

# **Exploring the Americas:**

## **An Assessment of Atlantic Canada's Trade Prospects in the Americas**

### **EXECUTIVE SUMMARY**

**June 2008**



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# **Exploring the Americas**

## **An Assessment of Atlantic Canada's Trade Prospects in the Americas**

### **Executive Summary**

The global economy is changing. Atlantic businesses are responding to evolving global trade patterns, changing international business practices and the emergence of new competitive pressures. One strategy is to explore the potential in new markets beyond traditional developed economies such as the United States. For example, while Atlantic Canada's non-energy exports to the United States have declined by \$2 billion (or 22%) since 2000, non-energy exports to other countries have grown by \$2.4 billion.

The Americas (which for the purposes of this report includes all the countries and dependencies in the Caribbean, Central America and South America, with the exception of Mexico which is a participant in the North American Free Trade Agreement) are of interest for a number of reasons including close geographic and historical ties with Caribbean countries and the Canadian government's commitment to play a bigger role in the Americas and to strengthen trade and investment linkages.

Helped by high commodity prices and economic reforms, the more than 40 countries and dependent territories in the Americas are experiencing renewed economic growth and stability,. Brazil is the region's leader in terms of economic size but other countries also stand out in terms of their economic performance and potential. Yet there is huge diversity within the region in terms of size, income, language, openness, infrastructure, stability and growth potential.

This report provides a macro-level assessment of Atlantic Canada's trade potential in the Americas. It identifies twelve countries that offer the best overall prospects for increased exports. Within these countries, a number of sectors are identified that might provide opportunities for Atlantic businesses. But new markets also pose challenges and risks for exporters and these issues are emphasized. Finally, the report discusses the place of the Americas relative to other global opportunities. Two appendices provide a rich amount of data, analysis and discussion on the Americas.

### **Key Findings**

Based upon an assessment of various indicators of market potential, challenges and costs, existing linkages, and economic and political risks, but giving particular weight to market size, income and growth, APEC has identified twelve countries in the Americas that are of most interest for Atlantic Canadian companies: Brazil, Peru, Chile, Colombia, Argentina, Venezuela, Panama, Costa Rica, Trinidad and Tobago, Cuba, the Bahamas and Barbados.

Within these twelve countries, APEC has highlighted a number of specific sectors of interest. The primary resource sector is an important part of several of these economies and there are opportunities for exploration and provision of equipment and services in mining, oil and gas and electricity generation. With rapid economic growth in the Americas, and development needs relating to infrastructure and the environment, there are opportunities to provide construction products and engineering and environmental solutions and consultancy services. These developing countries also have needs relating to ICT solutions and services and education and training. Atlantic Canada's existing merchandise trade with the Americas is focused on energy products, newsprint, potash, and food products but the scope for further increases in these industries is mixed.

The prime attraction of markets in these developing countries is that they are growing much more rapidly than Atlantic Canada's traditional export markets in the United States or the European Union. Several Atlantic businesses and educational institutions are already active in the Americas. Canada has also signaled a renewed interest in the Americas and is negotiating trade agreements with several countries in the region (although the United States and the European Union are also negotiating trade agreements).

However, potential new entrants to the Americas need to be aware that these are still developing countries. Compared with traditional developed economies, the markets in the Americas tend to be smaller, with a more challenging business environment and weaker infrastructure, which will increase business costs and require more time to succeed. Language skills are an important consideration with Spanish the official language throughout most of Latin America and Portuguese spoken in the largest country Brazil. Economic, business and political risks are also higher than in more advanced economies. Atlantic businesses already active in the Americas confirm the need to take a long-term approach, to be committed to thorough research, and to take the time to secure the best local connections in the market. These are not necessarily markets for smaller exporters with limited experience and resources.

### **Global Context**

The Americas are not the only developing markets of potential interest to Atlantic businesses. A comparison of the strongest twelve prospects in the Americas with a sample of other developing economies reveals that there are several larger markets that are growing somewhat faster. These economies in Asia and Europe tend to have better infrastructure than in the Americas and generally lower economic and business risks. However, proximity is a key advantage for the Americas. Countries in the Caribbean and Central America are closer than markets in Europe, while South America is closer than markets in Asia.

The final message is that competitiveness remains the key to ultimate success in new markets. The appreciation of the Canadian dollar and the presence of low cost competitors are already affecting Canadian companies in the Americas. Developing countries offer huge long-term potential for companies that are committed to these markets and are willing to take some risks to establish themselves. But Atlantic firms need to ensure that their products and services are viable within the international marketplace and that they can ensure an adequate and reliable supply.

# Chapter 1: Introduction

As the Atlantic Provinces Economic Council (APEC) explained in a recent report, the global economy is changing.<sup>1</sup> Firms are developing global supply chains to reduce operating costs and take advantage of local competencies around the world. China and India are emerging as economic powerhouses, attracting foreign investment both to supply their large and rapidly growing domestic markets and as low-cost locations for global exports. These and other low-cost competitors are challenging Atlantic Canada's manufacturers and service exporters. Commodity prices have risen in response to growing demand from developing countries, boosting the value of Atlantic Canada's commodity exports and stimulating exploration and investment. New security measures have led to a thickening of the U.S. border while the substantial appreciation of the Canadian dollar since 2003 has dented revenues of Atlantic exporters in the prime U.S. market. Multilateral trade talks have stalled but many countries are pursuing bilateral or regional trade deals.

Atlantic businesses are responding to these evolving global trade patterns, changing international business practices and the emergence of new competitive pressures. Atlantic Canada's energy exports, which are almost exclusively exported to the United States, have soared since 2000. While the Atlantic region's non-energy exports to the United States have declined by \$2 billion (or 22%) since 2000, non-energy exports to other countries have grown by \$2.4 billion. Increased volumes and prices for ores account for \$1.3 billion of the gain in Atlantic Canada's non-U.S. exports since 2000.

As Atlantic exporters respond to these new challenges, one strategy is to explore the potential in new markets beyond traditional developed economies such as the United States, European Union and Japan. APEC's recent report highlighted the many fast-growing developing markets for international trade in Asia, Europe and Latin America. This report provides a more detailed analysis of growth prospects in the Americas, which for the purposes of this report includes all the countries and dependencies in the Caribbean, Central America and South America, with the exception of Mexico, which is a participant in the North American Free Trade Agreement (NAFTA).

The Americas are of interest for a number of reasons including close geographic and historical ties with Caribbean countries and the Canadian government's commitment to play a bigger role in the Americas, including increased trade and investment linkages. Yet the Americas are a diverse group of nations, ranging from tiny islands with less than 100,000 population to countries such as Brazil with a population of almost 190 million. Income levels (in terms of GDP per capita) vary enormously, from prosperous Bahamas to impoverished Haiti and Bolivia. There is also political, historical and cultural diversity.

This report provides a preliminary macro-level assessment of Atlantic Canada's trade potential in the Americas. It identifies those markets that offer the best overall prospects for increased exports. Within these countries, a number of sectors are identified that might provide opportunities for Atlantic businesses. But new markets also pose challenges and risks for exporters and these issues are emphasized. Finally, the report discusses the place of the Americas relative to other global opportunities.

The report is organized as follows. The next chapter provides an overview of the region in terms of market prospects, costs and challenges, existing linkages and risks. In Chapter 3 APEC presents its synopsis of the 12 best prospects for Atlantic firms in the Americas while Chapter 4 contains a brief analysis on where the Americas fit within global market opportunities. The main conclusions of this report are included in Chapter 5. Two appendices provide a rich amount of information and resources about the Americas. Appendix A contains profiles on 12 countries including information on specific sectors within these countries. Appendix B provides data on a large number of economic and political variables for all the countries and dependent territories in the Americas analysed in this study.

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<sup>1</sup> APEC (2007) *Competing in the Global Economy: Atlantic Canada's Recent Export Trends and Trade Policy Issues*. Halifax: APEC.

**Methodology**

This report is intended to provide an overview of potential markets in the Americas. The report is based upon a review and analysis of secondary data sources and reports that are believed to be accurate and reliable, supplemented with a select number of interviews with key informants and Atlantic businesses with experience in the Americas. The report includes links to other country and sector studies and resources. Potential exporters will need to undertake detailed analysis and competitive assessments of the market prospects for their own industry and products.