dhabi in the fall of 1996. Opportunities exist in agriculture and telecommunications; as well as in education and training services; defence products; transportation; construction; and oil and gas.

Oman and Qatar

In Oman, potential exists in oil and gas, telecommunications, and in the fishing industry for sales of fishing vessels, port facilities, equipment and related services. The huge gas reserves of Qatar likewise hold promise for Canadian firms.

Contacts

Department of Foreign Affairs
and International Trade
Middle East Division (GMR)
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 944-5993
Fax: (613) 944-7975

Department of Foreign Affairs
and International Trade
Maghreb and Arabian Peninsula
Division (GMG)
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 944-7040
Fax: (613) 944-7431

InfoCentre: 1-800-267-8376
Bulletin Board: 1-800-628-1581
FaxLink: (613) 944-4500,
from abroad (613) 944-6500
World Wide Web: http://www.dfait-maeci.gc.ca
Strategis: http://strategis.ic.gc.ca

International Trade Centres

British Columbia
(Includes responsibility for Yukon Territory)

Vancouver

Tel: (604) 666-0434
Fax: (604) 666-0954

Alberta
(Includes responsibility for NWT)

Edmonton

Tel: (403) 495-2944
Fax: (403) 495-4507

Calgary

Tel: (403) 292-4575
Fax: (403) 292-4578

Saskatchewan

Saskatoon

Tel: (306) 975-5315
Fax: (306) 975-5334

Regina

Tel: (306) 780-6325
Tel: (306) 780-6124
Fax: (306) 780-8797

Manitoba

Winnipeg

Tel: (204) 983-5851
Fax: (204) 983-3182

Ontario

Toronto

Tel: (416) 973-5053
Fax: (416) 973-8161

Quebec

Montreal

Tel: (514) 283-6328
Fax: (514) 283-8794

New Brunswick

Moncton

Tel: (506) 851-6452
Fax: (506) 851-6429

Prince Edward Island

Charlottetown

Tel: (902) 566-7443
Fax: (902) 566-7450

Nova Scotia

Halifax

Tel: (902) 426-7540
Fax: (902) 426-5218

Newfoundland

St. John's

Tel: (709) 772-5511
Fax: (709) 772-5093

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