

Atlantic Canada's International Trade in the Post-FTA Era.

The report reviews Atlantic Canada's export experience since the Canada-U.S. Free Trade Agreement (FTA) and examines several key issues for the region's international trade performance. These topics include export diversity, export potential in U.S. regional markets, exports of services, the transportation infrastructure, global e-commerce, export strategies for small businesses, and trade in agriculture.

On balance, Atlantic Canada has adjusted successfully to a more integrated North American economy. Atlantic Canada's merchandise exports have grown rapidly since the introduction of the FTA. New export-orientated industries have emerged and many established firms have successfully adapted to a new global environment.

This is a much more positive response than was anticipated in the mid-1980s, prior to the implementation of the FTA. Although the removal of tariff and non-tariff protection has resulted in consolidation and rationalization in some industries, the FTA and now NAFTA has enhanced the international trade response and strengthened the export orientation of the region's economy.

The increase in international trade is all the more remarkable given the enormous shocks to the region's economy such as the recession of the early 1990s, the collapse of the northern cod fishery, and the Asian crisis of 1997.

However, the impact of these external shocks highlights some challenges for Atlantic Canada in a more open trading environment. High value products and services are still a small share of total exports. Although many of these sectors are growing, the pace of growth lags behind overall Canadian performance. As a result, Atlantic Canada remains heavily dependent on its resource sectors for exports and export growth. This leaves the region highly exposed to volatile resource prices and the vagaries of international markets well beyond its control.

Comprehensive strategies to build a highly skilled workforce and improve the economic climate are essential for export growth over the medium and long term. In addition, building and maintaining efficient transportation networks and removing some of the regulatory barriers that impede the movement of goods, services and people remain common concerns for shippers and business travellers alike.

However, the most fundamental challenge to export growth is the need to overcome the lack of diversity in the region's industrial structure. In this regard, the federal government's role in developing clusters of high technology export industries in Atlantic Canada needs to be re-examined, if the region is to achieve productivity gains on a par with the rest of Canada. Provincial and federal governments also need to cooperate to support the growth of high knowledge firms, such as those in the communications and e-learning areas, and firms that supply and develop from the growth of the offshore oil and gas industry.

Other key findings of the study include:

- While New England will remain Atlantic Canada's most important regional U.S. market for merchandise exports, its relative importance will continue to decline, particularly for exports other than oil and natural gas. Marketing and trade promotion efforts should be targeted on the mid- and South Atlantic states where export growth is predicted to be rapid.
- Exports of services from Atlantic Canada were estimated to be \$3.7 billion in 1999, about 7% of the national total, with commercial services accounting for 45% of Atlantic exports. Atlantic service exporters need to establish their credibility in foreign markets. ACOA, provincial trade departments and trade associations can assist by featuring service industry capabilities and local export successes, and reviewing trade assistance and R&D tax credit programs to ensure they meet the needs of service exporters.

- Global e-commerce, especially business-to-business e-commerce, is predicted to grow rapidly. While several Atlantic Canadian companies are successfully using e-commerce or actively developing Internet technologies, many regional firms do not seem to be taking full advantage of this technology. Training and education for small firms, the supply of skilled workers, access to venture capital and funding for R&D, and investment in broadband technologies and infrastructure are important issues if the export potential from e-commerce is to be realized.

The report is written by APEC staff economists and researchers and consultants from across the country. It is the second volume in an APEC publication series, **Atlantic Canada in the 21st Century**, designed to provide in-depth analysis on select topics which explore the challenges and opportunities for Atlantic Canada as it moves into the new century. APEC recognizes the generous support of this publication series by the Atlantic Canada Opportunities Agency (ACOA).

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