III. The Changing International Business Environment

When the Trade Commissioner Service was founded nearly 100 years ago, economic integration was led by trade in goods. Trade largely involved transactions between unrelated private parties organized as national companies. Natural resources and semi-manufactured goods were dominant. Relatively high tariffs helped to maintain nationally segmented markets. The main barriers to trade were differential treatment in taxation and regulatory requirements (e.g., commodity taxes and mixing requirements).

As the Service matured in the decades after World War I, it did so in a world where most international trade was undertaken by large, nationally organized firms. Companies designed, engineered, manufactured, marketed and serviced a range of related products. Outside services were largely limited to financing and advertising. Foreign investment generally involved the establishment of miniature replicas (as encouraged by the National Policy) and only represented a fraction of global economic activity. Trade policy and trade development programs were oriented towards goods trade and national firms.

While trade in semi-manufactured and end products increased in importance, this characterization of international trade and industrial organization — national companies producing national goods for national markets — changed little during TCS's first 75 years.

Starting in the 1960s but particularly over the last ten years, however, dramatic changes in industrial organization and international trade have occurred. Previous declines in the relative value of natural resource and agricultural trade have accelerated. World trade is now led by manufacturing, particularly by knowledge-based industries, and services. Trade has become investment driven, conducted on an intra-firm and intra-industry basis, particularly in OECD markets. Investment flows are growing almost four times as fast as trade flows. Companies compete more and more on a global basis. Technological development, particularly in informatics, telecoms and transportation, has made this globalization possible. At the same time, the emerging regionalism — Europe, Asia, North America — forces companies to develop a distinct presence and approach for each region. Companies have become more sophisticated; trade, technology and investment are now viewed as complementary tools to international business development.

Small and medium-sized companies are not exempt from these trends. The model of the Japanese car industry — long-term supplier relationships characterized by shared R & D, quality and cost reduction responsibilities — has been adopted in North America, initially in the car industry but increasingly elsewhere. Reduced tariff and non-tariff barriers in North America and