



EMERGING TRADE TRENDS

The Rising Power of Emerging Countries.

Snapshot

- Emerging countries are disrupting the global poles of power and commercial activity, with a significant shift towards Asia. In 2017, the economic footprint of emerging Asia surpassed that of the G7 countries, and the gap will only get wider in coming years.
- Canadian businesses need to adapt to this global reorientation of power, culture, and ways of doing business, and leverage the opportunities available in emerging countries.
- Canadian firms should engage with emerging countries' largest firms to tap into their domestic supply chains, connect with other Canadian firms with ties in these markets, explore opportunities from future trade agreements, to understand these markets and grow their network.

Background

Emerging countries are becoming increasingly powerful centres of commerce and global leadership. (See Table 1.) They now account for half of the global economy—a larger share than all advanced economies combined. And according to the International Monetary Fund, financial spillovers¹ from emerging countries explain as much as a third of the variation in exchange rates and stock market performance of advanced countries.²

Table 1
Emerging Countries,* by Region

Emerging Latin America	Emerging EMEA	Emerging Asia
Brazil, Chile, Colombia, Mexico, Peru	Egypt, Hungary, Poland, Qatar, Russia, South Africa, Turkey, United Arab Emirates, Saudi Arabia	Bangladesh, Cambodia, China, India, Indonesia, Malaysia, Pakistan, Philippines, Sri Lanka, Thailand, Vietnam

*combining the definition of emerging countries used in the MSCI indexes and by the International Monetary Fund
Source: The Conference Board of Canada.

Not surprisingly, emerging Asia, led by China, has been the main driver behind this shift. Over the past two decades, emerging Asia increased its share of global trade from 10 to almost 25 per cent.³ And in 2017, this region became a larger economic powerhouse than the combined G7 countries.

The gap between these two poles of power will continue to widen in coming years. By 2022, emerging Asia will account for 37 per cent of the world economy, compared with only 28 per cent for the G7. China and India will obviously be the growth leader, but so will other Asian economies such as **Indonesia**, the **Philippines**, and **Bangladesh**. In fact, even after excluding China and India, emerging Asia is the only region that will see its share of the global economy rise in coming years. (See Chart 1.)

The influence of emerging countries, particularly from Asia, will continue to grow in coming years, especially with China's **One Belt One Road** initiative, which will connect 70 nations across Asia, Europe, the Middle East, and Africa.⁴ This is happening at a time when the U.S. is stepping away from global leadership roles, including multilateral trade and environmental agreements, and European economies are experiencing slow growth due to an aging population.

1 Financial spillovers refer to occurrences when variations in the price of an asset lead to changes in the prices of other assets. International Monetary Fund, *Global Financial Stability Report—Potent Policies for a Successful Normalization* (Washington, April 2016), <https://www.imf.org/en/Publications/GFSR/Issues/2016/12/31/Potent-Policies-for-a-Successful-Normalization>.

2 International Monetary Fund, *Global Financial Stability Report—Potent Policies for a Successful Normalization* (Washington, April 2016).

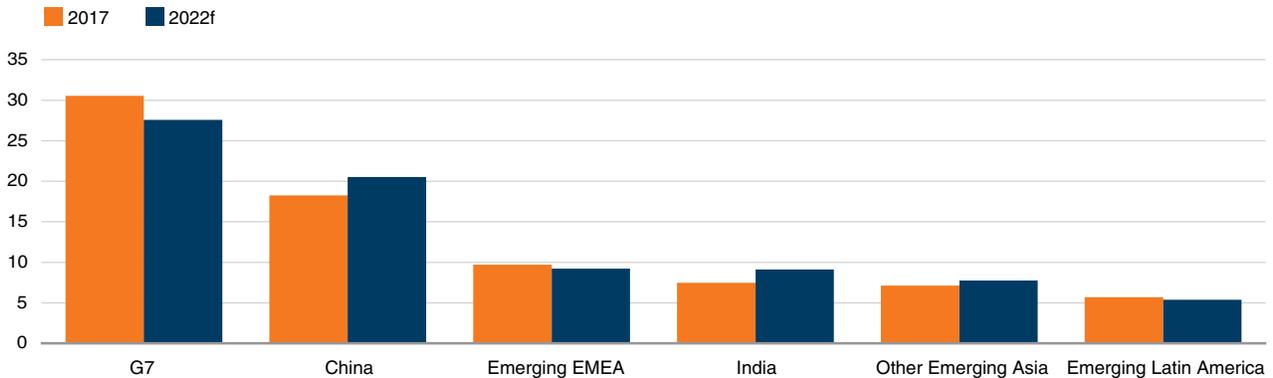
3 Based on global merchandise trade data from UNComtrade.

4 Alexandra Ma, "Inside 'Belt and Road,' China's Mega-Project That Is Linking 70 Countries Across Asia, Europe, and Africa," *Business Insider*, January 21, 2018, accessed March 4, 2018, www.businessinsider.com/what-is-belt-and-road-china-infrastructure-project-2018-1.

Chart 1

Asia Will Continue to Grow Its Share of the Global Economy

(share of global gross domestic product for selected regions, per cent)



f = forecast

Sources: The Conference Board of Canada; International Monetary Fund, "World Economic Outlook Database," October 2017.

Challenges and Opportunities

With the centres of commercial and political powers shifting, Canadian firms wishing to succeed internationally will have to change their strategy to focus around these new poles of power, particularly in Asia.

Challenge: Growing Competition From Emerging Markets' Largest Firms

In 2017, close to a quarter of the Fortune Global 500 firms were Chinese companies.⁵ Three-quarters of these 115 firms are state-owned enterprises (SOEs),⁶ although privately owned companies are also making significant inroads. Among the latest additions to the list are China's tech giants, Alibaba and Tencent, with a combined market cap of close to US\$1 trillion. Emerging countries' largest firms are becoming direct competitors to advanced economies' multinationals, in turn reshaping global value chains.

Opportunities

Doing business with emerging markets' giants. Engaging with emerging countries' largest firms can be a means for Canadian companies to tap into emerging markets, notably through leveraging their well-established domestic networks. As such, in the fall of 2017, Alibaba organized a one-day event in Toronto to provide advice to Canadian firms wishing to make inroads into China's huge consumer market.⁷ Emerging countries' largest firms can also be a source of venture capital funding, which can accelerate the internationalization of Canadian start-ups. Recently, Tencent invested in Kindred Systems Inc, a smart robot manufacturer from Toronto, after backing messaging app Kik and Wattpadd in the past.⁸

5 Celine Ge, "Alibaba, Tencent Included in Fortune Global 500 List for the First Time," *South China Morning Post*, July 21, 2017, www.scmp.com/business/companies/article/2103604/alibaba-tencent-included-fortune-global-500-list-first-time.

6 Scott Cendrowski, "China's Global 500 Companies Are Bigger Than Ever—and Mostly State-Owned," *Fortune*, July 22, 2015, <http://fortune.com/2015/07/22/china-global-500-government-owned/>.

7 Adam Najberg, "Alibaba Invites Canada Businesses to Explore China Opportunity," *Alizila—News from Alibaba Group*, August 10, 2017, www.alizila.com/alibaba-invites-canada-businesses-explore-china-opportunity/.

8 Sean Silcoff, "Canadian Smart-Robot Maker Scores \$28-Million in Tencent-Led Venture Deal," *The Globe and Mail*, October 24, 2017, <https://www.theglobeandmail.com/report-on-business/canadian-smart-robot-maker-scores-28-million-in-tencent-led-venture-deal/article36702904/>.

Leveraging other Canadian firms' existing ties with emerging countries. If doing business directly with the largest firms in emerging countries proves too challenging, Canadian companies can start by connecting with other Canadian firms already established in these markets. To identify firms doing business in Asia, firms can use the Mapping Canada in Asia tool developed by the Munk School of Global Affairs. Using an interactive map, this tool tracks Canadian firms' presence in Asia by sector and region.⁹

Future trade agreements with emerging markets. New market opportunities will likely open in coming years with potential free trade agreements with TPP-11 countries, China, and India. These negotiations can take several years, but so does building the right connections and relationships with local partners. Firms should engage in the government's consultation process throughout the negotiations to ensure their voices are heard regarding market access in these countries.

Navigating the Trend

Keeping pace with the changing global orientation of power and commercial enterprise is a challenge. To leverage new opportunities made possible by the rising power of emerging economies while minimizing risk, businesses should do the following:

Understand Business Opportunities in Emerging Economies

- With the centres of commercial and political powers shifting, consider shifting your business operations to focus around these new poles of power. Understanding the cultural barriers and challenges of these markets often requires having a local presence, either through setting up foreign affiliate firms or finding local agents and partners. The process can also be facilitated through having a diverse and multicultural workforce in Canada speaking multiple languages.

Make Use of Available Public Resources and Programs

- A wide range of options is available to Canadian firms to help them identify business opportunities, make the necessary contacts in emerging markets, and understand the rules, regulations, and local culture. A starting point is to leverage the federal government's Canadian Trade Commissioner Service (TCS) and CanExport Program. For example, the TCS developed an in-depth web portal¹⁰ specifically dedicated to helping SMEs navigate the business environment in China. The portal covers a wide range of topics, including intellectual property, taxation, how to establish a business presence, product sourcing, etc.

⁹ Munk School of Global Affairs, "CanAsia Footprint—Mapping Canada in Asia," accessed March 4, 2018, <https://munkschool.utoronto.ca/canasiafootprint/>.

¹⁰ Please find the TCS' SME Gateway to China here: http://tradecommissioner.gc.ca/world-monde/sme_gateway_china-portail-pme-chine.aspx?lang=eng.

Canadian Exporter Experiences

Company Name: Wade Antenna Inc.

Location: Brantford, Ontario

Website: wadeantenna.com

Product: Industrial and commercial antennas and towers

Year Established / Started Exporting: 1989 / 1993

Employees: 30

Total Revenues: \$5 million to \$10 million

Export Share of Sales: 65 per cent

Export Markets: U.S., Middle East, Europe, Asia, South Africa, South America, Caribbean, and Australia

Description

Wade manufactures communication antennas, towers, and mounts used by the military, defence contractors, and commercial aviation systems worldwide.

Competitive Advantage

Wade is a niche player in defence communications. The firm has developed a technology to jam a drone's communications when used for illegal activities—such as dropping contraband into prisons—or protecting airports and built-up areas where drones should not be operating. Customers range from consumers seeking lightweight affordable towers to the Department of Homeland Security and 17 navies around the world.

Navigating the Rising Power of Emerging Markets

Re-orienting business lines

Wade began targeting emerging markets to diversify its portfolio. “We wanted to look beyond the U.S. because we have so many eggs in one basket and are so tightly tied to military spending there,” notes Ryan Murphy, President. The company utilizes agents in the Middle East and South America. “Part of our growth plan is to further develop this agent network. We have put on a real push to grow in other markets since we haven't given them much attention and want to be more aggressive.”

Finding the right partners in emerging markets

“We know who's who in Europe and the U.S. where we work with large military integrators and understand how they operate,” explains Murphy, “but many of them are not in developing countries, so there is a lot of ground-breaking and unknowns.” Accessing the Trade Commissioner Service in the past year has helped Wade find agents. As well, the person responsible for emerging markets at Wade has worked in many countries and is well versed in different customs.

Future Growth Plan

Wade anticipates strong emerging market growth and is putting the company's focus there for the antenna and drone side of the business. For example, “China and Thailand are planning to upgrade many, many airports and if we can be part of a big project, it would change the size of our business radically,” says Murphy. “We are trying to identify different integrators on the ground who are designing airport communications systems.”

Export Tips

1. Build relationships on the ground. “There is local competition in these new markets, which requires more relationship building and strong customer support such as technical expertise and post-sale support,” says Murphy.
2. Devote substantial time and resources to networking and marketing. “Getting our name and brand out to new markets takes a lot of time and resources,” says Murphy. That includes making the investment to participate in industry trade shows and conferences.
3. Hire a diverse workforce capable of navigating the cultural norms of emerging countries.

Company Name: Signifi Solutions Inc.
Location: Mississauga, Ontario
Website: signifi.com
Product: Automated retail vending machines
Year Established / Started Exporting: 2005 / 2010
Employees: 26
Total Revenues: \$5 million
Export Share of Sales: 40 per cent
Export Markets: U.S., U.K., UAE, Africa, China

Description

Signifi Solutions builds and sells sophisticated vending machines, used by Canada Post, BMW, eBay, PayPal, and others.

Competitive Advantage

Signifi's vending machines incorporate robotics and hardware for dispensing, enterprise software, and a dynamic user interface. "Providing this entire solution is what makes us unique," says **Shamira Jaffer**, President.

Navigating the Rising Power of Emerging Markets

Forming strategic alliances

Signifi has forged a strategic alliance with the CEUTA Group (a U.K. services provider for pharmacies), which has worldwide reach. This partnership has allowed the company to have stock delivered securely to its machines—one of its biggest challenges. The alliance will prove beneficial because of this partner's presence in many overseas markets.

Different regulatory and technology regimes

Signifi must integrate with different payment processors for merchant account processing and follow different electrical specifications. Its highly skilled technical staff does the necessary adapting.

Culturally sensitive business interactions

The company stresses the importance of face-to-face, culturally sensitive business interactions. It has tackled cultural barriers by hiring a diverse and multicultural workforce that speaks different languages. "Our employees are willing to travel anywhere," notes Jaffer. "We work with an agency to hire them; the secret sauce is bringing them on with a co-op program and the cream rises to the top."

Future Growth Plan

Signifi is bullish on emerging market growth and is hiring an export manager to develop its international strategy. "To grow the company to a sustainable level, we need to be looking abroad," Jaffer emphasizes. "We see the export manager as key to help navigate growth and manage distributor relationships around the world. Having a presence through strategic partnerships also facilitates growth, as we are learning from the CEUTA relationship."

Export Tips

1. Find a good partner. Signifi's partnership with CEUTA has many benefits, including helping keep costs down and providing a presence in so many different markets. "The key to expanding globally is finding the right partners," Jaffer stresses.
2. Access government assistance programs. Signifi leveraged government initiatives such as CanExport, Export Market Access, Export Development Canada, the Ontario Ministry of International Trade (OMIT), as well as trade commissioners, especially in China and the United Arab Emirates. "OMIT was particularly helpful with supporting our reps with retail trade events and finding locations for our automated machines," says Jaffer.
3. Hire internationally experienced, culturally sensitive employees and agents. By actively engaging in networking activities and attending international trade shows, these individuals can play a crucial role in identifying opportunities in emerging countries and executing on them.

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The Conference Board
of Canada

255 Smyth Road, Ottawa ON

K1H 8M7 Canada

Tel. 613-526-3280

Fax 613-526-4857

Inquiries 1-866-711-2262

conferenceboard.ca

