2. Impacts

Although sceptical about the extent of the globalization of economic processes and the "emergence" of global (or "stateless") firms, the **above review does clearly point to the increasing fragility of borders faced with the movement of goods, services and capital that has been increasing considerably more rapidly than global production.** Firm behaviour in more countries has rapidly become more outward looking, in areas as diverse as mergers and acquisitions abroad, or R&D. Greater telecommunications and transportation efficiencies are reinforcing the presence of a broader, more immediate world outside national boundaries. Product life cycles have shortened in key areas. Consumer demands for quality, customized products and after sales service are increasing and often override local product loyalty.

Whether globalizing or regionalizing, the above trends have significantly reduced the viability of national polices based primarily on the domestic market. Government policy, consequently, has had to become increasingly sensitive to external factors. Comparative advantage is created, more so today then ever before, by the domestic policy framework that best works with, rather than against global factors, while attempting to mold the process in ways sensitive to national interests. The rapidly expanding international trade policy agenda (itself something of an accelerating growth industry) should become even more intrusive with regard to domestic policy through the foreseeable future.

III. Canadian Competitiveness

Increasing economic internationalization puts a premium on improving Canadian competitiveness, particularly when persistent fiscal deficits work to preserve high interest rates in real terms which in turn delay or deflect full adjustment through sufficient changes in the exchange rate. Improved productivity performance can help to address this dilemma, as well as underpinning the development of new, highly innovative products that are less sensitive to price cutting through the operation of the exchange rate. Regrettably, our productivity record is not good. Growth in Canada's productivity (defined as output per employed person) has been the weakest among the major industrial countries, apart from the U.S. With respect to the manufacturing sector, Canadian productivity growth has been the least dynamic of all the G-7. Total factor productivity (TFP) growth - i.e., output growth unexplained by additional labour and capital inputs - has declined from an average annual rate of 2.0% over the 1960-73 period, to 0.8% in 1973-79 and to almost no growth during 1979-1990. Other G-7 countries also experienced a considerable slowdown in TFP growth in the 1970s as the extraordinarily favourable circumstances of the post-War