



# Canada's Growing Economic Relations *with the United States*

***Part 2 — Maximizing Our Opportunities***

# *F*oreword

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This is the second part of a three-part illustrative overview of Canada's strong and increasing economic relations with the U.S.

"Part 1 — What are the key dimensions?" was published in the Second Quarter 1999 issue of the Micro-Economic Monitor, and provided a snapshot of Canada's economic relations with the U.S. — highlighting their many dimensions and key trends. It examined their increasing strength, and paid particular attention to the changing nature of our exports to the U.S.

In this issue, we present "Part 2 — Maximizing Our Opportunities", which explores how we might better take advantage of economic opportunities in the U.S. It discusses many benefits of our growing economic relations, and identifies current export opportunities.

In next issue's "Part 3: Turning Challenges into Strengths", the key challenges in pursuit of these opportunities will be identified, as well as possible ways these challenges might be turned into advantages.

Especially at a time of rapid globalization, the information revolution and the transition by all countries towards more knowledge-based activities, it is key that Canada seize opportunities associated with our growing economic relations, especially in more value-added and knowledge-intensive activities that will be critically-important to Canada's future prosperity and standard of living.



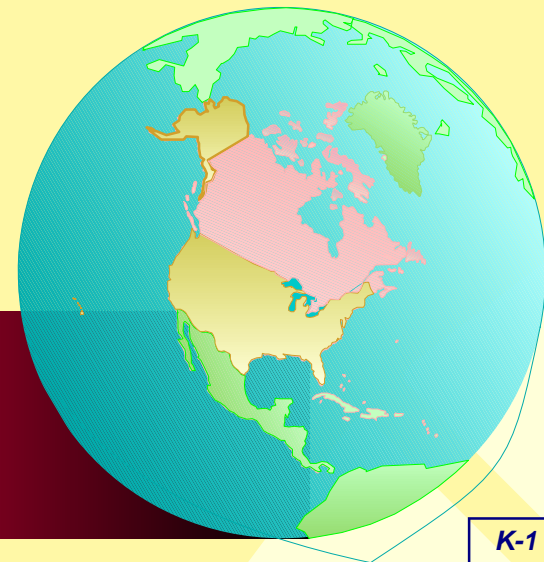
## *O*ur growing economic relations with the U.S. ...

**As the 21st century dawns, our increasing economic relations with the U.S. are pivotal!**

**This is not only to take better advantage of attractive cross-border opportunities, but to be in an improved position to exploit new and emerging opportunities of a global nature.**

**As a result of globalization and the information revolution, Canadian business must be continuously prepared to undertake promising new areas of economic activity that depend on large market access. And the U.S. is key — the U.S. is the largest, richest, most dynamic and technologically-advanced market, with an abundance of opportunities.**

*In this feature, we will identify the key benefits to our close economic relations with the U.S. and pay particular attention to those opportunities which we must take advantage of, to better position ourselves for the future.*



***...provides us with many opportunities — if we are ready!***

**But we must be ready.**

- **Globalization, the information revolution and the transition towards knowledge-based activities make the dynamic advantages of economies of scale and specialization much more possible.**
- **They also create new "essentials" for successful business — redefining old notions of competitive advantage.**

**This does not negate the important comparative advantages afforded by our natural resources, but gives greater prominence to inventiveness, productivity, quickness and the general ability to take advantage of opportunities, especially in more value-added and knowledge-intensive activities.**



*Canada will need to build on current comparative advantages, and develop new ones appropriate to a world where knowledge and innovation are increasingly key — and seizing opportunities in the U.S. will be instrumental to this end.*

What are the key benefits?



## ***For the outward-oriented, the U.S. is an obvious first-stop***

The U.S. market has always been important to Canada, and will likely remain so.

For firms interested in expanding beyond the domestic border, success often comes from focusing on one foreign market at a time.

- The U.S. is close and while very competitive, it offers a relatively easy market to begin going global — a key first-stop.
- This is especially true for Canadian firms who are approaching exports as "first-ers" and "new-to-market".



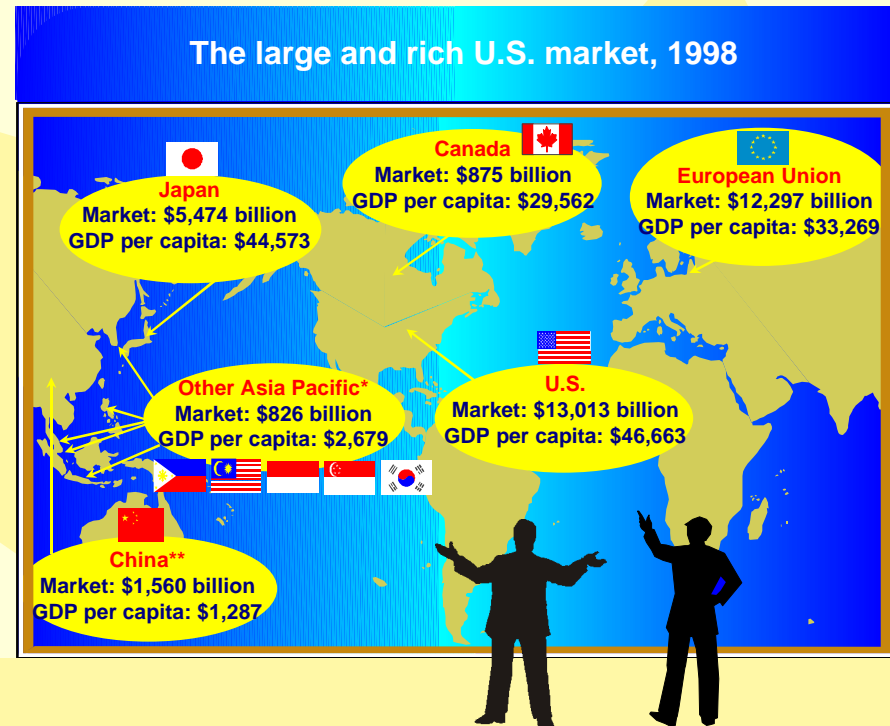
## *The U.S. offers a rich market...*

The U.S. is the world's richest market.

- It has a marketplace of \$13 trillion.
- Average per capita income is over \$46,000.

Affluent markets can be especially important for many value-added products and services, and provide many opportunities to move up into higher-knowledge activities.

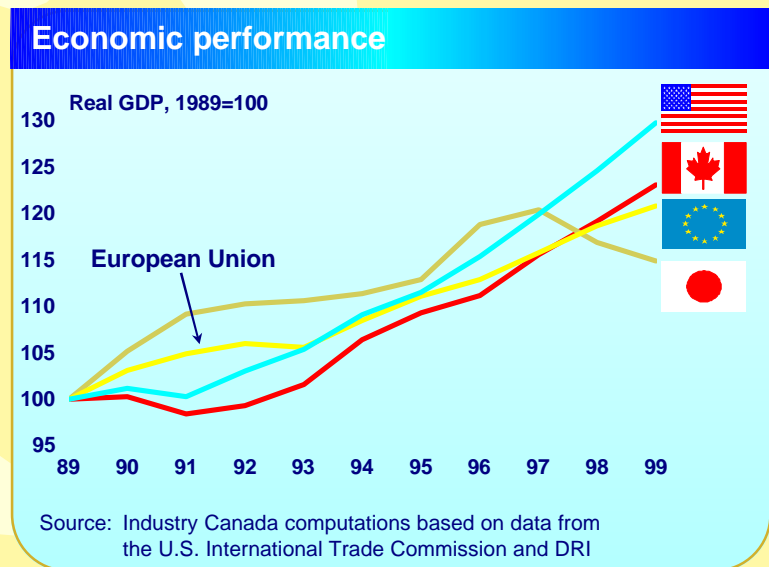
*As the world's largest and richest consumer market, the U.S. should be seen as a priority export target.*



***...that is fast-growing...***

**The U.S. economy has had the best performance of all G-7 countries over the past 10 years.**

**- Indeed, Canadian exports have benefitted substantially from the U.S.'s current economic expansion.\***



\* See "Canada's Growing Economic Relations with the United States: Part 1 — What are the key dimensions? ", The Micro-Economic Monitor (2nd Quarter 1999).

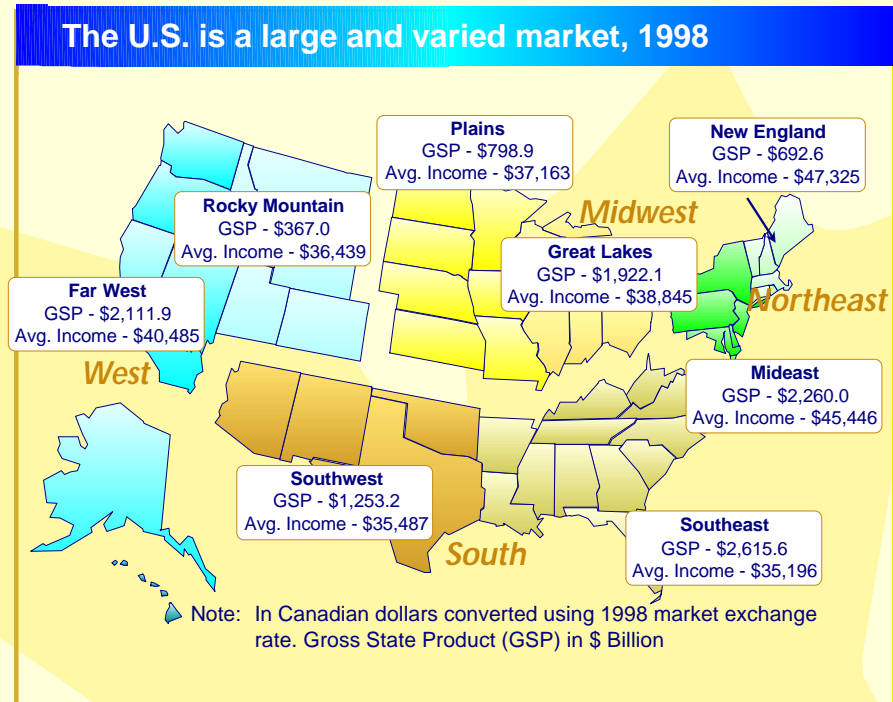


*...and exceptionally diverse*

The U.S. market is not only huge, but quite diversified — with many regional economies.

- Over the past 20 years there has been continual change in the list of stronger and weaker geographic performers.

*Canada can diversify within the U.S. — by expanding our trade relations and interests more thoroughly throughout the U.S.*



*Annual growth of Gross State Product, rank and %*

Regions	Rank	77-79	80-84	85-89	90-94	95-97
Northeast	New England	3.2	1st 4.0	1st 4.9	0.9	3.8
	Mideast	2.2	2.4	3rd 3.6	1.0	2.4
Midwest	Great Lakes	1.5	1.4	2.3	3.0	2.8
	Plains	3.0	1.8	1.9	3.0	3.6
South	Southeast	4.1	2.9	3.4	3rd 3.3	3.3
	Southwest	3rd 4.4	2nd 3.6	1.0	2nd 4.1	1st 4.9
West	Rocky Mtn	1st 5.3	2.4	0.7	1st 5.0	2nd 4.9
	Far West	2nd 4.6	3rd 3.0	2nd 4.8	0.5	3rd 4.0
U.S.		3.2	2.6	3.2	2.3	3.4

Rank: 1st 2nd 3rd

Source: Statistics Canada and U.S. Dept. of Commerce

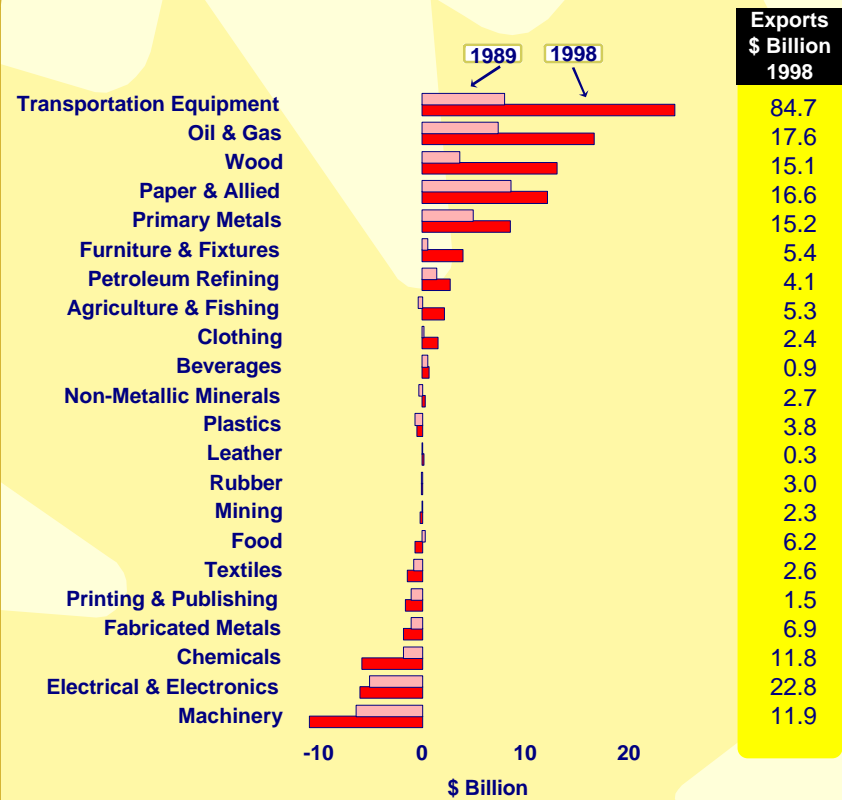
## And while our U.S. economic relations benefit export specialization...

Canada's U.S. economic relations have contributed to growing trade balances in resource-based exports and in transportation equipment (mainly autos).

- These are sectors that have traditionally produced surpluses but are now running increasingly large surpluses. This deepening of trade balances is consistent with increased specialization in areas where Canada has a comparative advantage.

*Canada's net trade flows with the U.S. are increasingly positive in resource-based industries in which Canadian exports have comparative advantage and are already strong.*

### Trade balances with the U.S.



Source: Industry Canada compilations based on data from Statistics Canada

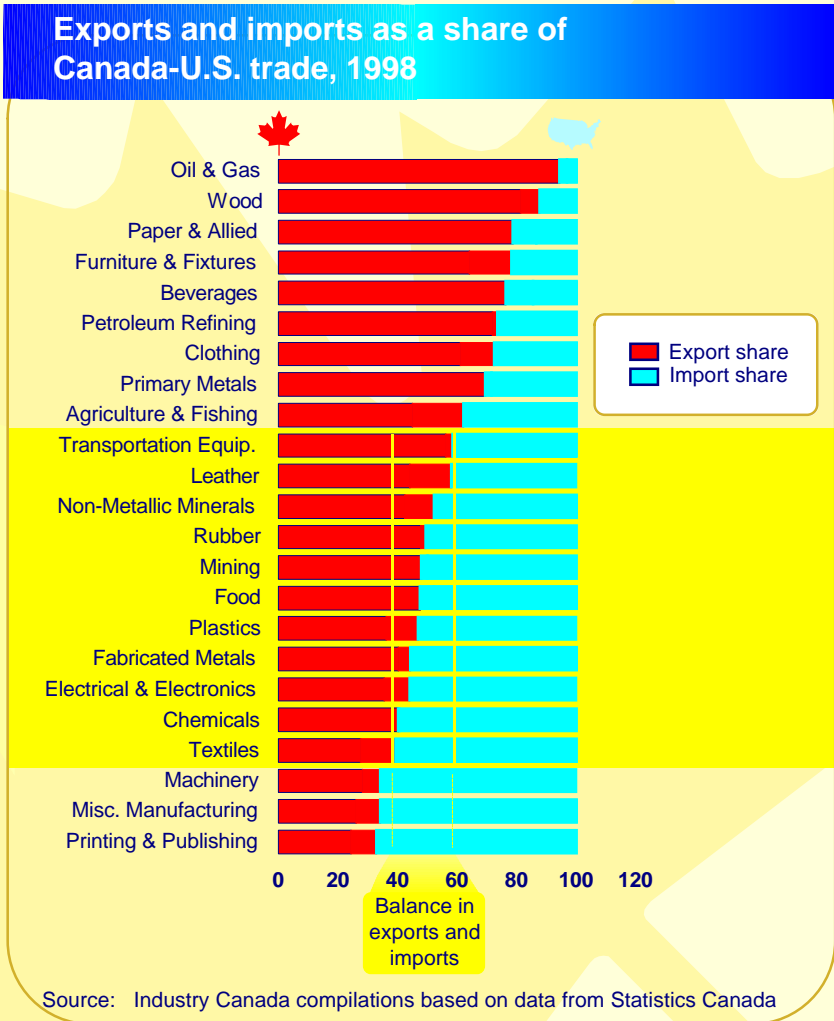
**...they also permit our industries and firms to specialize in the export of differentiated products...**

**As our economies become more linked, there is, within many industries, considerable and growing trade in both directions.\***

**- Indeed, in many industries, there is almost a balance in exports and imports.**

**- This is suggestive of product differentiation and specialization, and of highly integrated markets.**

\* As shown in detail in "Canada's Growing Economic Relations with the United States: Part 1 — What are the key dimensions?", The Micro-Economic Monitor (2nd Quarter 1999).



## ...sometimes involving more value-added activities

Many sectors are seeing an increase in the export share of more processed items. In sectors where such exports are small, we see export diversification occurring. In industries where such exports are relatively large, we see an increase in export concentration in these activities.

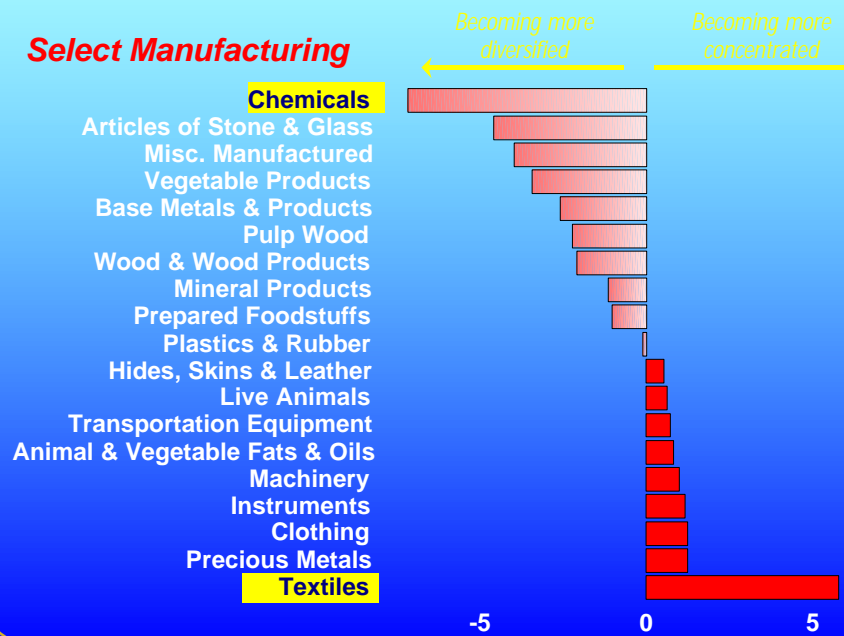
- Within the Chemicals sector, exports from the Pharmaceutical industry are growing in importance.
- Within Textiles, the export share of more complete clothing accessories is rising.

Value-added activities include work involving further and/or more advanced processing and sometimes more knowledge-based endeavours.

Industry sub-components that are expanding fastest are often those requiring further processing or more knowledge-based activity, e.g. Pharmaceuticals.

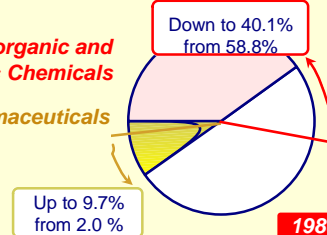
### Change in concentration \*

Change in share of exports to U.S. by top 25% of products, 1989 and 1998



#### Within Chemicals

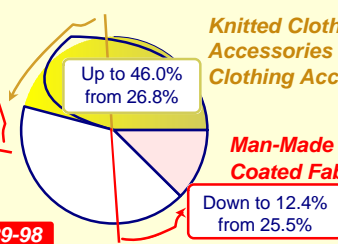
Inorganic and Organic Chemicals  
Pharmaceuticals



#### Within Textiles

Knitted Clothing Accessories and Clothing Accessories

Man-Made Staple Fibers  
Coated Fabrics



1989-98

L-7

## Access to a larger market helps us become more productive...

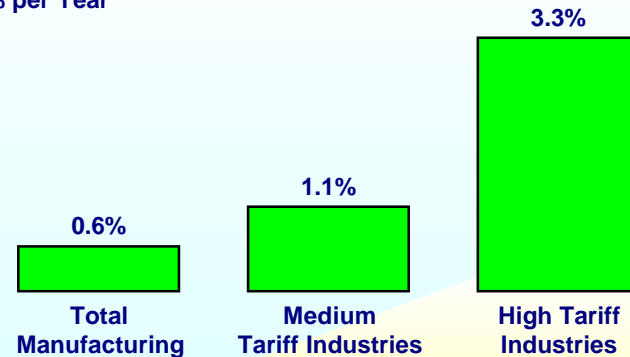
Recent research shows that industries which experienced large tariff reductions following the FTA, also showed the biggest productivity improvements.

Not only were many of these industries able to withstand a drop in tariff protection, they were also able to find viable and valuable niches in the larger and now more accessible U.S. market.

*The FTA and subsequently the NAFTA have had an important and positive impact on the level of Canada - U.S. trade, but as well on helping Canadian industries become more productive.*

### Impact of FTA on manufacturing productivity growth

% per Year



#### Select list of formerly "high-tariff" industries

Brewery Products	Paint & Varnish
Clothing Industries	Wooden Kitchen Cabinets
Men's & Boy's	Wine
Women's	Household Textile Products
Children's	Footwear
Upholstered Furniture	Milk
Wooden Household Furniture	Business Form Printing
Other Household Furniture	Sugar & Chocolate
Metal & Other Office Furniture	Asphalt Roofing
Soap & Cleaning Compounds	Printing Ink
Coffins & Caskets	Gloves
Wooden Doors & Windows	Furs
Shipbuilding & Repair	Carpets, Mats & Rugs
Plastic Bags	

Note: "Medium Tariff" refers to industries with net effective tariff cuts between 4 and 8% and "High Tariff" refers to industries with net effective tariff cuts > 8%. "net effective tariff cut" refers to the relative change of the Canadian tariff against the U.S. to the rest of the world between 1988 and 1996.

Source: Treffer, D. "The Long and Short of the Canada-U.S. Free Trade Agreement", 1999

...and faster growing

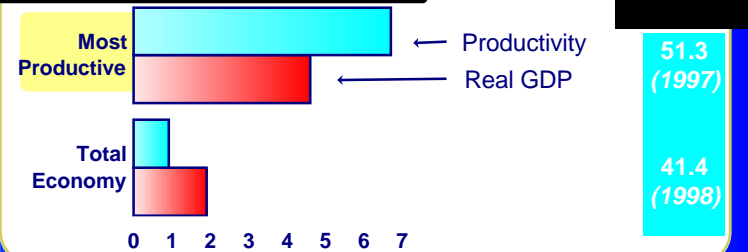
Many of our industries that are increasing fastest in productivity are among our most U.S. market-oriented.

These industries have been contributing significantly to our recent growth.

### Canadian productivity, exports and U.S. orientation

	Growth in:		Exports to U.S.	U.S. Orientation* 1997
	1989-98	Productivity		
Rubber	11.1	6.3	12.7	63.7
Refined Petroleum	7.4	2.4	6.9	27.5
Primary Textiles	6.5	2.6	22.4	36.9
Electrical & Electronics	5.9	4.9	15.4	69.3
Computers	21.4	17.5	13.2**	87.5**
Communications Equip.	0.1	4.9	16.8	59.2
Primary Metals	4.6	1.4	7.3	52.9
Furniture & Fixtures	4.1	3.8	18.4	69.6
Paper	2.8	0.8	5.7	49.3
Beverages	2.6	1.1	5.3	11.2
Transportation Equip.	2.3	3.9	9.7	73.6
Aerospace	0.8	3.0	12.5	59.5
Chemicals	2.3	2.6	13.1	37.9
Pharmaceuticals	0.04	4.5	32.8	15.2
Food	2.2	2.3	10.2	10.5
Machinery	1.4	1.9	12.4	55.4
Plastics	0.9	3.9	17.8	33.0
Textile Products	0.7	-0.5	16.5	19.4
Fabricated Metals	0.3	1.5	13.9	25.4
Clothing	-0.2	-1.0	26.0	28.0
Non-Metallic Minerals	-0.5	-0.9	12.1	30.8
Leather	-0.7	-5.6	11.1	35.7
Misc. Manufacturing	-0.7	1.8	15.8	60.9
Printing & Publishing	-2.1	-2.4	13.1	8.3
Wood	-2.2	0.3	13.9	51.0

### Growth in industries (1989-98)



\* Calculated as (total exports/shipments)\*100. GDP replaces shipments for total economy.

\*\* The export data for computers does not include re-exports.

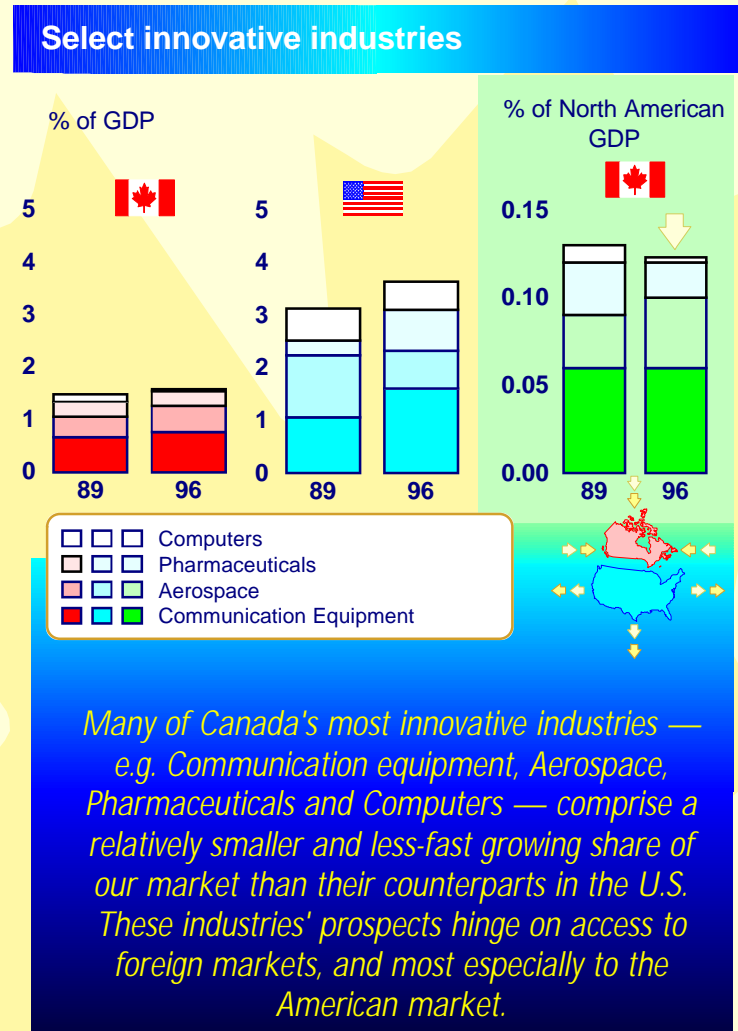
Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

## Large markets help industries become more innovative...

The costs of innovation are high.

Without a huge market to sell into, the cost of conceiving, developing and commercializing new products, implementing new techniques, and investing in human capital may be difficult to justify.

*It is no coincidence that many of Canada's innovative industries are becoming increasingly outward-oriented, e.g. Communication Equipment, Aerospace, Pharmaceuticals and Computers.*



Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce



## **...and to engage in more new or emerging industries / activities**

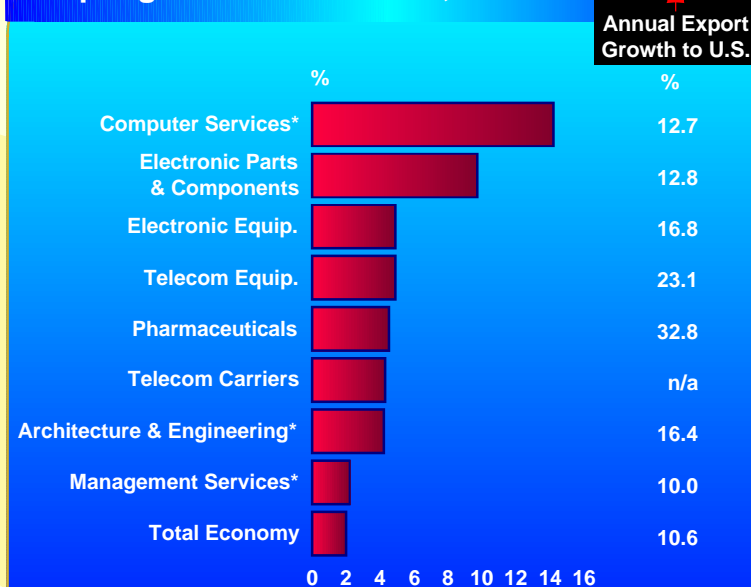
Access to the U.S.'s larger market makes it financially feasible for new firms to participate in promising value-added and knowledge-intensive industries.

Many of these industries are just beginning to emerge.

- And inasmuch as these activities are at the cutting-edge and often provide productivity-enhancing goods and services to other industries, they provide the impetus for further innovation and the improved competitiveness of other sectors.

**Access to the U.S. market is extremely important for many firms in fast-growing emerging industries — the promise of these new areas of economic activity depend on firms' abilities to quickly take advantage of large markets and cover start-up and innovation costs.**

Output growth in industries, 1989-98



\* Export data for services (Computer Services, Management Services and Architecture & Engineering) come from [Canada's International Transactions in Services](#), Statistics Canada  
Source: Industry Canada compilations based on Statistics Canada data

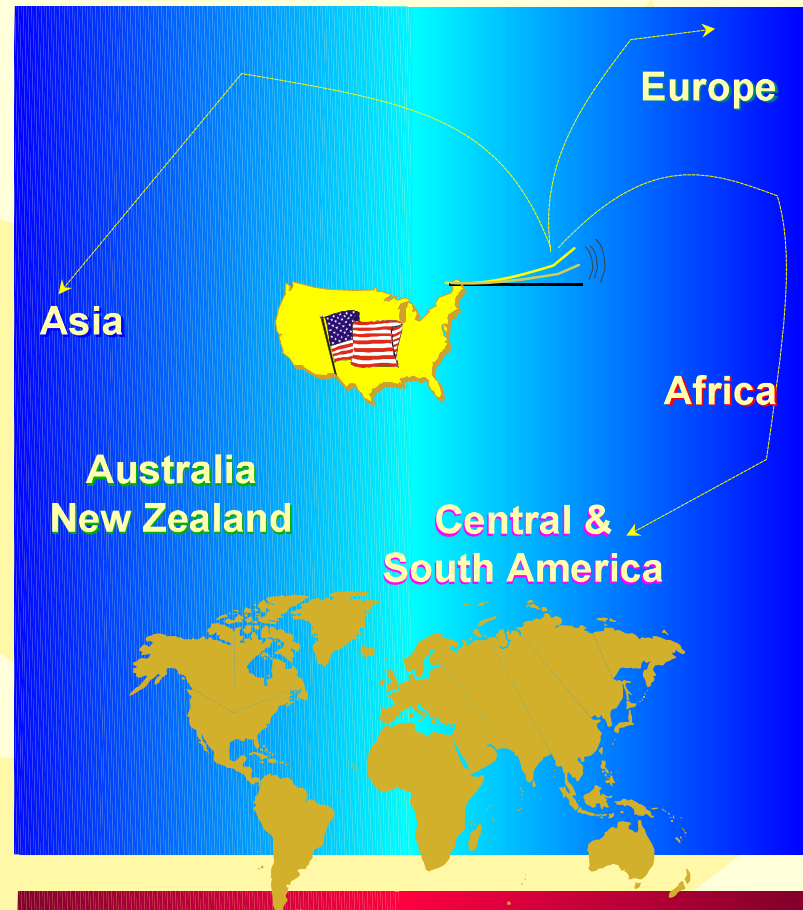
*In recent years, we have seen a proliferation of new firms in emerging industries such as information and communications hardware and software, biopharmaceuticals as well as in a host of other areas from bio-agriculture, bio-aquaculture, bioforestry to environmental technologies, telehealth and aerospace.*



## ***Success in the U.S. can also be a springboard to other markets***

The U.S. also serves as an ideal gateway to global markets, especially in more value-added and knowledge-intensive areas.

- The U.S. market is the easiest for many Canadian businesses to enter, and to learn the process of exporting, before going more global.
- Plus, since the U.S. is the world's vanguard market for many new products and services, success in the U.S. will establish Canada's brand and position Canadian business for success elsewhere.



***A successful foothold in U.S. markets helps establish a favourable reputation before going further abroad. For instance, 65% of Canadian exporters serving non-U.S. markets in 1997 also exported to the U.S.***

*Source: Statistics Canada, Export Registry, 2000*

***In addition, economic integration is a two-way street...***

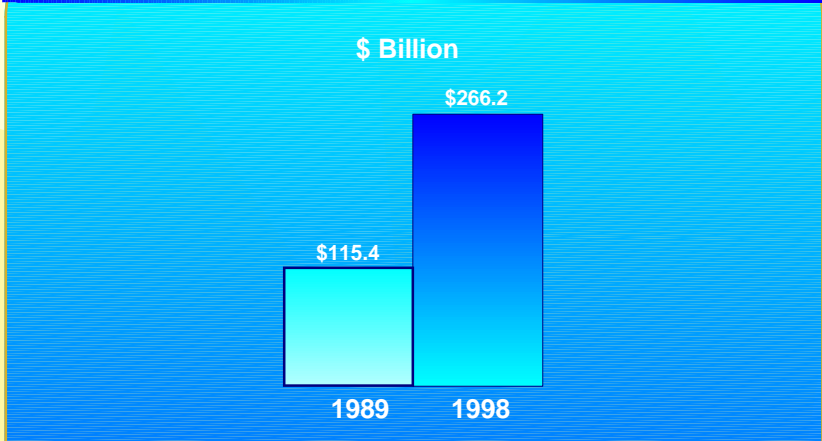
**Our relations benefit U.S. producers too!**

**Canadian imports from the U.S., in nominal terms have doubled; and as a percent of U.S. output, have risen from 1.8% in 1989 to 2.1% in 1998.**

**We are also the most important market for U.S. exporters in a number of major industries. E.g.:**

- Autos
- Computers
- Electrical & Electronics
- Chemicals
- Pharmaceuticals

**Canadian imports from the U.S.**



*Canada is the top foreign market for many U.S. exports*

	Canadian Imports from the U.S.			U.S. Rank as Exporter to Canada
	Value, 1998 \$ Billion	% of U.S. GDP, 1997	Share of U.S. Exports	
Autos	51.7	10.7	56.1	1st
Computers*	6.7	9.7	16.5	1st
Electrical & Electronics	28.8	5.4	18.6	1st
Chemicals	17.7	3.0	19.8	1st
Pharmaceuticals*	2.4	1.8	13.8	1st
Total Economy	266.2	2.1**	26.3	1st

\* GDP data are from the 1996 Annual Manufacturing Survey of the U.S. Census Bureau.

\*\* 1998

Source: Industry Canada compilations based on data from Statistics Canada, U.S. Dept. of Commerce and U.S. Census Bureau

## ...and be sure, the U.S. is pursuing opportunities in Canada

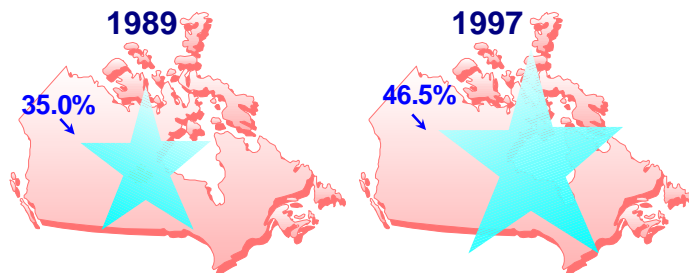
U.S. firms are not waiting to take advantage of opportunities when they see them in Canada.

The U.S. share of imports in Canadian markets is high and increasing in many industries.

It becomes crucial that Canadian firms strengthen their base by also seeking opportunities in U.S. markets.

*U.S. export penetration is rising in many key Canadian markets — and especially in many high-tech, high-knowledge industries.*

### U.S.'s share of Canada's market



Source: Industry Canada compilations based on data from Statistics Canada

### Canadian imports from the U.S.

	Share of Canadian Market		Percent Change 1989-97
	1989	1997	
<b>Resources</b>	%	%	%
Agriculture*	25.4	39.6	55.6
Logging & Forestry*	4.7	6.1	30.7
Mining & Oil*	10.6	12.1	13.7
<b>Manufacturing</b>			
Food & Beverages	4.8	9.8	104.5
Rubber & Plastics	21.7	30.1	38.9
Textiles	14.4	34.4	138.6
Clothing	1.9	8.5	344.6
Wood	8.5	13.2	56.8
Furniture & Fixtures	13.1	29.9	127.8
Paper	11.6	25.2	118.4
Printing & Publishing	10.2	15.9	55.9
Metals	17.1	28.7	67.5
Machinery	46.9	54.6	16.4
Transportation Equipment	40.8	50.8	24.5
Electrical & Electronics	34.6	49.9	44.3
Computers	58.7	62.7	6.9
Non-Metallic Minerals	12.9	22.4	73.2
Refined Petroleum	5.9	8.4	43.4
Chemicals	19.0	36.8	93.8
Pharmaceuticals	8.6	22.7	162.2
<b>Professional Services</b>			
Computer Services*	9.7	10.9	12.0
Architecture & Engineering*	4.9	8.2	68.1
Transportation*	9.9	15.1	52.8

\* GDP in place of shipments was used in market calculations. In addition, the relevant time period is 1992-1996 for Architecture & Engineering.

Source: Industry Canada compilations based on data from Statistics Canada

# Opportunities for the taking?



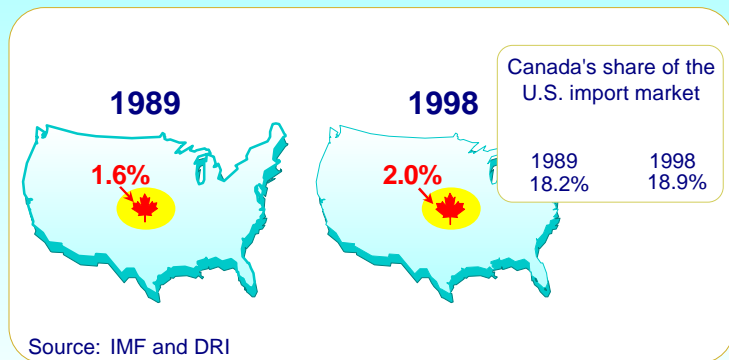
## Still room to grow!

It is important to note that even though Canadian exports to the U.S. have grown significantly since 1989, there are still considerable opportunities.

**Canada's export share of the U.S. market remains small — 2% in 1998.**

This was also shown in "Canada's Growing Economic Relations with the United States: Part 1 — What are the key dimensions? ", The Micro-Economic Monitor (2nd Quarter 1999).

### Canada's share of the U.S. market



Select industries	Canadian exports' Share of U.S. market			Annual growth 1989-98 in:			
	1989 %	1998 %	1998 Value	Exports %	Net Increase	U.S. market %	Net Increase
Electrical & electronics	1.9	2.5	\$13.3	11	\$8.2	8	\$271.7
Plastics	1.6	4.7	\$2.8	15	\$2.0	2	\$9.9
Machinery	1.9	2.8	\$8.3	10	\$4.8	5	\$110.3
Transportation equip.	7.9	10.4	\$54.9	7	\$25.0	4	\$149.8

Note: Billions of U.S. dollars

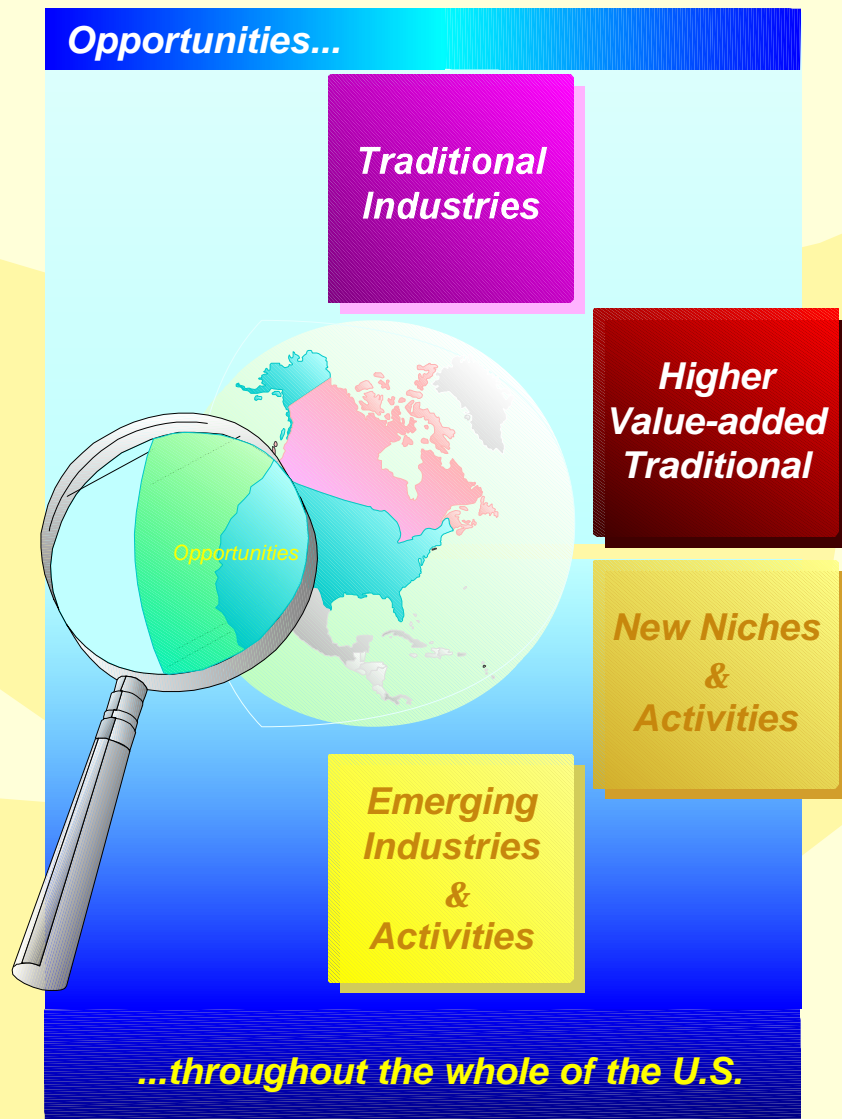
Source: Industry Canada computations based on data from the U.S. International Trade Commission and DRI

## ***What kind of opportunities?***

Every kind! Encompassing all types of products and services. There are still abundant opportunities in:

- traditional export products and services
- new value-added areas built on traditional strengths
- product/service niches
- new and emerging areas.

*Canada's export opportunities include but are not limited to resources and resource-based products. Indeed, taking fuller advantage of opportunities means expanding Canada's exports to a wider range of activities, including products and services that could be particularly important for our future prosperity, as well as broadening our export markets throughout the whole of the U.S.*





## **...from traditional exports to exports in new emerging areas**

### **Traditional Industries**

In recent decades, Canada's largest exports have been in Resources and Resource-based Products (reflecting comparative advantage) and in Autos & Parts (integrated auto market).

### **Higher Value-added Traditional**

Within Canada's traditional exports, there has been considerable growth in the export of more value-added products and services\*, i.e. involving further and/or more advanced processing and sometimes more knowledge-based endeavours. These exports depend on firm-level productivity or competitiveness beyond any industry comparative advantage, since Canada could otherwise ship these natural resources elsewhere for processing.

### **New Niches & Activities**

These are nontraditional export areas or niches that are growing in importance. These may be in industries in which Canada is a net world importer. These exports must also frequently rely on firm-level competitive advantages from productive and innovative activities, or special market access, etc. to earn U.S. market share.

### **Emerging Industries & Activities**

These activities often also involve new niches, but are frequently young industries in which there are a high proportion of new firms and lots of "churning" New or emerging markets can be very active and competitive and the nature of competition can change as markets develop. Positioning, staying on the leading-edge, and taking quick advantage of opportunities can all be crucial to the growth and export success of firms in these industries.

\* Some of Canada's natural resource exports are very high value-added. But often there can be further processing that uses additional domestic inputs (sometimes requiring higher knowledge or skill activities) and adds further value.




***There is still considerable room to grow in traditional export areas...***

Even though Canadian traditional exports are large relative to other exports, and have generally grown faster than the U.S. market, our market share here, too, remains small.

As transportation links develop further, and our knowledge of U.S. markets grows, Canada's exports should broaden more thoroughly throughout the U.S.

*Even in traditional exports, the U.S. provides abundant opportunities and remains a highly attractive target for further exports .*

**Traditional Canadian exports to the U.S.**

	 Annual Growth in Exports 1989-98	 Growth in U.S. Market 1991-97	 Share of U.S. Market 1997
	%	%	%
Resources*	10.0	8.1	6.8
Resource-Based**	8.6	8.1	4.6
Autos	10.2	11.9	8.8
Auto Parts	6.9	n/a	n/a

\* Resources are defined as Oil & Gas, Mining, Agriculture, Fishing & Trapping, and Logging.

\*\* Resource-based is defined as Paper, Primary Metals, Wood, Food, Petroleum & Coal Products, Non-Metallic Minerals, Beverages, Leather and Tobacco

Note: The U.S market for resources is calculated using GDP instead of shipments  
Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

Canada's traditionally large exports include Resources and Resource-based Products (comparative advantage) and Autos & Parts (integrated auto market).



**...especially if we can add value to our traditional exports**




The fastest growing segments in Canada's resource-based exports are in more processed endeavours.

- Our market share in these endeavours is much smaller, while these U.S. markets tend to be large and growing quickly.

*In an era of global commodities, exports of primary and basic products alone may no longer provide sustainable prosperity. Technology allows new producers of basic goods to come forward even from overseas, putting yet our traditional exports in a more vulnerable position.*

**A challenge facing Canada is to devise new ways to draw upon the strengths of our existing industry, and to enhance their strongest elements, i.e. in value-added ways.**

**Canadian exports to the U.S.**  
*Primary and select related products involving further processing*

	Exports 		U.S. Market 		Our Share of U.S. Market 1998 
	US\$ Billion 1998	Annual Growth, % 1989-1998	US\$ Billion 1999	Annual Growth, % 1989-1999	
<b>Agriculture</b>	3.1	11.9	156.2	2.0	2.0
Food & Beverages	5.6	11.2	489.3	3.1	1.2
» Canned/Frozen Fruit/Veg	0.6	20.2	56.4	2.8	1.0
» Dairy Products	0.1	18.3	66.3	4.1	0.2
» Sugar & Confectionery	0.5	16.1	28.9	3.0	1.8
» Soft Drinks	0.2	31.6	49.2	5.7	0.5
<b>Wood &amp; Paper</b>	20.8	5.5	300.2	3.5	7.1
Sawmills	6.3	9.0	40.1	5.6	16.6
Veneer & Plywood	0.4	11.4	10.1	3.9	4.6
Paper Boxes & Bags	0.4	23.6	41.6	3.8	1.0
<b>Mining &amp; Oil Well Industries</b>	12.3	8.1	112.5	0.9	10.1
Fabricated Metals	4.1	9.0	224.1	3.9	1.8
» Cutlery/Handtools & Hardware	0.9	13.8	24.0	4.2	3.8
<b>Oil &amp; Gas</b>	11.5	9.1	67.7	2.1	15.3
Plastics	2.8	14.9	57.1	1.5	4.7

Traditional value-added include products and services that involve further and/or more advanced processing and sometimes more knowledge-based endeavours. These exports reflect firm-level productivity or competitiveness beyond any industry comparative advantage.

\* Please also see niches and emerging industries on next two slides.  
Source: Industry Canada compilations based on data from the U.S. International Trade Commission and DRI



Canada must find ways to add value to traditional exports.

## Nontraditional export niches hold considerable promise...

We are witnessing a world of dynamic, fast-paced change, where firm-level competitive advantages can translate into niche market success.

Recent niches include:

- Clothing
- Furniture & fixtures
- Rubber & Plastics
- Commercial services

*Canada's market share remains small, even in our most successful niches, so the future holds considerable promise.*

### Canadian exports to the U.S. Select "niche" industries

	Exports 		U.S. Market 		Our Share of U.S. Market, % 1998 *
	US\$ Billion 1998	Annual Growth, % 1989-1998	US\$ Billion 1999	Annual Growth, % 1989-1999	
Clothing & Textiles	2.7	19.0	195.3	3.1	1.4
Furniture & Fixtures	3.7	13.8	71.5	5.0	5.3
Chemicals	4.2	4.3	144.5	1.8	1.6
Rubber & Plastics	7.1	13.0	225.2	3.9	3.2
Commercial Services	9.4	10.8	5,686.2	6.7	0.2

\* It must be noted that some industries, such as clothing and textiles, still face to a degree certain quantitative restrictions and/or regulations which may limit the potential market in the U.S. which is available.

Source: Industry Canada compilations based on data from DRI and Statistics Canada (Transportation Services exports based on international services transactions receipts)

For further detail, please see Slide N-10.

Nontraditional export areas or niches include industry exports from areas in which Canada has been a net world importer. These exports' success relies frequently on competitive advantage originating from productive and innovative activities, and benefit from special market access to the U.S.

## ...as do exports in new and emerging areas

Technological developments have resulted in many new or evolving industries, whose markets are growing fast. At present, the U.S. market dominates world demand for many of these leading-edge products and services.

Five key sectors include:

### - Biotech

Biopharmaceuticals  
Bio-agriculture  
Bio-aquaculture  
Bioforestry

### - Information Communication Technologies (ICTs)

Information appliances  
Intelligent systems and software  
E-commerce facilitators

### - Aerospace Technologies

Regional and business aircraft  
Flight simulators and training



### - Environmental Technologies

Energy (fuel cells, biomass, etc.)  
Bioremediation

### - Professional Services

*Success of companies in these industries depends often on their ability to keep up with rapid innovations in products and/or processes.*

## Select Canadian exports to the U.S. associated with leading-edge activities

	Exports 		U.S. Market 		Our Share of U.S. Market, % 1998
	US\$ Billion 1998	Annual Growth, % 1989-1998	US\$ Billion 1999	Annual Growth, % 1989-1999	
Pharmaceuticals	0.7	29.4	133.6	10.4	0.5
ICTs					
Telecom Equipment	3.1	19.8	91.4	9.2	3.8
Electronic Parts & Components	3.2	9.3	171.8	11.2	2.1
Computers & Peripherals	3.6	10.1	170.5	9.9	2.3
Scientific & Professional Equip	1.6	15.7	133.6	3.8	1.3
Indicating & Recording Instrum.	1.6	15.0	24.4	5.1	7.1
Aerospace	4.5	10.8	79.5	1.2	5.2
Environmental Technologies*	0.4	19.0	n/a	n/a	n/a
Business & Professional Services	9.4	11.0	1,497	7.7	0.7
Management Consulting	0.7	11.8	148.4	8.5	0.5
Computer Services	0.7	13.3	301.6	12.9	0.3
Architecture & Engineering	0.6	16.2	116.8	4.6	0.5

\* 1990-98 time period - export data come from Team Canada Inc.

Source: Industry Canada compilations based on data from U.S. International Trade Commission, DRI and Statistics Canada (Business & Professional Services exports are based on international services transactions receipts)

New or emerging activities frequently involve young industries in which there are a high proportion of new firms. Markets can be very active and the nature of competition can change as markets develop. Positioning, staying on the leading-edge, and taking advantage of opportunities quickly can be crucial to the growth and export success of firms in these industries.

## Opportunities also include the export of many knowledge services

Knowledge services play a crucial part in the efficient operation and growth of modern economies.

Consequently, business & professional services are growing rapidly.

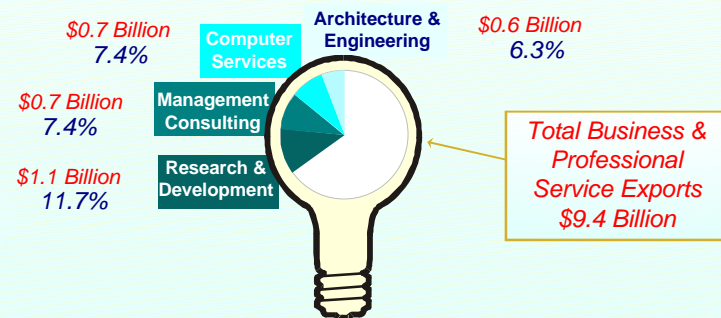
Business & Professional Services range from relatively low-tech building services to cutting-edge knowledge services. These include computer services, R&D, and Management Consulting.

**Services are an integral part of the global, knowledge economy.**

### Select Canadian knowledge services exports to the U.S. ...

	Annual Export Growth, % 1989-98	U.S. Market US\$ Billions 1998	Growth, % 1989-1998	Our Share of U.S. Market, % 1998
Business & Professional Services	11.0	1,391	7.7	0.7
Management Consulting	11.8	135.5	8.4	0.5
Computer Services	13.3	274.0	13.2	0.3
Architecture & Engineering	16.2	110.7	4.5	0.5
Research & Development	13.0	43.7	8.1	2.5

### ... as share of total business & professional service exports, 1998



Source: Industry Canada compilations based on data from U.S. International Trade Commission, DRI and Statistics Canada (exports are based on international services transactions receipts)

## ***E-biz could provide exceptional opportunities...***

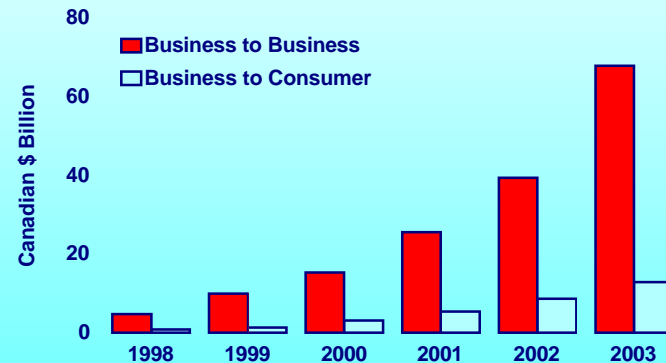
**A significant feature of our new global and information-driven environment is the growth in e-commerce.**

**Canadian e-commerce is growing fast and is projected to continue to do so.**

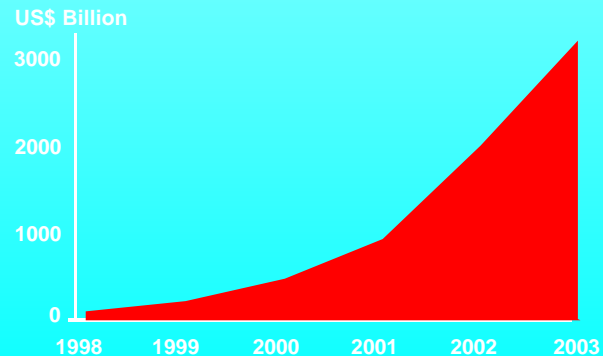


***Although e-commerce is still in its infancy, we should see it accelerate dramatically in importance.***

### **Canadian e-commerce market and forecast**



### **World e-commerce market and forecast**



\* Source: International Data Corporation (1999) and The Boston Consulting Group.

*E-biz will impact on a substantial part of everyday activity, from retail to trading relationships.*

## *...for Canadian business getting on the info-highway...*

Canadians are spending a lot at American sites. Excluding financial transactions and travel-related online purchases, Canadian consumers spent 63% of their online dollars at U.S. Websites in 1999.

- And only 26% of Canada's 200 largest retailers offered Web-based shopping last year, compared with about 50% of comparable retailers in the U.S.



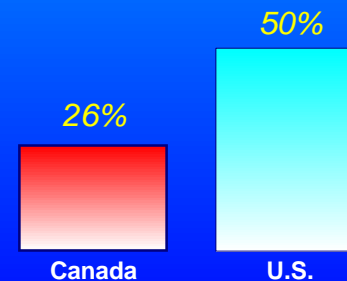
***Getting on the Info-Highway — The Internet is becoming a strategic priority for a growing number of Canadian businesses.***

### The borderless nature of the Internet

#### *Canadian spending on-line, 1999*



#### *Retailers conducting commerce online, 1999*



Source: International Data Corporation, 1999

## **...and signs are Canadian business is beginning to take advantage of e-commerce**

While Canadian companies may have dragged their feet in e-commerce, partly because they felt the domestic market was not large enough to justify the expense, they are recognizing the U.S. market beckons.

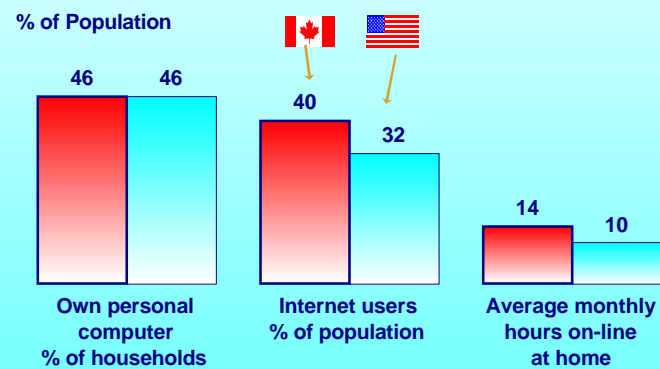
- Indeed, almost half of the online shoppers who hit Canadian sites over the holiday period originated from the U.S. and another 5% from other countries.

***To take advantage of opportunities in e-commerce, Canada will need to accelerate the transformation of existing businesses and foster e-business creation and growth.***

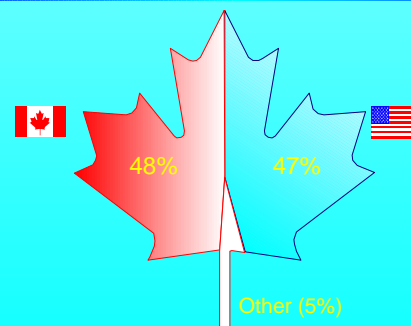
*"In Canada a year ago, U.S. companies had 100% of the online book business, but today we believe Chapters has repatriated 40% of the money that has gone South."*

**Rick Segal, President of Chapters On-Line**  
Wall Street Journal, Jan. 31, 2000

### Canadians are already on-line and potential users



### Online shoppers who hit Canadian sites over the holiday season



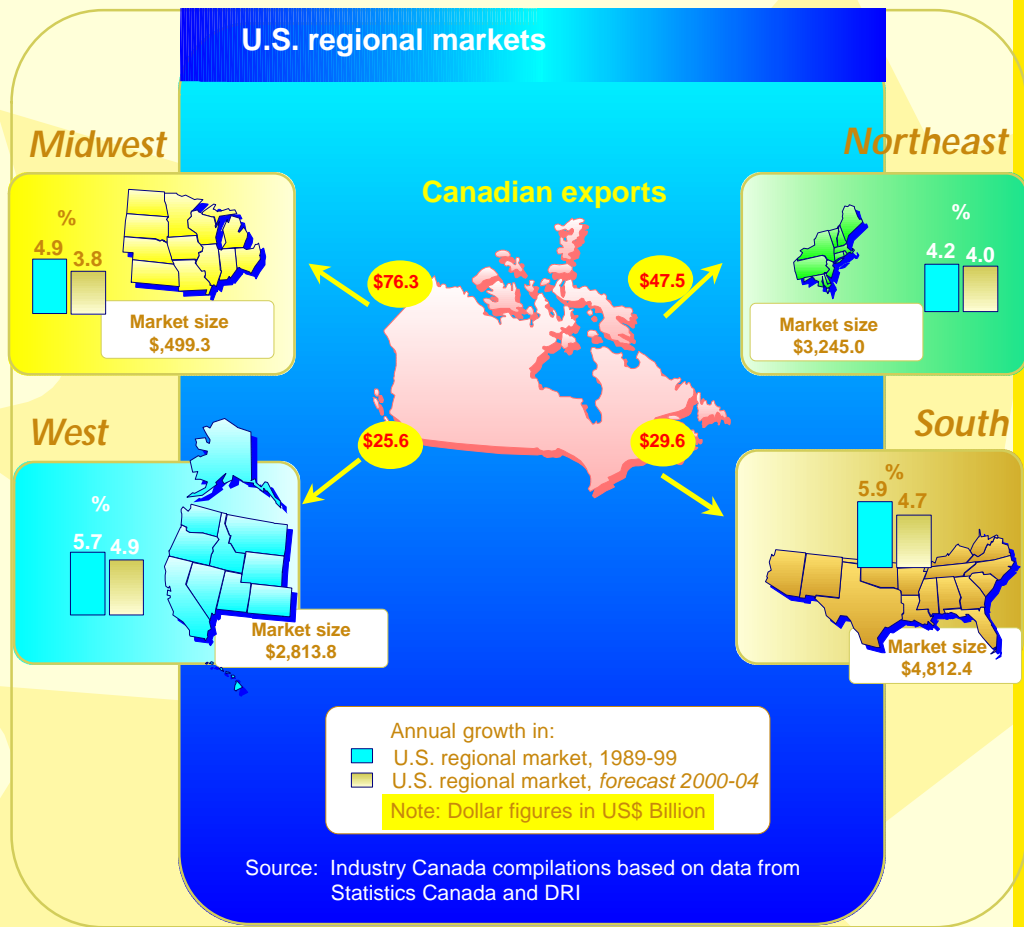
Source: IDC data as published by IBM and Retail Council of Canada, and The Boston Consulting Group



# Opportunities can be found in all regions of the U.S.

Opportunities extend throughout the U.S., reflecting the growth and needs of individual regional markets.

Please see: Annex: Opportunities and U.S. Regions for a fuller discussion of regional opportunities.





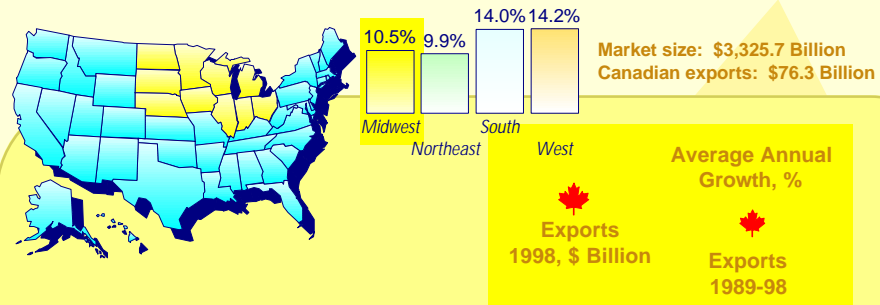
## Our exports are strongest to the Midwest...

The Midwest is the largest U.S. destination of Canadian exports (\$76.3 billion in 1998) — and are mostly in traditional areas of strength: especially Autos, but also Oil & Gas and Paper.

However, the fast-growing markets in the Midwest are in "high-knowledge" products and services.

- This includes business services (especially computer processing and software), pharmaceuticals and computer equipment.

DRI provides market information on 54 Groups and 249 Sectors. The above market information comes from Group data, and "submarket" information comes from Sector data. We focus on non-banking Groups and Sectors in which there is trade.



### Top 5 exports

Export Category	Exports 1998, \$ Billion	Average Annual Growth, % (Exports 1989-98)
Transportation Equipment	55.5	9.3
Oil & Gas	7.4	7.0
Paper	5.5	4.7
Primary Metals	5.0	9.2
Machinery	4.8	12.9

### Fastest-growing markets

Market Category	Demand, 1999 US\$ Billion	Average Annual Growth 1989-99	Forecast 2000-04
Pharmaceuticals, Cleansers, Toiletries	43.4	7.4	6.0
Business & Prof. Services	347.1	7.6	5.9
Electronic Components	34.9	9.5	5.9
Computer/Office Equipment	36.8	9.7	5.4
Health Services	182.5	6.7	4.8

### Largest "submarkets"

Submarket Category	Demand, 1999 US\$ Billion	Average Annual Growth 1989-99	Forecast 2000-04
Insurance Carriers & Agents	88.8	6.1	4.3
Motor Vehicles	71.7	4.5	3.1
Computer Processing & Software	67.2	12.7	7.7
Trucking & Courier Services	61.4	6.6	2.3
Motor Vehicle Parts & Accessories	54.8	2.7	3.5

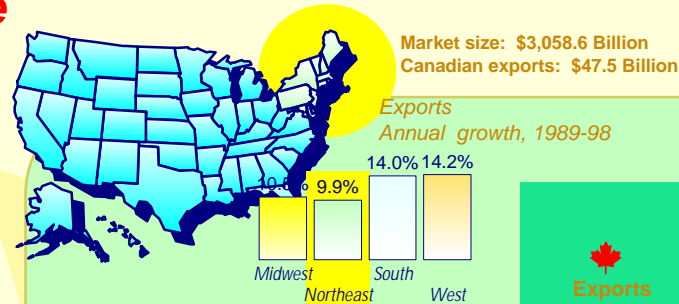
**...and in the Northeast, high-tech exports have been increasing at a fast pace**

**Autos also comprise the main share of Canada's exports to the Northeast, but exports of Electrical & Electronics is poised to overtake the top position.**

**- In fact, the Northeast market for Electrical & Electronics exports is over twice as large as in any other region.**

**The Northeast's markets for high-tech products such as Electronic Components, Pharmaceuticals, Computers and Aerospace and Business Services are forecast to continue to grow fast.**

DRI provides market information on 54 Groups and 249 Sectors. The above market information comes from Group data, and "submarket" information comes from Sector data. We focus on non-banking Groups and Sectors in which there is trade.



**Top 5 exports**

Export Category	Exports 1998, \$ Billion	Exports 1989-98
Transportation Equipment	11.9	5.3
Electrical & Electronics	10.5	16.9
Primary Metals	7.3	6.6
Paper	5.9	5.7
Food	3.7	10.4

**Fastest-growing markets**

Market Category	Demand, 1999 US\$ Billion	1989-99	Forecast 2000-04
Electronic Components	32.6	8.3	7.0
Business & Prof. Services	347.2	6.5	6.1
Pharmaceuticals, Cleansers, Toiletries	47.6	7.0	6.0
Computer & Office Equip.	35.0	7.4	5.5
Aircraft & Parts	13.7	0.1	5.1

**Largest "submarkets"**

Submarket Category	1998	1989-99	Forecast 2000-04
Insurance Carriers & Agents	92.8	5.2	4.1
Computer Processing & Software	73.4	12.1	8.0
Motor Vehicles	69.9	3.3	3.0
Advertising	47.9	4.3	4.4
Trucking & Courier Services	44.2	4.8	2.2

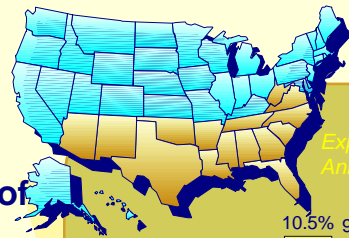
# Canada's exports have risen quickly to the fast-growing South

The South led all U.S. regions in recent market growth. And while the South comprises the smallest share of Canada's exports to the U.S., our exports are rising rapidly (14.0% annually, second only to the West's 14.2%).

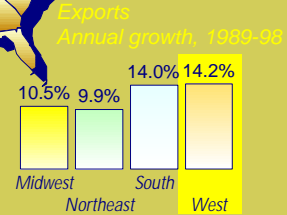
Autos and Aerospace are among our key exports, but the greatest opportunities are once again in business services, electronic components and computers.

**Rising demand for semiconductors, computer processing and aerospace top the South's market forecast.**

DRI provides market information on 54 Groups and 249 Sectors. The above market information comes from Group data, and "submarket" information comes from Sector data. We focus on non-banking Groups and Sectors in which there is trade.



Market size: \$4,502.9 Billion  
Canadian exports: \$29.6 Billion



Average Annual Growth, %	
Exports 1998, \$ Billion	Exports 1989-98

### Top 5 exports

Autos & Other Transportation Equip	7.9	15.1
Electrical & Electronics	4.8	11.0
Wood	3.6	15.1
Machinery	3.3	13.6
Chemicals	2.9	13.2

### Fastest-growing markets

Demand, 1999 US\$ Billion	Average Annual Growth	
	1989-99	Forecast 2000-04
Electronic Components	13.2	8.5
Pharmaceuticals, Cleansers, Toiletries	8.4	6.8
Business & Prof. Services	8.5	6.7
Computer & Office Equip.	11.6	6.5
Aircraft & Parts	2.9	6.4

### Largest "submarkets"

Insurance Carriers & Agents	116.6	6.9	5.2
Motor Vehicles	100.6	5.4	4.0
Computer Processing & Software	100.1	13.8	8.6
Trucking & Courier Services	77.6	7.3	3.0
Advertising	71.1	5.9	4.9

Source: Industry Canada compilations based on data from Statistics Canada and DRI

## Export opportunities will be particularly strong in the West

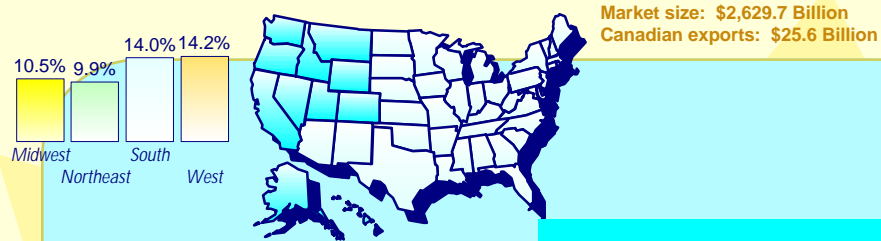
The West is forecast to overtake the South and lead the U.S. in market growth.

To some degree, exports to the West reflect the structure of the Western Canadian economy, with Oil & Gas exports occupying a relatively important share.

- But Computers are among our top 5 exports, as are Aerospace exports.

*The West's future is being built on a modern infrastructure that in addition to the type of exports we presently deliver, requires even greater amounts of higher knowledge goods and services. The West's market forecast highlights growing demand for Electronic Components, Computers, Business Services and Pharmaceuticals.*

DRI provides market information on 54 Groups and 249 Sectors. The above market information comes from Group data, and "submarket" information comes from Sector data. We focus on non-banking Groups and Sectors in which there is trade.



### Top 5 exports

Autos & Other Transportation Equip  
Oil & Gas  
Electrical & Electronics  
Wood  
Paper

Average Annual Growth, %	
Exports 1998, \$ Billion	Exports 1989-98
7.8	15.2
5.5	10.0
4.1	22.3
3.2	12.3
2.1	7.2

### Fastest-growing markets

Electronic Components  
Computer & Office Equip.  
Business & Prof. Services  
Pharmaceuticals, Cleansers, Toiletries  
Primary Nonferrous Metals

Average Annual Growth		
Demand, 1999 US\$ Billion	1989-99	Forecast 2000-04
51.5	12.6	8.8
40.8	10.6	7.1
296.0	8.0	6.9
35.3	8.1	6.8
13.4	1.1	5.7

### Largest "submarkets"

Insurance Carriers & Agents  
Motor Vehicles  
Computer Processing & Software  
Advertising  
Trucking & Courier Services

69.9	6.3	5.1
59.1	4.7	4.0
61.0	12.8	8.8
40.8	6.1	5.3
39.5	6.6	3.0

## Canadian export of services...

The U.S. markets for services are large and growing. International travel and a variety of other services exports have grown greatly.

- The value of Canadian service exports to the U.S. are highest in travel services and in land transportation (which includes trucking). \*
- But Insurance and R&D exports are also significant.

The fastest growing areas of Canada's exports of services to the U.S. include several knowledge services — including Architecture & Engineering, R&D, and Computer & Information.

\* It must be noted that many service industries face rules and regulations which may limit the potential market in the U.S. which is available.

**The fastest growing U.S. service markets are in knowledge areas — Computer & Information, Management and R&D.**

## U.S. service markets

	Exports	Average Annual Growth			
	1998 US\$ Billion	Exports 1989-98	US Market 1999 US\$ Billion	Market 1989-98	Forecast 2000-04
<i>Transportation</i>					
» Water	0.3	2.0	16.8	-2.2	3.0
» Air	0.9	11.7	133.4	4.8	5.7
» Land & Other	2.0	12.9	258.8	5.6	2.6
<i>Travel</i>	5.8	8.6	67.1	6.0	5.7
<i>Commercial</i>					
Communication	0.8	5.4	364.8	5.9	5.0
Insurance	1.7	11.1	368.1	5.9	4.7
Other Financial	0.5	14.8	685.8	9.3	5.9
<i>Computer &amp; Information</i>	0.8	13.6	301.6	13.32	8.3
Equipment Rentals	0.1	2.4	48.2	5.9	5.9
Management	0.9	12.3	148.4	8.4	3.8
Advertising	0.1	12.8	211.9	5.4	7.3
R&D	1.1	13.0	46.7	8.1	4.7
Architecture & Engineering	0.6	16.4	46.7	4.5	6.0
Miscellaneous Business	1.4	6.3	116.8	7.2	4.3
Personal, Cultural & Recreation	0.1	2.5	623.0	5.9	6.4

Source: Industry Canada compilations based on data from DRI and Statistics Canada (international services transactions receipts)

Trade information is generally available for merchandise trade. However, service industries are growing tremendously in importance. For information on services exports we rely on data on Canada's international services transactions receipts to the U.S. (U.S. regional break-outs are not available)



**...show great potential in all regions of the U.S. market**

**The forecast is for continued strong growth in knowledge services like R&D, Management and Computer Services across all regions of the U.S.**

**Canada must capitalize on the growth potential of services exports.**

***The forecast areas of high growth in the U.S. service markets are in knowledge areas — and growth potential, while high in the South and West regions of the U.S. is also significant in other regions.***

### Growth of U.S. regional service markets

	Northeast		South		Midwest		West	
	Market	Forecast 2000-04	Market	Forecast 2000-04	Market	Forecast 2000-04	Market	Forecast 2000-04
<i>Transportation</i>								
Water	3.5	2.6	6.2	3.4	3.7	2.7	3.3	3.2
Air	29.9	5.2	44.8	6.1	31.5	5.1	27.2	6.1
Land & Other	15.9	3.7	25.2	4.4	19.1	3.5	13.2	4.8
Travel	14.3	5.1	23.7	6.2	15.3	5.3	13.9	6.1
Commercial Communication	90.8	4.6	116.7	5.3	84.4	4.6	72.9	5.4
Insurance	92.8	4.1	116.6	5.2	88.8	4.3	69.9	5.1
Other Financial	182.7	5.8	214.9	6.1	155.5	5.3	132.7	6.2
Computer & Information	73.4	8.0	99.9	8.6	67.2	7.7	61.0	8.8
Equipment Rentals	10.2	3.4	16.9	4.0	11.7	3.1	9.5	4.4
Management	33.4	6.9	51.7	7.7	34.3	6.8	28.9	7.8
Advertising	54.7	4.4	71.1	4.9	52.0	4.2	40.8	5.3
R&D	11.4	5.8	15.8	6.5	9.6	5.6	9.9	5.9
Architecture & Engineering	23.6	4.1	43.6	4.5	26.1	3.8	23.6	4.9
Miscellaneous Business	147.2	6.0	207.2	6.7	146.2	5.9	122.3	6.9
Personal, Cultural & Recreation	191.3	3.3	256.5	4.3	181.7	3.4	166.7	4.3

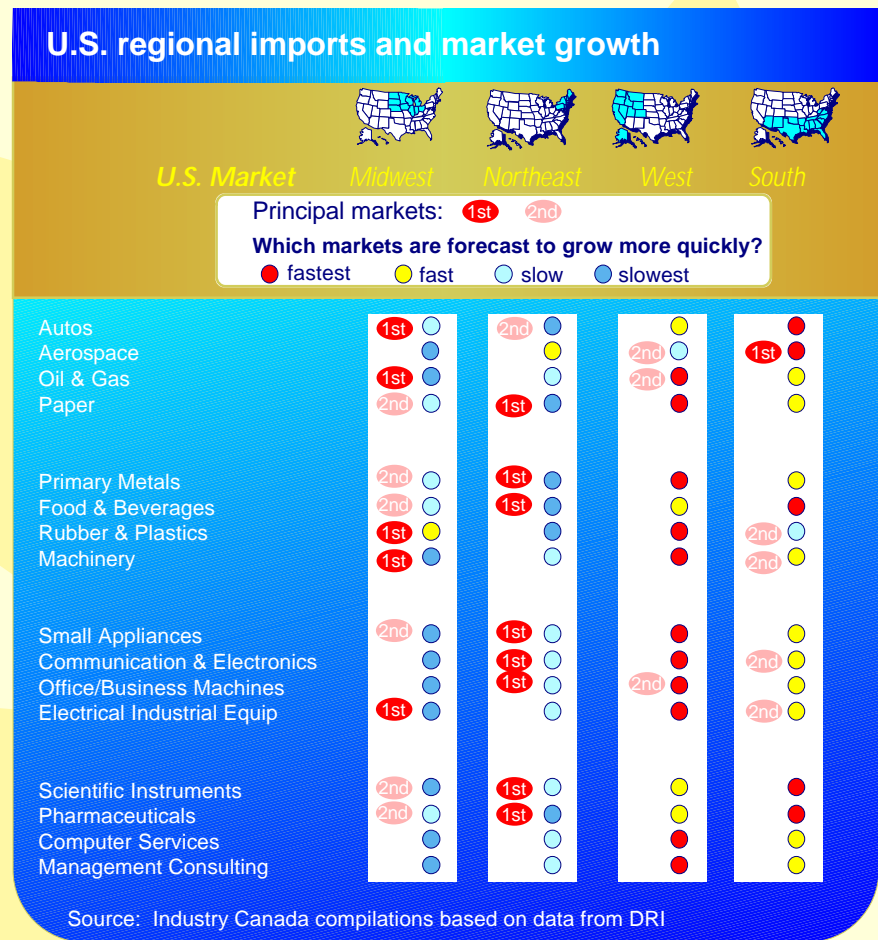
Source: Industry Canada compilations based on data from DRI and Statistics Canada (international service transactions receipts)

## The West and South are forecast to have the quickest-growing import markets for Canadian products and services!

As Canada's economic relations with the U.S. grows, and industry exports expand beyond principal or traditional U.S. regional markets, we should see "secondary" markets continuing to grow quickly.

And while the largest markets of most industry exports are in the Midwest and Northeast, markets in the South and West are forecast to have faster growth.

*Many of industries' biggest opportunities, in terms of growth and value, are in geographic markets that are nearby — in the Northeast or Midwest. But much promise lies in the West and South.*



How can we take better advantage  
of our opportunities in the U.S.?





## *Taking full advantage of opportunities...*

Opportunities are there:

- But how to take advantage?
- And which ones will be most important to our future?

*It is necessary to realize, firstly, that we need to take advantage of opportunities, and to do so requires some readiness on the part of business*

### *Opportunities for the taking?*

*We must bear in mind...*

...we cannot take our present success for granted

...and the status quo is not an option

*We must become...*

...more outward-looking  
— with more firms and industries looking beyond our borders

...more forward-looking —  
engaging in high-productivity activities including new & emerging goods/services

**...begins by recognizing Canadian business cannot stand pat...**

For many firms who are first-entrants and new-to-market when it comes to exporting:

- They will find they cannot afford to be just "almost as good" as their competitors in U.S. markets — for sustainable success they must continuously find ways to be better.

For firms linked to MNCs:

- They will need to make corporate decision-makers notice the abilities and merits of Canadian operations versus competing operations

*The world is changing, requiring a forward-looking and global outlook on the part of business, and new ways of doing business. Without these, Canada's existing in-roads may erode over time.*

**Keys to taking advantage?**

...pursue new / protect existing in-roads in traditional exports

...become better in more value-added pursuits

...pursue firm-level advantages that may involve developing new export niches

...participate more fully in new and emerging activities

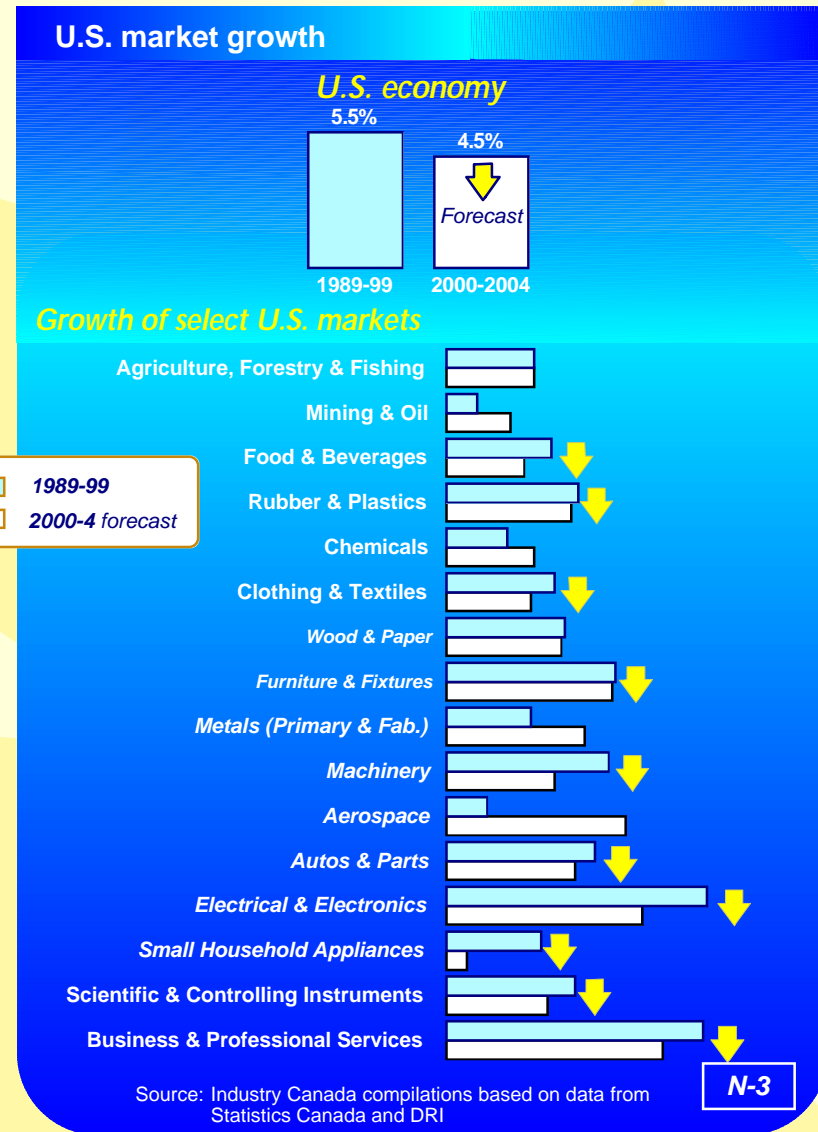
**...and by realizing there is no "status quo" option...**

Canada's export expansion into U.S. markets in recent years has benefitted tremendously from a buoyant U.S. marketplace.

But the U.S. economy is forecast to slow slightly, which will lead to stronger competition in U.S. markets.

This will especially be true in non-resource areas, where Canada does not have industry-level comparative advantages.

**- In these areas, Canada will need to rely on firm-level advantages — based on innovative practices and highly productive and unique processes and products/services for success.**



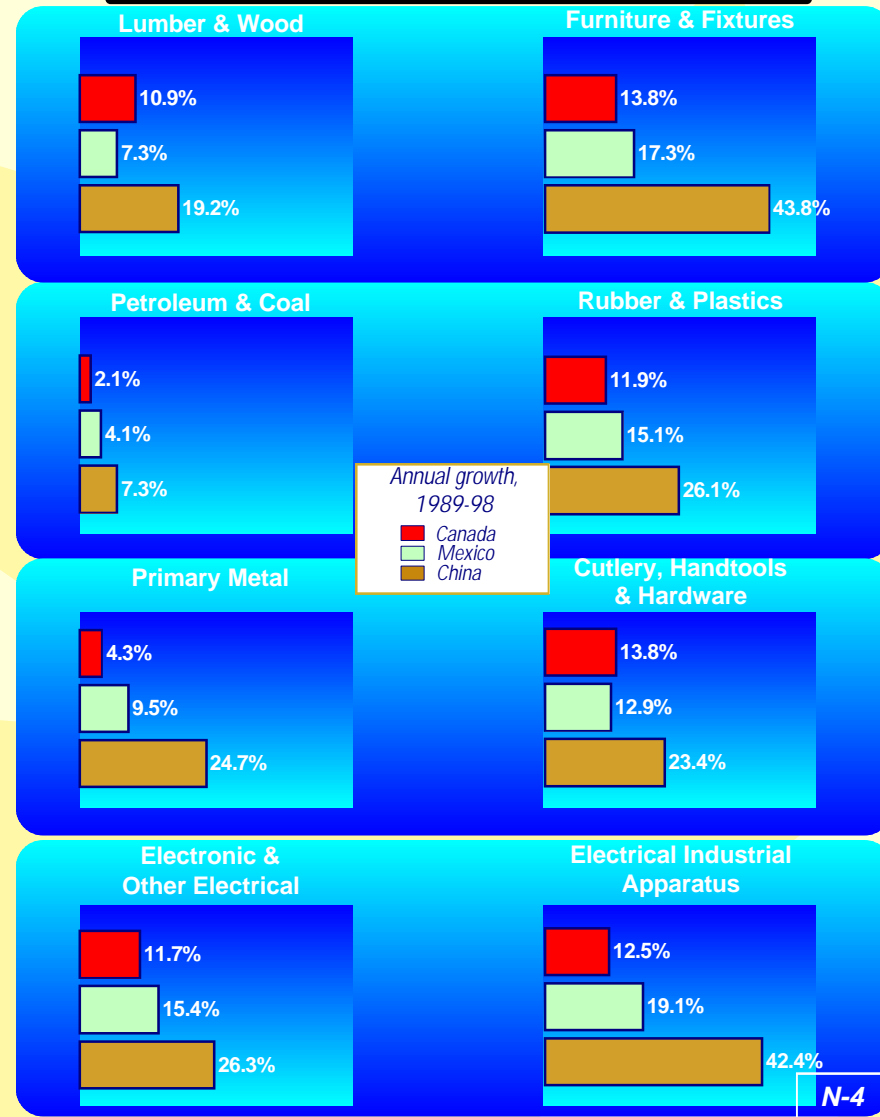
*...rather, competition will be intensifying...*

Other countries' businesses are making rapid in-roads, especially in more value-added portions, including in Canada's traditional export markets.

For instance, even though Canada's exports to the U.S. are increasing, exports from Mexico and China are generally growing much more quickly, and particularly fast in segments requiring greater processing.

*There are rumblings on the horizon that attest to the emerging export strength of competitors which could threaten our current position in U.S. markets.*

**Growth rates of select exports to the U.S.**



Source: U.S. International Trade Commission

## ...threatening our current "edges"...

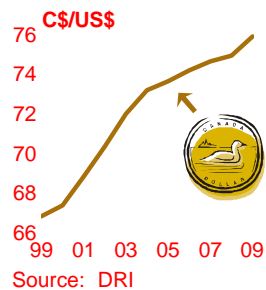
What we might also consider as current factors behind Canada's recent success in U.S. markets, such as having the U.S. as a next-door neighbour and having a lower dollar, are losing impact.

- Globalization and the information revolution result in Canada losing some relative advantages from proximity. It is easier for other countries to learn about and access the U.S. marketplace.
- As well, our dollar is strengthening.

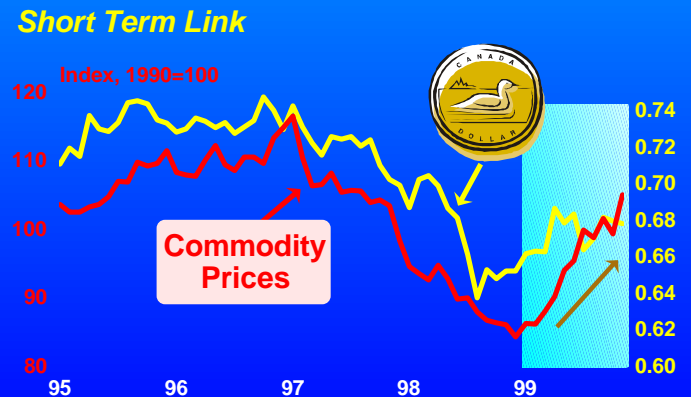
The Canadian dollar is strongly tied to commodity prices, which have been recently rising

The stronger dollar is also a reflection of improved unit labour costs and continuing low inflation. The forecast is for further strengthening.

### Forecast



### Commodity prices and the Canadian dollar



Source: Statistics Canada

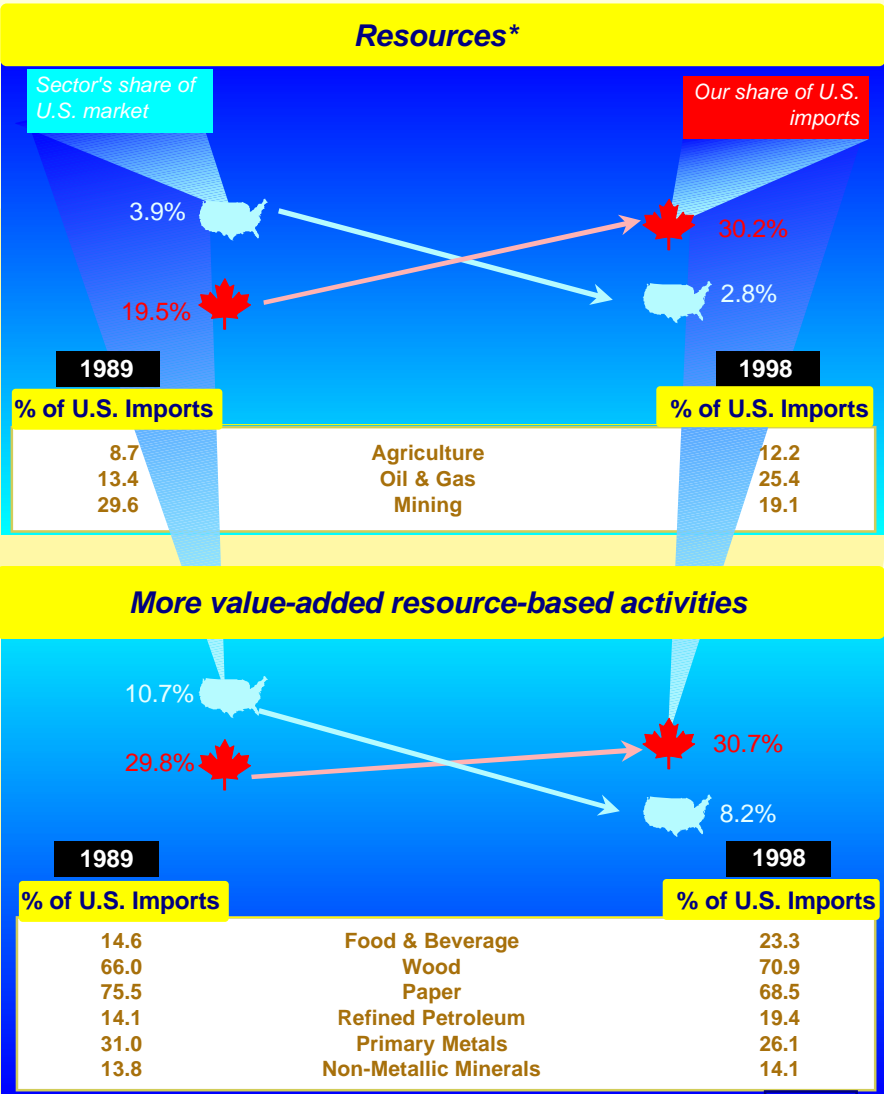
**...even in Canada's traditionally-strong export pursuits**

Resources remain a strong export sector. But they comprise a declining share of the total U.S. market.

This means Canadian industry must move into more value-added, and knowledge-intensive segments.

However, foreign exporters are also moving up the value-added ladder.

*The future lies in moving up the value-added ladder.*



\* Also includes Logging and Fishing & Trapping  
Source: U.S. International Trade Commission



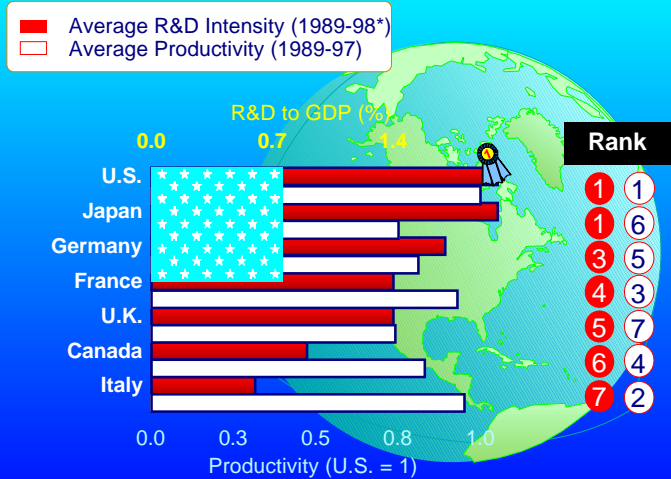
**Indeed, the world is changing,  
requiring the pursuit of new "essentials" for business success...**

The future will be with countries with businesses that attest to speed, quality, better product features and better processes — the new "essentials" for business success.

This will depend on being more innovative and productive.

*These new "essentials" transcend resource endowments and the benefits of proximity. Rather they place a premium on ideas and innovation, and their beneficial impact on productivity to sustain business success.*

### Canada trails in R&D spending and productivity



\* 1997 is most recent year available for Japan and the U.K.  
Source: Industry Canada compilations based on data from the OECD







**...by forward-looking and outward-looking firms and industries that focus on being more innovative**

Firms in forward-looking industries are always looking for new ways to make, customize and add more value to their products and services.

And it is vitally important to be outward-looking, because forward-looking firms need large markets to undercut the high costs associated with R&D and other expenses linked to knowledge activities, and to better reap the benefits of specialization and economies of scale.

***In many countries, the leading R&D industries tend to show above average outward orientation.***

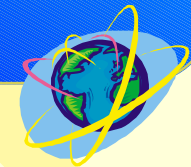
**Leading industries in R&D spending\*, 1995**

		Ratio of R&D spending to value-added	Relative Outward Orientation** (Total Manuf. = 100)
		%	
Canada 	<i>Radio, TV &amp; Communications</i>	34.5	102
	<i>Office &amp; Computer Machines</i>	26.7	349
	<i>Aircraft</i>	19.0	84
U.S. 	<i>Aircraft</i>	45.0	211
	<i>Office &amp; Computer Machines</i>	39.2	343
	<i>Professional Goods</i>	24.4	129
Japan 	<i>Office &amp; Computer Machines</i>	24.7	250
	<i>Drugs &amp; Medicine</i>	20.7	16
	<i>Professional Goods</i>	20.2	414
France 	<i>Aircraft</i>	33.6	202
	<i>Radio, TV &amp; Comm.</i>	31.6	106
	<i>Drugs &amp; Medicine</i>	27.8	112

\* Industries with the highest R&D intensity

\*\* Outward orientation is calculated as Exports/Value Added.

Source: OECD



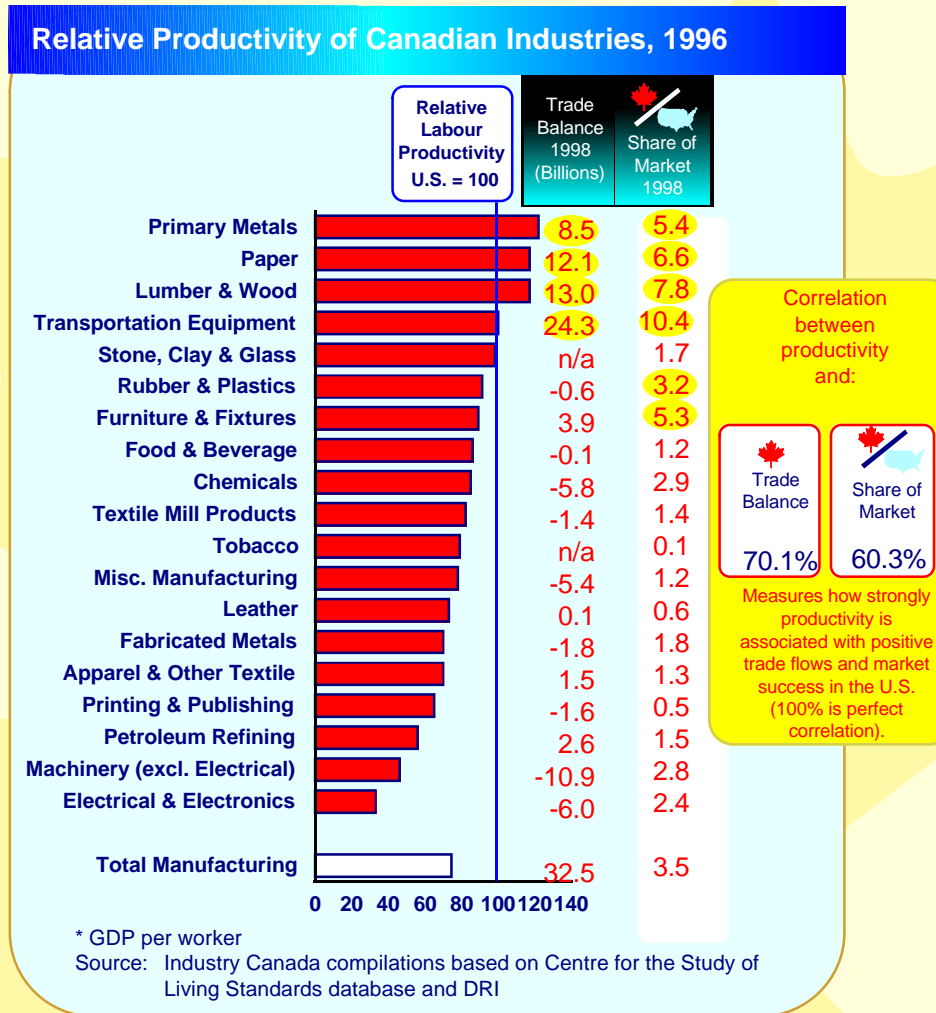
## Some of our exports reflect higher-than-U.S. productivity...

In many of our traditional export areas, Canada is more productive than the U.S.

- Plus, Canada is as productive as the U.S. in the important Transportation Equipment sector.

But in most industries, and across all aggregate sectors, Canada lags badly behind the U.S.

*Canada's share of the U.S. market is relatively high in many areas in which Canada is relatively more productive.*




## ...and Canada's growing success in niche markets...

Success in many niche markets reflects the efforts of individual firms and particular sub-industries.

These efforts must be sustained for firms to remain competitive and to successfully evolve with markets. Otherwise, firms have a natural tendency to "slip down the business food chain".

### Select industry niche exports — and special segments

	Exports 		U.S. Market 		Our Share of U.S. Market *  
	US\$ Million 1998	Annual Growth 1989-1998	US\$ Billion 1999	Annual Growth 1989-1999	
		%		%	%
<b>Clothing</b>	<b>1,455</b>	<b>22.3</b>	<b>112.5</b>	<b>4.4</b>	<b>1.3</b>
<i>Broad Knitted Fabric</i>	298	50.0	n/a	n/a	n/a
<i>Men's &amp; Boy's</i>	861	34.1	n/a	n/a	n/a
<i>Children's</i>	145	28.8	n/a	n/a	n/a
<i>Women's</i>	594	26.8	n/a	n/a	n/a
<b>Textiles</b>	<b>1,210</b>	<b>18.2</b>	<b>82.8</b>	<b>1.8</b>	<b>1.4</b>
<b>Furniture &amp; Fixtures</b>	<b>3,697</b>	<b>13.8</b>	<b>71.5</b>	<b>5.0</b>	<b>5.3</b>
<i>Household</i>	84	16.0	32.6	4.3	0.3
<i>Office</i>	1,106	19.1	21.1	6.0	5.4
<b>Chemicals</b>	<b>4,222</b>	<b>4.3</b>	<b>144.5</b>	<b>1.8</b>	<b>2.9</b>
<i>Paint &amp; Allied</i>	242	28.2	17.8	3.2	1.4
<i>Plastic &amp; Synthetic Resin</i>	2,148	18.3	38.5	2.1	5.4
<i>Soap &amp; Cleaning</i>	298	18.2	24.8	2.2	1.2
<i>Agricultural Chemicals</i>	1,221	5.9	11.9	2.9	10.2
<i>Industrial Chemicals</i>	2,627	3.0	108.7	1.4	2.4
<b>Rubber &amp; Plastics</b>	<b>7,088</b>	<b>13.0</b>	<b>225.2</b>	<b>3.9</b>	<b>3.2</b>
<i>Foamed &amp; Expanded Plastics</i>	178	18.4	n/a	n/a	n/a
<i>Plastic Bags &amp; Other Plastics</i>	2,667	17.6	n/a	n/a	n/a
<i>Plastic Pipe &amp; Pipe Fittings</i>	187	16.8	n/a	n/a	n/a
<b>Commercial Services</b>	<b>9,433</b>	<b>10.8</b>	<b>7,105.4</b>	<b>6.6</b>	<b>0.1</b>
<i>Advertising</i>	117	10.0	445.4	7.5	0.1
<b>Transportation Services</b>	<b>3,241</b>	<b>8.1</b>	<b>804.4</b>	<b>5.2</b>	<b>0.4</b>
<i>Land Transportation</i>	2,012	10.1	277.5	6.3	0.8
<b>Other</b>					
<i>Small Electrical Appliances</i>	339	7.8	11.1	2.8	3.2
<i>Electric Lighting</i>	549	5.9	27.8	2.5	2.0

\* It must be noted that many exports face rules and regulations which may limit the potential market in the U.S. which is available.

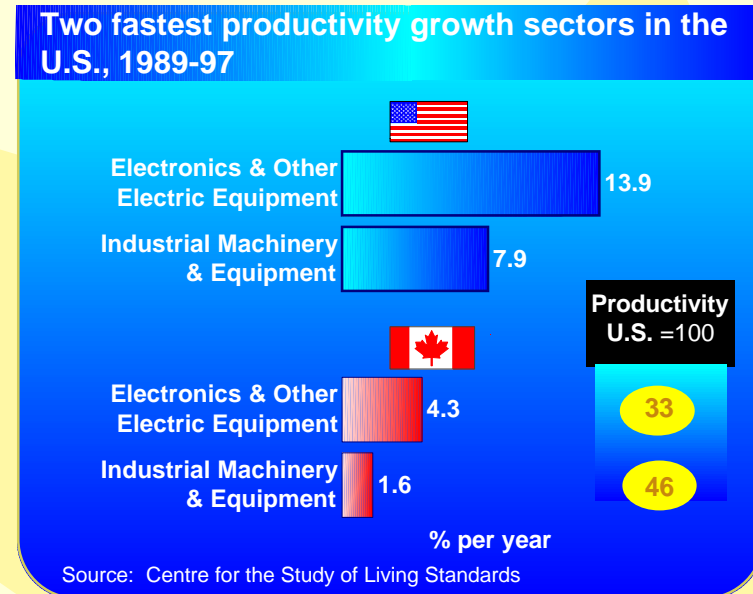
Source: Industry Canada compilations based on data from DRI, U.S International Trade Commission and Statistics Canada (merchandise exports for office furniture and international services transactions receipts)

**...but we are not successful in leveraging some key industries...**

The U.S. economy's enviable productivity performance has been driven by two computer-related sectors — Electronics & Electric Equipment, and advanced Industrial Machinery.

- These two sectors outpaced their Canadian counterparts by more than three times.
- During the last decade, the share of these two manufacturing sectors in the U.S. doubled — while Canada's share increased only marginally.

**The U.S. is better at riding the technological wave to growth — its industrial structure shifting much more quickly than Canada's towards dynamic, high growth, high productivity industries.**



*Faster labour productivity growth in the U.S. has been the subject of much current attention. A recent study shows that (total factor) productivity in these two industries has been growing much more quickly in the U.S. Between 1979 and 1995, they contributed to only 17% of Canada's manufacturing productivity growth, while in the U.S. they contributed 57%. Indeed, the performance of these two "industries of the future" explains over 90% of the productivity growth gap between Canada and the U.S. (Wulong Gu and Mun S. Ho, A Comparison of Productivity Growth in Manufacturing Between Canada and the U.S., 1961-95," January 2000).*

*...that may be vital to our future*

Many of the high-tech or high-knowledge markets in the U.S. and U.S. imports from the world have grown faster than Canadian exports.

*In areas of Computer processing, and electronic equipment, Canadian exports are not keeping up with U.S. market growth nor with foreign competitors.*

### U.S. market growth, 1989-98

	Market Size \$US Billion	Annual growth (%) in:		
		Market	Exports	Exports
Communications	350.0	5.9	5.9	n/a
Computer Processing/Software	274.0	<b>13.2</b>	10.8	<b>19.0</b>
Electronic Components	156.7	<b>11.3</b>	9.3	<b>11.8</b>
Computer & Office Equip.	155.8	10.0	10.1	<b>15.7</b>
Management & Consulting	135.5	8.4	9.5	<b>16.3</b>
Scientific & Controlling Instrum.	126.6	3.6	15.7	8.7
Audio, Video & Comm. Equip.	114.4	7.2	16.0	11.3
Pharmaceuticals	126.1	10.9	29.4	19.9
Architecture & Engineering	110.7	4.5	13.5	12.3
Aircraft & Parts	85.7	2.2	10.8	8.1
Testing & Research Labs	43.7	8.1	10.2	<b>13.2</b>
Electrical Industrial Equip	42.5	4.5	12.0	10.4

Source: Industry Canada compilations based on data from Statistics Canada and the Centre for the Study of Living Standards

*A basic challenge for Canadian businesses in high-tech and high-knowledge areas is to be more competitive than their U.S. counterparts and foreign competitors.*

***Indeed, the future bodes well for these industries***

Forecasts indicate that the most dynamic U.S. markets will include many of the same sectors which experienced strong growth over the last decade — and which reflect many high value-added and knowledge-intensive activities.

*Our future will increasingly depend on taking advantage of opportunities in faster-growing high-knowledge markets.*



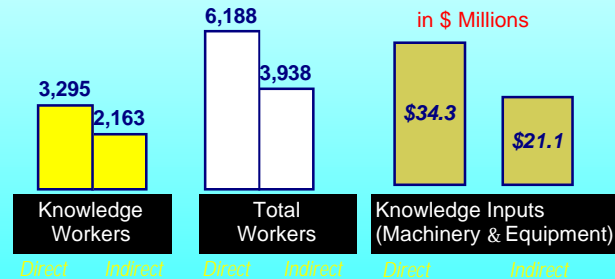
**Still, even our present exports have intricately-important links that stimulate knowledge-use in other domestic sectors...**

**Our exporting industries' R&D and innovation benefit other sectors by generating new products and processes that can be used to enhance productivity elsewhere.**

**Many industries that export to the U.S. have stronger than average links to Canada's knowledge-based economy.**

### The links between exports to the U.S. and domestic industry

Knowledge jobs/investment per \$1 Billion increase in export sales to the U.S.



\* Knowledge workers defined as workers with post-secondary education  
Source: Industry Canada compilations based on 1995 Input-Output data from Statistics Canada



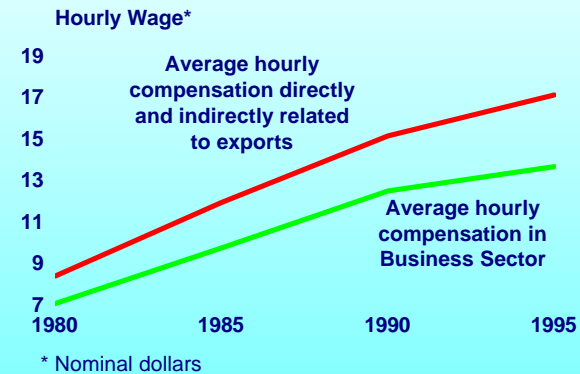
**...especially our higher-knowledge exports...**

**Average hourly pay associated with exports is relatively high.**

**Export growth also creates a derived demand for domestic inputs, many of which are knowledge-based. Consequently, Canada's export growth is not only helping to generate many good jobs in exports, but is playing a major role in promoting the expansion of other industries that raise the knowledge-intensity of the economy.**

**Canada's exports contribute to the growth of many knowledge industries which are critical to the rate of knowledge adoption and technological progress in the economy as a whole — and assist Canada in our transition to a more knowledge-based and forward-looking economy.**

### Hourly compensation



### Exports to the U.S. and links to knowledge industries

**Per \$1 Billion increase in export sales to the U.S.**

Top Industries	Knowledge Jobs Created	
	Indirect	Direct
* Misc. Business Services	271	179
* Professional Business Services	220	189
Wholesale Trade	214	223
* Finance & Real Estate (excl. owner occupied)	168	47
* Agricultural Service	119	182
Misc. Services	118	51
Retail Trade	116	21
Logging & Forestry	106	2
Motor Vehicle Parts	65	122
* Electric Power Systems	50	10

\* Higher-skill and knowledge-intensive industries.  
Source: Industry Canada's compilations based on Statistics Canada data

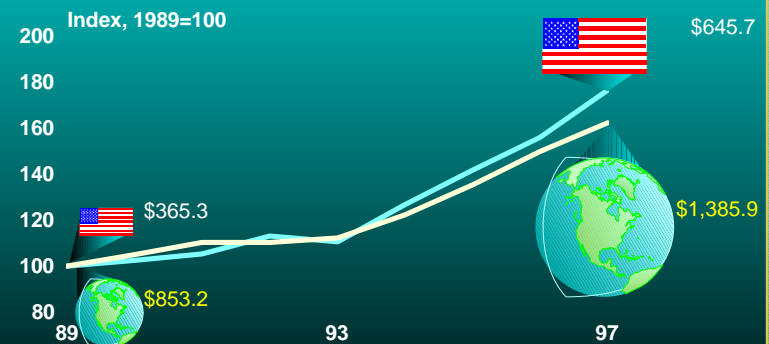
*...which add to our present well-being...*

**While the U.S. is a leading market for many new products and services, world markets for high-tech and high-knowledge products and services are also growing quickly — and are potentially much larger markets.**

*If Canada does well in U.S. markets and earns recognition, our firms will be well-placed to take advantage of global opportunities.*

### Growth in select markets, U.S. vs. world

High-tech, high-knowledge product markets  
Office and Computing Machinery, Radio, TV  
and Communications Equipment, Aircraft,  
Drugs & Medicine



\* US\$ Billion, World Demand excludes U.S. and Canada  
Source: DRI and WEFA

*...and help position us for future prosperity*

## Some key messages



## **Opportunities are there! ...**

**W**ith globalization, the information revolution and the rising importance of knowledge-based activities, business must, more than ever, pounce on opportunities. And as the world's largest, richest, most dynamic and technologically-advanced market, the U.S. provides an abundance.

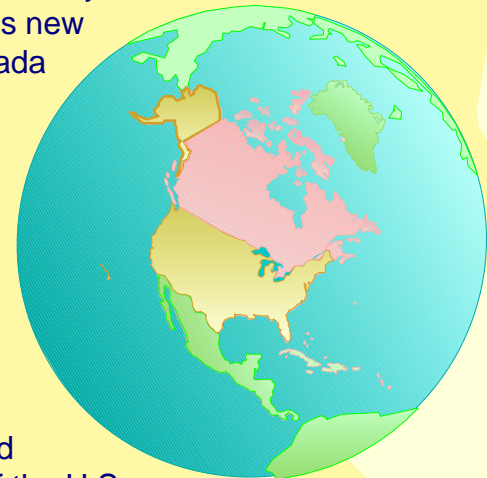
This raises two questions:

### **How well are we doing?**

Canada has had recent success in expanding exports to the U.S. — *but*: Canada's recent successes are still small relative to the size of the market, and times may become increasingly competitive. The world that Canada confronts in this new millennium will be the most economically competitive in history, and Canada will have to energetically pursue U.S. markets to both maintain present in-roads, and to take full advantage of new opportunities.

### **And can we do better — can we better maximize our opportunities?**

Yes — *but*: taking better advantage of opportunities means expanding Canada's exports to a wider range of activities, including products and services that could be particularly important for our future prosperity. It also means recognizing the importance of regional markets, and the need to broaden individual industry exports to markets throughout the whole of the U.S.



## ***...but how can Canada take better advantage of opportunities?***

To take better advantage of opportunities in the U.S., Canada must build on traditional comparative advantages. Nowadays, there is increased importance on inventiveness, productivity, quickness and the general ability to take advantage of opportunities, especially in more value-added and knowledge-intensive activities. Indeed, these are now crucial to sustainable competitive success in all industries — and especially in those which will be most important to Canada's future.

### **Which opportunities will be most important to Canada's future?**

While Canada must continue to pursue opportunities in traditional areas such as resources, it is also crucial that Canada also seek opportunities in new niche and emerging areas that involve greater or higher value-added activities. Opportunities exist across all industries, but high-tech industrial equipment and high-knowledge services are especially associated with future prosperity.

However, success in niche and emerging areas entails developing firm-level competitive advantages that can complement traditional industry comparative advantages. It also requires some readiness on the part of Canadian business, to be outward and forward-looking, and to take steps to be more innovative and productive.

These do not come without the need to address some serious challenges.

**In the next issue of the Micro-Economic Monitor, we will feature Canada's Growing Economic Relations with the United States: Part 3 — "Turning Challenges into Strengths".**

**It will look at special challenges in pursuit of these opportunities, that include breaking into the U.S. market, and maximizing opportunities from knowledge flows — in capital, people and ideas. Also, it will examine some special considerations, such as Canadian regional concerns — for instance, where in the US do our regions export; what are their key exports; and how these exports are changing.**

**Annex**  
**— Opportunities and U.S. Regions —**



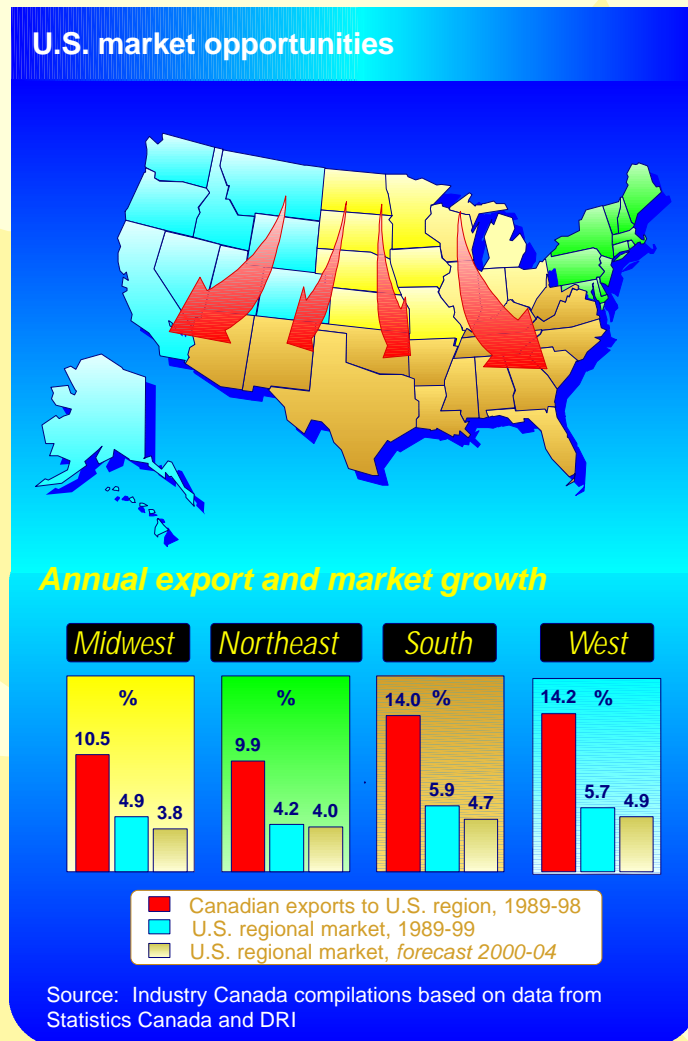
## Opportunities can be found throughout the U.S. ...

Opportunities exist throughout the U.S.\*

- To take better advantage of these, we must recognize the unique potential that each U.S. region holds.

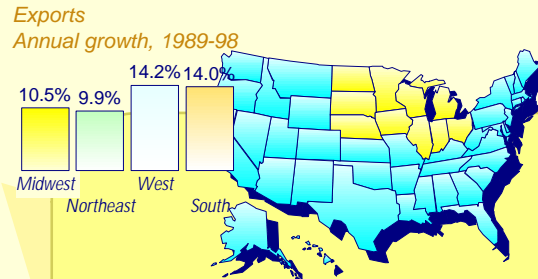
*Our links are strongest with the northern states, but the U.S. West and South are growing faster, and our exports are responding.*

This annex focuses on merchandise exports. For additional information on service exports, please see slides M-17 to M-19.





## ...beginning with our key markets in the U.S. Midwest...



Canada's largest exports are still to the U.S. Midwest. Our exports in recent years have been growing in excess of 10% per year.

- Canada's exports to the Midwest fall mostly under traditional areas of strength, such as Transportation Equipment, Oil & Gas and Paper.

However, growing export areas include Electrical & Electronics and resource-based industries such as food and wood, as well as higher value-added activities such as chemicals, fabricated metals, plastics and furniture.

Exports 1998, \$ Billion		Average Annual Growth, %	
Exports 1989-98	U.S. Output 1989-97	Exports 1989-98	U.S. Output 1989-97
55.5	9.3	9.3	3.7
7.4	7.0	7.0	-3.1
5.5	4.7	4.7	3.5
5.0	9.2	9.2	2.1
4.8	12.9	12.9	3.9

### Top 5 exports

Transportation Equipment	55.5	9.3	3.7
Oil & Gas	7.4	7.0	-3.1
Paper	5.5	4.7	3.5
Primary Metals	5.0	9.2	2.1
Machinery	4.8	12.9	3.9

### Next 10

Chemicals	4.5	11.6	6.7
Wood	4.4	17.8	4.8
Electrical & Electronics	3.4	13.0	3.0
Fabricated Metals	2.8	14.5	5.1
Plastics & Rubber	2.3	16.7	6.5
Food	2.1	19.6	4.0
Agriculture & Fishing & Logging	2.1	14.4	2.3
Furniture & Fixtures	2.0	13.9	6.2
Non-Metallic Minerals	1.2	12.7	5.7
Petroleum & Coal Products	1.2	7.8	-0.1

Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

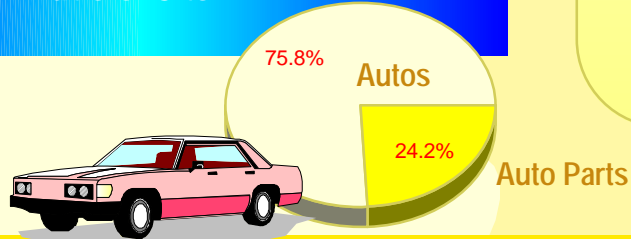
**...where auto exports dominate...**

The integrated North American auto industry has been an important impetus to Canada's large auto exports to the U.S. auto hotbed of Michigan.

As the U.S. industrial heartland, the Midwest imports energy, paper products, and miscellaneous machinery and equipment, as well as primary metals and wood.

But other exports are making a mark, including consumer items such as clothing, soft drinks and pharmaceuticals.

**Canadian auto exports to the Midwest out-number exports of parts by a ratio of 3 to 1.**



**Our exports to the Midwest by detailed sub-activity**



**Top 5 export sub-activities**

Exports, 1998 \$ Billion	Average Annual Growth, % Exports 1989-98
--------------------------	--

Motor Vehicles	39.6	10.5
Motor Vehicle Parts	12.6	5.5
Crude Petroleum	7.4	7.0
Pulp & Paper	4.1	2.1
Misc. Machinery & Equipment	4.0	15.2

**Fastest growing export sub-activities**



Source: Industry Canada compilations based on data from Statistics Canada

**...but high-knowledge markets are growing quickly...**

The Midwest's market is expected to show continuing strength.

However, the biggest and fastest growing areas will be in "higher-knowledge" areas.

That is, there will be particularly strong demand for such advanced and "new economy" products and services as pharmaceuticals, business services and computer equipment.

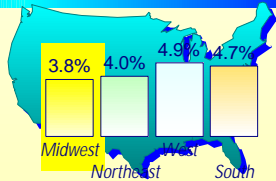
**Our current exports are not well-matched with the new market growth areas in the Midwest.**

DRI provides market information on 55 Groups and 246 Sectors. The above market information comes from Group data. We focus on non-banking Groups in which there is likely considerable trade.

**The Midwest's market forecast**



Annual growth, 2000-04



**Top 5\* markets (by growth)**

Pharmaceutical, Cleansers & Toiletries	43.4	7.4	6.0
Electronic Components	34.9	9.5	5.9
Business & Prof. Services	347.1	7.6	5.9
Computer/Office Equipment	36.8	9.7	5.4
Health Services	182.5	6.7	4.8

Demand, 1999 US\$ Billion	Average Annual Growth	
	1989-99	Forecast 2000-04
Pharmaceutical, Cleansers & Toiletries	7.4	6.0
Electronic Components	9.5	5.9
Business & Prof. Services	7.6	5.9
Computer/Office Equipment	9.7	5.4
Health Services	6.7	4.8

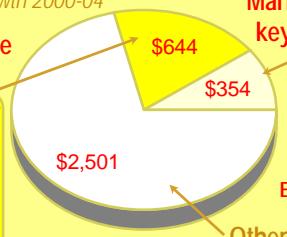
**Next 5**

Audio, Video & Commun. Equip.	28.1	6.5	4.8
Primary Nonferrous Metals	32.2	0.9	4.7
Aircraft & Parts	16.0	2.2	4.7
Furniture & Fixtures	18.2	4.5	4.4
Plastic & Synthetic Materials	16.4	2.3	3.8
Primary Ferrous Metals	48.0	1.8	3.7

**Regional markets and forecast growth**

US\$ Billion, 1999 and Annual Growth 2000-04

**Select high-knowledge markets:**  
 Pharmaceutical, Cleansers & Toiletries  
 Business & Prof. Services  
 Electronic Components  
 Computer/Office Equipment  
 Health Services  
 Expected Growth: 5.6%



**Markets associated with key Canadian exports:**  
 Autos & Parts  
 Oil & Gas  
 Paper  
 Primary Metals  
 Machines  
 Expected Growth: 3.2%

Other  
 Expected Growth: 3.4%

\* Ranked by forecast growth rate from 2000-04.  
 Source: Industry Canada compilations based on data from DRI

**...as the region's forecast includes the "new economy"...**

**The Midwest's detailed forecast of "submarkets"**



**Key "submarkets"**

	Demand 1999 US\$ Billion	Average Annual Growth		
		Demand 1989-99	Demand Forecast 2000-04	Imports 2000-04
Motor Vehicles	\$71.7	4.5	3.1	4.5
Computer Process./Software	\$67.2	12.7	7.7	10.7
Trucking/Courier Svc's	\$61.4	6.6	2.3	3.0
Motor Vehicle Parts	\$54.8	2.7	3.5	2.8
Misc. Plastics	\$36.3	5.0	3.4	2.9

The largest increases are expected in computer processing & software, management consulting and pharmaceuticals.

Imports are expected to play a big role in helping to fulfil U.S. demand in its key market growth areas. It would be to Canada's advantage to position itself to provide many of these imports.

**Canada needs to exploit fast-growing market segments in the U.S. economy that will open themselves to rising imports.**

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

**Fastest growing "submarkets" 2000-2004**

		Demand 1999, US\$ Billion	Growth in Imports 2000-04
Computer Processing & Software	7.7%	67.2	10.7
Pharmaceuticals	7.0%	31.6	10.3
Management & Consulting	6.8%	34.3	6.9
Radio & TV Broadcasting & Communication Equip	6.7%	10.2	12.1
Aircraft	6.4%	8.2	5.7

Note: Submarkets of at least US\$ 5 Billion  
Source: Industry Canada compilations based on data from DRI

## ...and many additional promising areas for exports

### Midwest



Traditional				
Demand	Average Annual Growth		Imports	Our Presence
1999 US\$B	1989-99 Demand	Forecast 2000-04	2000-04	
35.4	0.3	3.3	6.3	●
11.7	1.4	3.9	7.5	●
16.5	1.1	5.7	7.0	●
8.7	5.8	3.6	6.4	●

Petro Refining & Related Prods  
Crude Petroleum & Natural Gas  
Aluminum  
Concrete & Gypsum

Apparel from Purch. Material  
Plastic Materials & Resins  
Toys & Sporting Goods  
Office Furniture  
Toilet Preparations  
Paints & Allied

Niche				
Demand	Average Annual Growth		Imports	Our Presence
1999 US\$B	1989-99 Demand	Forecast 2000-04	2000-04	
24.7	4.3	3.1	5.0	●
14.1	2.5	4.1	5.9	●
7.5	6.6	4.8	5.5	●
6.5	4.8	5.3	9.3	●
5.7	3.4	3.6	5.9	●
5.7	3.1	2.4	10.7	●

Value-added Traditional				
11.4	5.3	3.1	6.3	●
10.3	5.0	2.4	5.2	●
6.0	2.0	2.6	8.2	●

Non-Alcoholic Beverages  
Agri/Forestry/Fish. Services  
Soap & Cleaning Preparations

Printing & Publishing \*\*  
Engineering & Architecture  
Communication Equipment  
Meas./Control Instruments

New & Emerging				
54.7	3.6	2.5	5.7	○
26.1	4.9	3.8	4.1	○
21.1	9.5	5.7	9.1	●
6.4	5.0	1.1	5.4	●

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

Please see Slide M-3 for descriptions of Traditional, Value-added Traditional, Niche and New & Emerging

#### Our Presence\*

● High   ● Above Avg   ● Average   ○ Low

○ Only national info available, see slide M-17

\* The benchmark value is the share of total Canadian exports in total U.S. market demand (1.5%).

\*\* Reflect new developments in financial and media industries

Source: Industry Canada compilations based on data from DRI

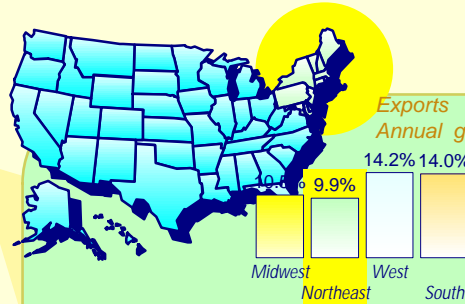


## In the Northeast...

Autos & Other Transportation Equipment account for the largest share of our exports to the Northeast.

However, a burgeoning Electrical & Electronics sector is poised to overtake that position. In fact, the Northeast market for Electrical & Electronics exports is over twice as large as in any other region.

*Canada's Electrical & Electronics exports to the Northeast are growing about 5 times more quickly than regional industrial output.*



Exports 1998, \$ Billion	Exports 1989-98	U.S. Output 1989-97

### Top 5 exports

Transportation Equipment	11.9	5.3	-0.4
Electrical & Electronics	10.5	16.9	3.3
Primary Metals	7.3	6.6	-0.01
Paper	5.9	5.7	1.9
Food	3.7	10.4	1.5

### Next 10

Wood	3.7	10.8	1.7
Oil & Gas	3.1	15.0	-11.2
Chemicals	2.9	13.8	5.6
Machinery	2.2	10.5	-0.1
Fabricated Metals	1.7	10.8	3.3
Petroleum & Coal Products	1.6	2.6	6.7
Furniture & Fixtures	1.5	18.8	1.4
Plastics & Rubber	1.4	14.9	4.9
Clothing	1.3	23.6	-0.1
Non-Metallic Minerals	0.8	8.3	5.0

Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

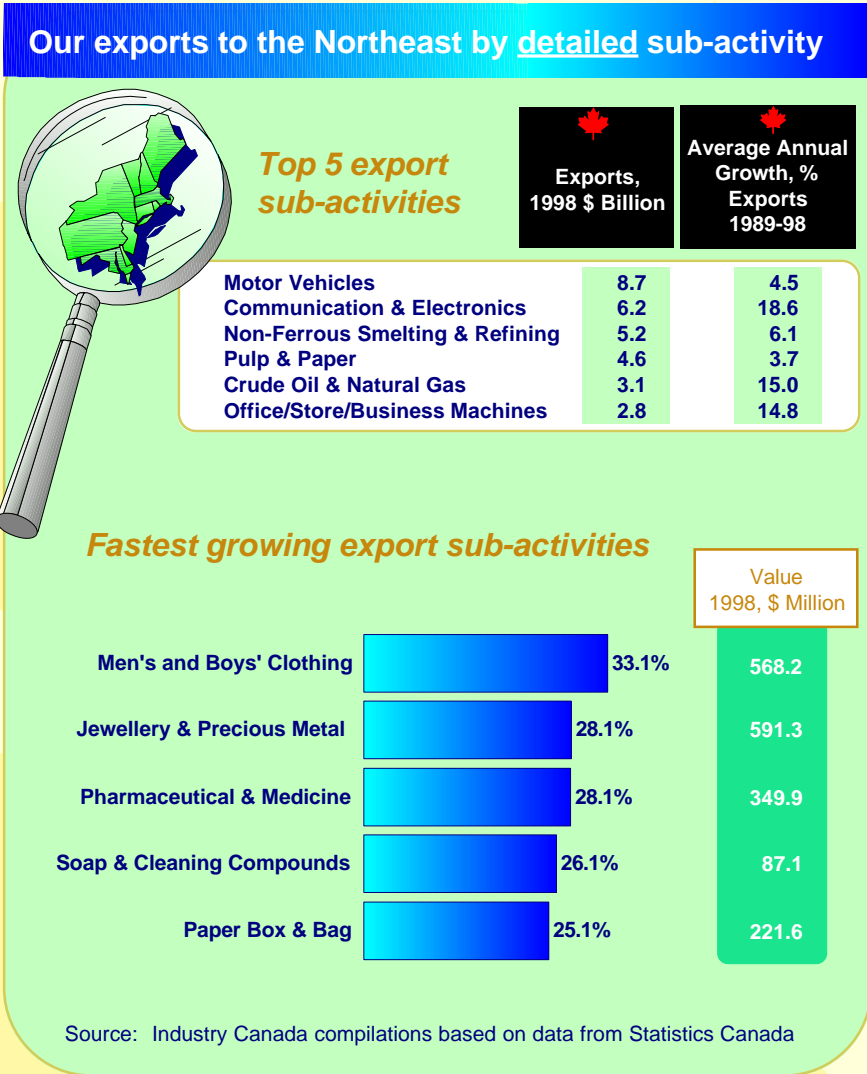
**...our high-tech exports are growing fast...**

While resource-based industries such as primary metals, paper & food products continue to be an important anchor of our export base, new strengths are emerging in areas of high value-added content, such as pharmaceuticals & clothing.

Within key contributing segments of the Electrical & Electronics sector, Communication & Electronics comprise approximately 50% of exports.

These exports are outpacing the growth in demand for Oil & Gas, and are twice as large in value.

*Motor vehicles are still king, and resources remain important. But a new coronation is on the horizon — Communications & Other Electronics exports are rising rapidly.*





**...reflecting brisk demand for knowledge activities...**

**Demand for Electronic Components and other knowledge goods and services is growing faster than for any other sector — and considerably faster than the regional average.**

**While our exports still largely reflect the strength of our auto sector and many resource-based activities, their markets and market growth will be smaller than for high-knowledge products and services.**

**The future is here —**

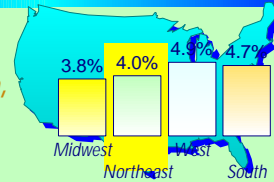
**the markets of greatest growth are increasingly based in high-knowledge activities, while we still export in lower knowledge areas.**

DRI provides market information on 55 Groups and 246 Sectors. The above market information comes from Group data. We focus on non-banking Groups in which there is likely considerable trade.

**The Northeast's market forecast**



Annual growth, 2000-04



**Top 5\* markets (by growth)**

	Demand, 1999 US\$ Billion	Average Annual Growth	
		1989-99	Forecast 2000-04
Electronic Components	32.6	8.3	7.0
Business & Prof. Services	347.2	6.6	6.2
Pharmaceutical, Cleansers & Toiletries	47.6	7.0	6.1
Computer & Office Equip.	35.0	7.4	5.5
Aircraft & Parts	13.7	0.1	5.1

**Next 5**

Audio, Video & Commun. Equip.	26.4	5.9	4.8
Primary Nonferrous Metals	16.3	-1.6	4.4
Furniture & Fixtures	15.8	3.8	4.4
Lumber & Wood	21.5	3.0	3.7
Fabricated Metals	39.2	1.7	3.5

**Regional markets and forecast growth**

US\$ Billion, 1999 and Annual Growth 2000-04

**Select high-knowledge markets:**

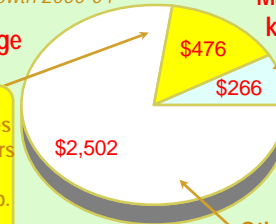
- Electronic Components
- Business & Prof. Services
- Pharmaceutical, Cleansers & Toiletries
- Computer & Office Equip.
- Aircraft & Parts

Expected Growth: 6.1%

**Markets associated with key Canadian exports:**

- Autos & Parts
- Primary Metals
- Paper
- Food & Kindred

Expected Growth: 2.7%



Expected Growth: 3.7%

**P-9**

\* Ranked by forecast growth rate from 2000-04.

Source: Industry Canada compilations based on data from DRI

*...particularly in knowledge services...*



Knowledge services have made strong in-roads in the Northeast.

Computer processing and software is both the largest and the fastest-growing submarket in the region.

**Special challenge:**

*Canada must not give up on traditional export strengths, but must also consider ways of exploiting the rapid rise in high-tech and knowledge items and services.*

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

The Northeast's detailed forecast of "submarkets"

Key "submarkets"

	Demand 1999 US\$ Billion	Average Annual Growth		
		Demand 1989-99	Demand Forecast 2000-04	Imports 2000-04
Computer Process./Software	73.4	12.1	8.0	11.0
Motor Vehicles	69.9	3.3	3.0	4.4
Trucking/Courier Svc's	44.2	4.8	2.2	2.9
Pharmaceuticals	31.9	9.6	7.0	10.3
Management/Consulting	30.2	7.0	6.9	7.0

Fastest growing "submarkets"  
2000-2004

	Demand 1999, US\$ Billion	Growth in Imports 2000-04
Semiconductors	17.8	11.3
Computer Processing & Software	73.4	11.0
Pharmaceuticals	35.3	10.3
Management & Consulting	33.4	7.0
Radio & TV Broadcasting & Commercial Equip	9.4	12.2

Note: Submarkets of at least US\$ 5 Billion  
Source: Industry Canada compilations based on data from DRI

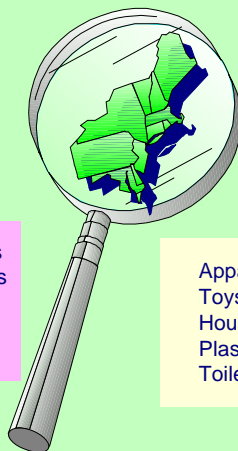
## ...but other market opportunities are also available

### Northeast

#### Traditional

Demand 1999 US\$B	Average Annual Growth		Imports 2000-04	Our Presence
	Demand 1989-99	Forecast 2000-04		
32.5	-0.9	3.2	6.2	●
7.6	0.9	3.9	7.6	●
6.0	-1.1	5.5	6.8	●
7.1	2.3	4.3	7.1	●

Petro Refining & Related Prods  
Crude Petroleum & Natural Gas  
Aluminum  
Concrete & Gypsum



#### Niche

Demand 1999 US\$B	Average Annual Growth		Imports 2000-04	Our Presence
	Demand 1989-99	Forecast 2000-04		
28.0	3.6	2.9	4.8	●
8.1	6.0	4.7	5.4	●
8.0	3.4	3.6	7.9	●
7.9	0.5	3.6	5.4	●
6.3	2.8	3.4	5.8	●

Apparel from Pur. Material  
Toys/Sporting Goods  
Household Furniture  
Plastic Materials/Resins  
Toilet Preparations

#### Value-added Traditional

11.5	5.0	3.0	6.2	●
9.8	3.8	2.4	5.2	●
6.0	1.2	2.4	8.0	●

Non-Alcoholic Beverages  
Agri/Forestry/Fish. Services  
Soap/Cleaning Preparations

#### New & Emerging

Printing & Publishing \*\*  
Communication Equipment

57.4	1.7	2.3	5.6	○
19.5	8.1	5.7	9.1	●

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

Please see Slide M-3 for descriptions of Traditional, Value-added Traditional, Niche and New & Emerging

#### Our Presence\*

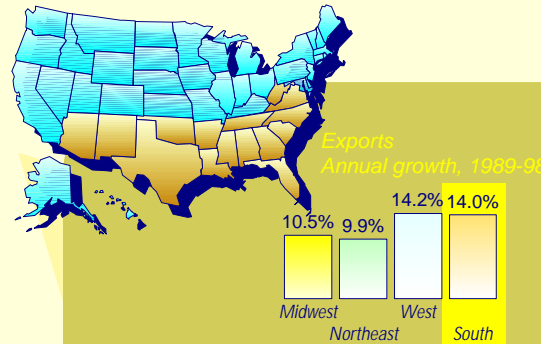
● High   ● Above Avg   ● Average   ○ Low  
 Only national info available, see slide M-17

\* The benchmark value is the share of total Canadian exports in total U.S. market demand (1.5%).

\*\* Reflect new developments in financial and media industries

Source: Industry Canada compilations based on data from DRI

# In the South, strong growth has created export opportunities...



Exports 1998, \$ Billion	Average Annual Growth, %	
	Exports 1989-98	U.S. Output 1989-97

The South is expected to experience strong market growth.

Our major exports to the South include Autos & Other Transportation Equipment, Electrical & Electronics, and Wood.

*Opportunities will be abundant in the South, where a booming economy has fuelled demand for imports.*

Top 5 exports			
Autos & Other Transportation Equip	7.9	15.1	5.8
Electrical & Electronics	4.8	11.0	7.6
Wood	3.6	15.1	6.4
Machinery	3.3	13.6	5.6
Chemicals	2.9	13.2	4.1
Next 10			
Paper	2.9	6.3	2.3
Primary Metals	2.4	5.6	4.0
Plastics & Rubber	2.3	13.9	5.4
Oil & Gas	1.8	22.0	4.4
Fabricated Metals	1.6	16.2	6.0
Furniture & Fixtures	1.2	25.7	4.1
Food	1.1	23.0	5.4
Petroleum & Coal	0.9	23.9	1.6
Primary Textiles	0.9	21.1	2.5
Non-Metallic Minerals	0.4	18.2	3.3

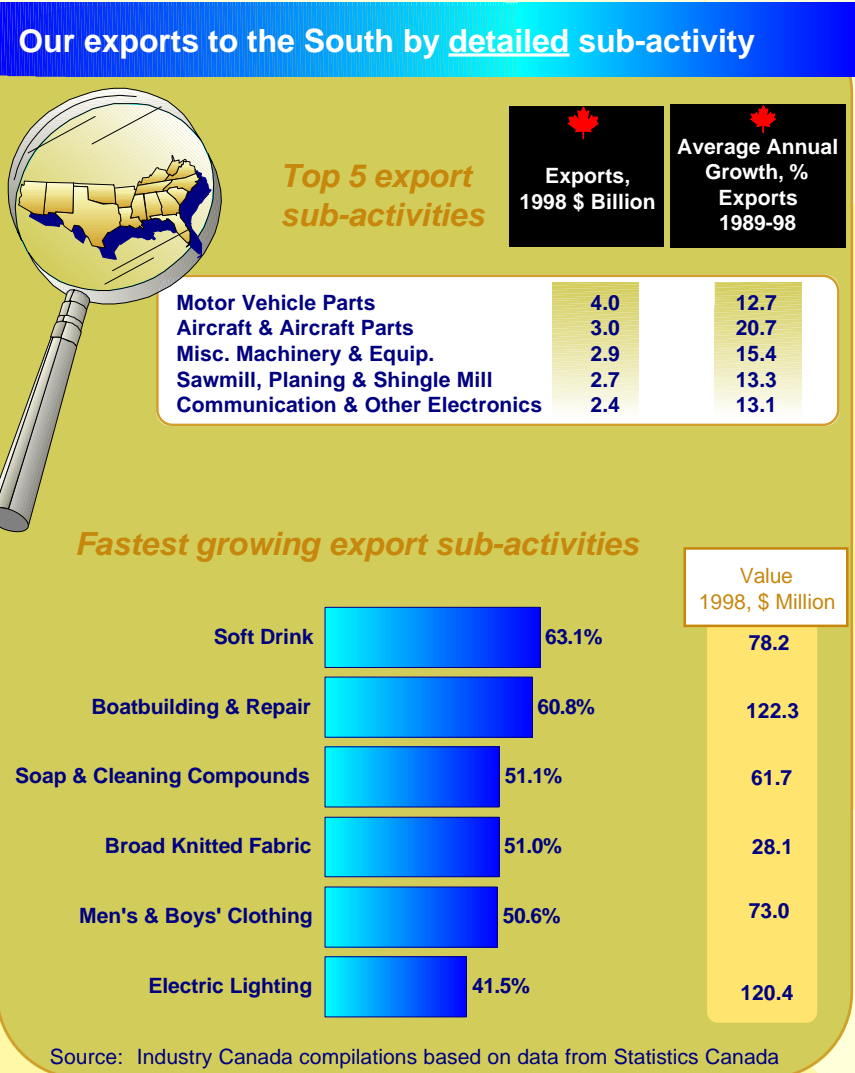
Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

*...in areas such as in aerospace...*

Among high-volume exports, notable sectors include Aircraft & Aircraft Parts, Miscellaneous Machinery & Equipment, Communication & Other Electronics, and building products exports involving wood.

A booming economy has also supported consumer demand for emerging export sectors such as clothing, fabric, and soft drinks.

*The South has been a large importer of some of Canada's high-technology exports — eg. aerospace and miscellaneous machinery.*



**...and in electronic and computer equipment...**

High-technology equipment growth has been strongest here. This includes the growth in demand for Electronic Components and Computers, and for Business Services.

Growth in these markets is expected to remain among the fastest in the country.

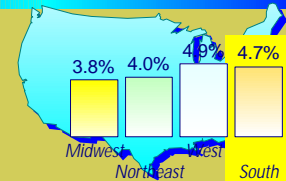
**The South's most knowledge-based markets will likely continue to be drivers of growth in the years ahead.**

DRI provides market information on 55 Groups and 246 Sectors. The above market information comes from Group data. We focus on non-banking Groups in which there is likely considerable trade.

**The South's market forecast**



Annual growth, 2000-04



**Top 5\* markets (by growth)**

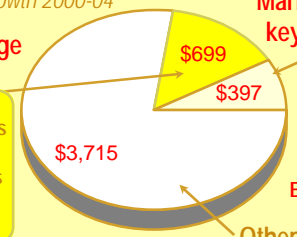
	Average Annual Growth		
	Demand, 1998 US\$ Billion	1989-99	Forecast 2000-04
Electronic Components	52.8	13.2	8.5
Pharmaceutical, Cleansers & Toiletries	57.2	8.4	6.8
Business & Prof. Services	506.3	8.5	6.7
Computer & Office Equip.	57.9	11.6	6.5
Aircraft & Parts	25.4	2.9	6.4
<b>Next 5</b>			
Primary Nonferrous Metals	28.4	1.8	5.9
Audio, Video & Commun. Equip.	40.5	8.2	5.7
Furniture & Fixtures	23.8	5.9	5.4
Motor Vehicles & Equip.	140.4	5.8	4.4
Transportation & Warehousing	172.3	5.8	4.3

**Regional markets and forecast growth**

US\$ Billion, 1999 and Annual Growth 2000-04

- Select high-knowledge markets:**
- Electronic Components
  - Pharmaceutical, Cleansers & Toiletries
  - Business & Prof. Services
  - Computer & Office Equip.
  - Aircraft & Parts

Expected Growth: **6.8%**



**Markets associated with key Canadian exports:**

- Autos & Other Transportation Equip
- Wood
- Machinery
- Chemicals

Expected Growth: **3.9%**

Other  
Expected Growth: **4.4%**

\* Ranked by forecast growth rate from 2000-04.

Source: Industry Canada compilations based on data from DRI

**...as the Southern economy reflects the rising importance of high-tech activities...**



Rapid rises in the demand for semiconductors, aerospace and pharmaceuticals are among the interesting developments forecast for the South.

But with strong local suppliers, imports will meet strong competition.

**Our already low presence in key growing markets may be challenged further in the days ahead. Opportunities exist — but competition will be keen.**

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

**The South's detailed forecast of "submarkets"**

Key "submarkets"	Demand	Average Annual Growth		
	1999 US\$ Billion	Demand 1989-99	Demand Forecast 2000-04	Imports 2000-04
Motor Vehicles	100.6	5.4	4.0	5.3
Computer Process./Software	100.0	13.8	8.6	11.6
Management/Consulting	51.7	9.6	7.7	7.7
Industrial Inorganic & Organic Chemicals	46.2	2.2	2.7	4.7
Engineering & Architecture	43.6	5.4	4.5	4.8

Fastest growing "submarkets" 2000-2004	Growth in Imports	Demand	
		1999, US\$ Billion	2000-04
Semiconductors	9.6%	28.7	12.9
Computer Processing & Software	8.6%	100.0	11.6
Aircraft	8.2%	14.1	7.5
Pharmaceuticals	7.8%	41.0	11.2
Management & Consulting	7.7%	51.7	7.7

Note: Submarkets of at least US\$ 5 Billion  
Source: Industry Canada compilations based on data from DRI



## ...but in the South, too, opportunities are widespread

### South

#### Traditional

Demand 1999 US\$B	Average Annual Growth		Imports 2000-04	Our Presence
	Demand 1989-99	Forecast 2000-04		
100.6	5.4	4.0	5.3	○
39.5	2.0	4.7	8.0	●
53.4	1.1	4.1	7.1	●
15.3	6.1	4.2	7.0	○
12.2	1.7	6.7	8.0	●
5.3	3.3	3.8	6.1	●

Motor Vehicles  
Crude Petroleum & Natural Gas  
Petro Refining & Related Prods  
Concrete & Gypsum  
Aluminum  
Tires & Inner Tubes



Apparel from Purch. Material  
Plastic Materials & Resins  
Household Furniture  
Toys & Sporting Goods  
Toilet Preparations  
Structural Metal/Plate Work  
Office Furniture

#### Niche

Demand 1999 US\$B	Average Annual Growth		Imports 2000-04	Our Presence
	Demand 1989-99	Forecast 2000-04		
36.6	4.7	3.8	5.8	○
11.7	2.7	4.9	6.7	●
10.6	5.0	4.6	8.9	●
10.5	7.6	5.8	7.0	○
7.9	4.4	4.5	6.9	○
8.9	4.6	4.4	5.7	○
7.1	7.5	6.7	10.8	●

#### Value-added Traditional

16.3	6.3	4.0	7.3	○
17.1	5.5	2.9	5.7	○
13.4	4.4	3.5	5.3	○
8.2	2.8	3.4	9.1	●
6.2	4.7	2.3	4.9	●
5.3	2.3	3.6	10.6	●

Non-Alcoholic Beverages  
Agri/Forest/Fish. Svc's  
Paperboard Containers/Boxes  
Soap & Cleaning Preparations  
Glass & Products  
Sanitary Paper Products

Printing & Publishing \*\*  
Communication Equipment  
Measuring/Control Instruments

#### New & Emerging

60.7	4.3	3.3	6.7	○
31.2	10.4	6.4	9.9	●
8.3	6.1	1.9	6.2	●

DRI provides market information on 55 Groups and 246 Sectors. The above market information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

Please see Slide M-3 for descriptions of Traditional, Value-added Traditional, Niche and New & Emerging

#### Our Presence\*

● High ● Above Avg ● Average ○ Low

🇺🇸 Only national info available, see slide M-17

\* The benchmark value is the share of total Canadian exports in total U.S. market demand (1.5%).

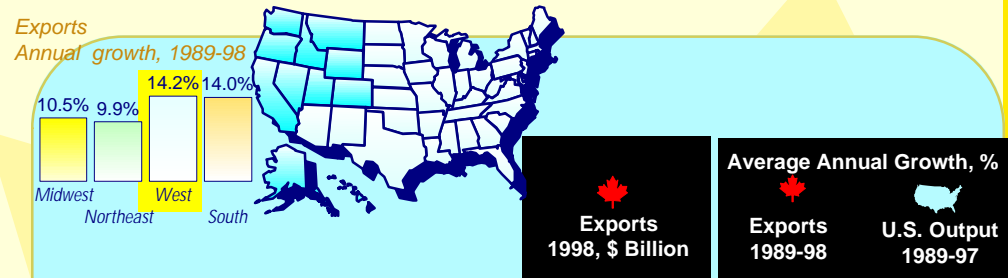
\*\* Reflect new developments in financial and media industries

Source: Industry Canada compilations based on data from DRI

## In the West...

The fast-growing Electrical & Electronic sector has emerged as a major source of Canadian exports to the West, supplementing traditional exports, such as Autos, Oil & Gas, and Wood & Paper Products.

*The West has witnessed the fastest explosion in Canadian export growth in recent years, having received a traditionally smaller share of our exports.*



### Top 5 exports

Autos & Other Transportation Equip	7.8	15.2	-2.3
Oil & Gas	5.5	10.0	0.1
Electrical & Electronics	4.1	22.3	10.6
Wood	3.2	12.3	-1.6
Paper	2.1	7.2	0.3

### Next 10

Agriculture & Fishing & Logging	1.7	15.2	5.7
Machinery	1.6	12.1	8.2
Food	1.6	15.2	3.3
Chemicals	1.5	16.9	6.2
Fabricated Metals	0.8	16.0	3.9
Furniture & Fixtures	0.7	25.4	3.8
Plastics & Rubber	0.6	16.6	4.9
Primary Metals	0.6	7.6	1.4
Petroleum & Coal	0.4	5.0	3.5
Clothing	0.4	29.7	5.2

Source: Industry Canada compilations based on data from Statistics Canada and the U.S. Dept. of Commerce

## ...Oil and Autos remain among our top exports...

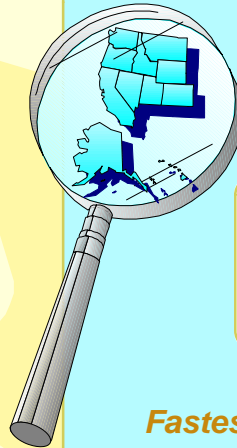
Exports to the West reflect the structure of the Western Canadian economy, with oil & gas exports occupying a relatively important share.

But computers are among our top 5 exports, as are aerospace exports.

Canada is showing strong and noticeable growth in many niche areas — clothing, electric lighting etc. — with exporters benefitting from improved U.S. access since 1989, and strong consumer demand in recent years.

*Oil and motor vehicles are big export items.*

### Our exports to the West by detailed sub-activity



#### Top 5 export sub-activity

Exports, 1998 \$ Billion	Average Annual Growth, % Exports 1989-98
--------------------------	--

Crude Oil & Natural Gas	5.5	10.0
Motor Vehicles	5.3	19.1
Office, Store & Business Machines	2.3	27.4
Aircraft & Aircraft Parts	1.8	8.7
Pulp & Paper	1.6	4.8

#### Fastest growing export sub-activities

		Value 1998, \$ Million
Broad Knitted Fabrics	55.7%	45.3
Boatbuilding & Repair	39.6%	60.1
Electric Lighting	36.3%	66.8
Concrete Products	36.2%	28.2
Wooden Box & Pallet	34.6%	41.6

Source: Industry Canada compilations based on data from Statistics Canada

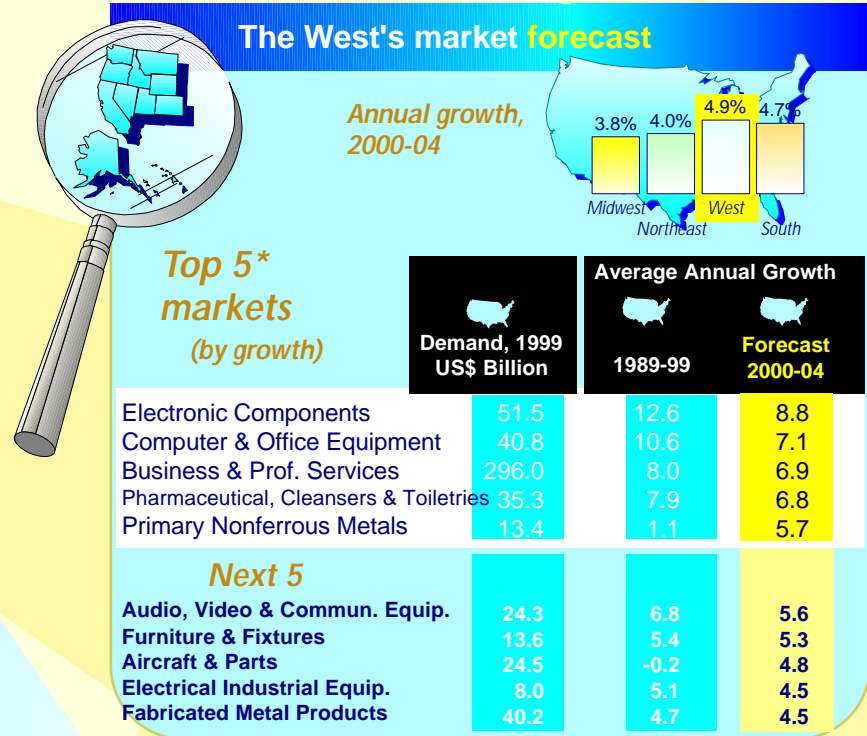
**...but the West's bright future centers on high-tech markets...**

The West's strong market forecast reflects growing demand for Electronic Components, Computers, Business Services and Pharmaceuticals.

Our current exports are concentrated in the low-knowledge sectors which comprise only a small share of the region's burgeoning market.

The West's future is being built on a modern infrastructure that, in addition to the type of exports we presently deliver, requires even greater amounts of higher knowledge goods and services.

DRI provides market information on 55 Groups and 246 Sectors. The above market information comes from Group data. We focus on non-banking Groups in which there is likely considerable trade.



**Regional markets and forecast growth**

US\$ Billion, 1999 and Annual Growth 2000-04

Select high-knowledge markets:

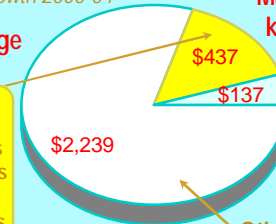
- Electronic Components
- Computer & Office Equip.
- Business & Prof. Services
- Pharmaceutical, Cleansers & Toiletries
- Primary Nonferrous Metals

Expected Growth: 7.1%

Markets associated with key Canadian exports:

- Autos & Parts
- Oil & Gas
- Wood
- Paper

Expected Growth: 3.8%



Expected Growth: 4.5%

P-19

\* Ranked by forecast growth rate from 2000-04.

Source: Industry Canada compilations based on data from DRI

**...and leading-edge equipment for a modern supereconomy...**



Markets for computer software, semi-conductors and management services are expected to increase in importance.

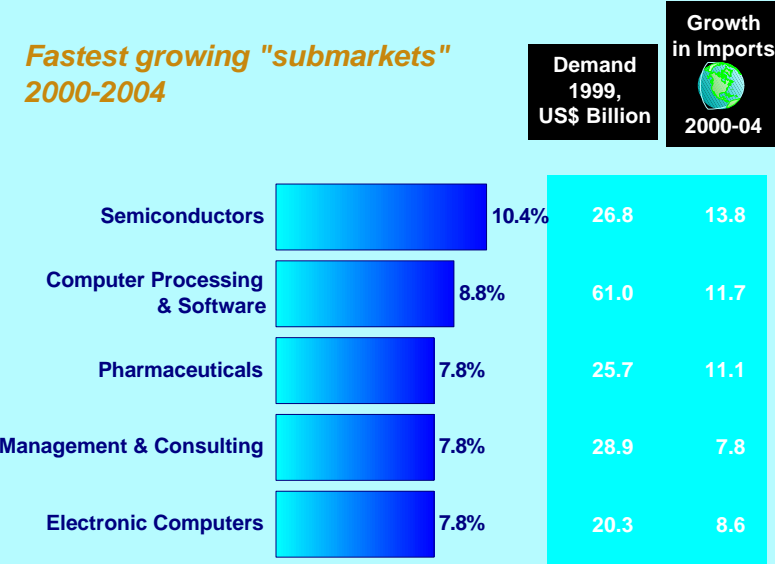
As demand for these goods and services increases, firms will have to look beyond the U.S. suppliers, creating opportunities for Canadian and foreign industries.

**Computer software and semiconductor demand is expected to pick-up considerably in the next few years.**

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

**The West's detailed forecast of "submarkets"**

Key "submarkets"	Demand	Average Annual Growth		
	1999 US\$ Billion	1989-99	Forecast 2000-04	Imports 2000-04
Computer Proc. & Software	61.0	12.8	8.8	11.7
Motor Vehicles	59.1	4.7	4.0	5.3
Trucking & Courier Services	39.5	6.6	3.0	3.7
Management & Consulting	28.9	8.6	7.8	7.8
Semiconductors	26.8	17.5	10.4	13.8



Note: Submarkets of at least US\$ 5 Billion  
Source: Industry Canada compilations based on data from DRI

# ...that will lead to interesting opportunities throughout the West

## West

### Traditional

Demand 1999 US\$B	Average Annual Growth		Imports 2000-04	Our Presence
	Demand 1989-99	Forecast 2000-04		
59.1	4.7	4.0	5.3	●
8.8	0.7	5.3	8.1	●
29.2	0.6	4.2	7.2	●
8.0	6.3	4.8	7.6	●
5.7	-0.3	6.3	7.6	●

Motor Vehicles  
Crude Petroleum & Natural Gas  
Petro Refining & Related Prods  
Concrete & Gypsum  
Aluminum



### Niche

Demand 1999 US\$B	Average Annual Growth		Imports 2000-04	Our Presence
	Demand 1989-99	Forecast 2000-04		
23.2	5.0	3.8	5.8	●
6.7	7.3	5.7	6.4	●
6.7	4.6	4.6	8.9	●
5.0	3.9	4.4	6.8	○

Apparel from Purch. Material  
Toys & Sporting Goods  
Household Furniture  
Toilet Preparations

### Value-added Traditional

10.0	6.3	3.9	7.1	●
11.0	5.0	2.9	5.0	●
7.4	4.4	3.5	5.2	●

Non-Alcoholic Beverages  
Agri/Forest/Fish. Services  
Paperboard Containers/Boxes

Printing & Publishing \*\*  
Computers & Peripheral Equip  
Communication Equipment

### New & Emerging

40.8	4.6	3.3	6.7	○
40.8	10.6	7.1	7.7	●
18.6	8.4	6.3	9.8	●

DRI provides market information on 55 Groups and 246 Sectors. The above "submarket" information comes from Sector data. We focus on non-banking Sectors in which there is likely considerable trade.

Please see Slide M-3 for descriptions of Traditional, Value-added Traditional, Niche and New & Emerging

#### Our Presence\*

● High   ● Above Avg   ● Average   ○ Low

🇺🇸 Only national info available, see slides M-17

\* The benchmark value is the share of total Canadian exports in total U.S. market demand (1.5%).

\*\* Reflect new developments in financial and media industries

Source: Industry Canada compilations based on data from DRI

## ***For Further Information***

We welcome your questions, comments and suggestions? You can reach us by ...

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