

## **The New Europe (part II)**

### **Opportunities for Québec Exporters and Investors**

Highly diverse, the markets of Central and Eastern Europe, along with Malta and Cyprus, are basically emerging markets. Membership in the E.U. should at least provide these countries with some stability, a major factor for economic and social development. While each new member has its own particular situation related to its size, history and people's mentality, the prospects for foreign investors and exporters are essentially found in the same sectors, i.e. infrastructure, transportation, construction, high technology, services and food.

#### **Infrastructure, transportation and construction**

The infrastructures in former communist countries are greatly lagging behind the 15-member E.U., which has been impressive in stepping up the infrastructure development of some of the most recent entries such as Spain and Portugal.

In the areas of energy and waterworks, major investments will be required for efficiency, economic, safety and public health reasons. And in some cases, transportation infrastructures (roads, rail, ports) are in no better shape than they were immediately after World War II. For these new member countries, air is by far the number-one means of transportation. Unlike in Western Europe, trains travel at a snail's pace, and road systems are still embryonic.

Poland, for example, is undergoing a massive reconstruction, meaning that its infrastructures are being rebuilt, thus offering good business opportunities in transportation, energy, residential and commercial construction, and the environment.

#### **High technology and high-tech industries**

Like infrastructures, the high-tech sector has long been neglected in most of the new E.U. countries, either for lack of investment or for political and economic reasons.

In the former communist countries, high technology was essentially related to the military sector and under the control of the U.S.S.R. Today, the need to catch up is pressing, particularly in communication and aerospace technology.

Of particular interest in this regard, the Czech Republic already had a developed aeronautics industry before World War II that survived the Cold War but that today requires financial and technological support to develop. In fact, Canada already exports pharmaceutical products, medical instruments, machinery and aircraft parts to this country.

#### **Services**

The service sector is considerably less developed in the new member countries than in the 15-member E.U. With the exception of specific cases such as Estonia (financial services mainly), Cyprus and Malta, almost all the sectors are concerned.

The banking, insurance, distribution and other industries are changing, and this change will be greatly accelerated by these countries' entry into the E.U. These nations also have tremendous tourism potential after years of borders closed to travellers, with the rare exception of Mediterranean countries such as Cyprus and Malta, or cities with a highly international character such as Prague and Budapest. Most of the new members have no hotel infrastructures.

### **Food industry**

The improved standard of living of the new E.U. member countries will, as with everything else, be accompanied by a qualitative change in food consumption, often marked by the search for better quality and diversity by consumers on the one hand and by an upgrading of local industries on the other. This upgrade will also be necessary to boost productivity and improve food safety.

With regards to target priorities, exporters and investors must take into account the prospects for their products and services in each country. For the rest, certain countries are of special interest, namely, Slovenia, which among the new entries is by far the best prepared in all sectors, and the Czech Republic, where foreign investments are already responsible for almost half of its industrial output. Seventy percent of this country's foreign trade was conducted with the European Union before it joined and should reach 90% now that Poland and Hungary are also part of the union.

### **Risks and opportunities for Canada**

The trade balance between Canada and the 10 new entries has been negative in recent years, and this deficit is expected to grow. While the European Union's recent expansion may pose certain risks for Canada, the fact remains that change always brings new challenges, but also new opportunities that need to be understood and leveraged.

The expansion of the European Union can pose two risks for Canada:

- Greater intra-European trade to the detriment of third countries.  
In effect, in the last few years, the need to catch up by Slovenia, Poland and the Baltic States has mostly benefited Germany and Austria, which have historically had strong commercial ties with Central and Eastern Europe and less with the E.U. and third countries. Poland, for instance, already has trade agreements with some E.U. members such as Germany, the country's main investor.
- More competitive European businesses. Doors are opening to a vast free trade market where it will be easier for them to invest and produce in countries where labour is cheap and well trained.

However, overall, the European Union's expansion primarily offers opportunities:

- After the transitional measures granted to new member countries to protect their economies from global competition come to an end, their customs duties should be the same as the E.U.'s, which are generally lower. In the medium term, this should facilitate access for many Canadian products.
- The creation of a sense of community will be accompanied by higher standards in many areas, increasing both transparency in exchanges (less bureaucracy and

corruption) and needs for environmental technology, a field in which Canada is strong.

In conclusion, the expansion of the European Union initially offers limited but interesting opportunities for certain sectors. Those that offer apparently good prospects for Canadian exporters are building and high technology in general, and more specifically, aerospace, environment and communications.

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