

INTRODUCTION

Government intervention in the economy is largely justified on the basis of market failure, whereby market and the 'laws' of supply and demand do not automatically produce an optimum outcome.¹

In determining the future role of Canada's Trade Commissioner Service (TCS), it is first necessary to consider how well the free enterprise market is able to meet the international needs of Canadian businesses. What are the kinds of activities that the market fails to provide adequately? Focusing on this question gives us a guide to the kinds of activities that the TCS should be performing as it enters its second century.

In the past, there have been many ways in which the free enterprise market has failed to meet the international needs of Canadian businesses. From the perspective of the TCS, one of the most significant has been the provision of information concerning the economies of other countries, and information concerning the various business sectors. Frequently, Canadian firms have not been aware of potential markets, suppliers, or investment opportunities. The extent of this market failure has varied from one country to another. Canadian firms have become increasingly familiar with OECD economies. However, today many still have little knowledge about the economies of the countries in Asia, Africa, Latin America, or even Eastern Europe. The frequency of changes in these economies has meant that information that once was accurate may quickly become outdated, and this adds to the needs of Canadian businesses.

Recent changes in the ways that business activities are organized have added to these traditional needs for information. Firms are becoming more specialized, and multi-functional firms are being decomposed into smaller units. These trends are creating new opportunities for small- and medium-sized businesses (SMEs), and this sector has been expanding rapidly. Extended "value chains" are being created, with many firms participating in the chain, and with each firm adding its unique value. As a result, dramatic changes are occurring in the ways that activities among firms are coordinated. New types of joint ventures and various other kinds of investment relationships are being developed.

By its very nature, the large multinational enterprise (MNE) establishes linkages among business activities that are integrated within it. The international information needs of the MNE are largely met within the MNE itself, and for the MNE there may be no market failure concerning the provision of information. The decomposition of business, with a greater role for outsourcing, value chains, and alliances is increasing the international information needs of Canadian businesses that are not large MNEs, and it is here that the

¹ From a Trading Nation to a Nation of Traders: Toward a Second Century of Canadian Trade Development (Policy Planning Staff Paper, Foreign Affairs and International Trade Canada, no. 92/5), 15.