

---

## **Global Business + Emerging Markets = New Paradigm**

The term “emerging markets” encompasses more than a focus on specific countries. Global companies seek production efficiencies and strategic regional positioning in order to remain competitive worldwide. In this way, production is disaggregated across many jurisdictions and animated by investment in all directions, as well as by the internationalization of the knowledge-based economy and electronic communication.

These progressive international networks, or “value chains” as they are often termed, are most prominent within regional trading blocs such as North America and North and East Asia—and integration is moving at a very rapid pace. We are witnessing the beginning of a profound shift in the distribution of wealth, economic activity and influence. Global value chains are not new: they have been used by multinational enterprises (MNEs) for years to lower costs and increase productivity. For many companies, participation in global value chains, particularly in emerging markets, is not just an issue of reducing costs or increasing productivity but a matter of survival.

Canada is very much part of this setting. For example, sales by Canadian affiliates abroad represent an important source of revenue, with a proportion of the repatriated earnings financing ongoing research and technology development (R&D) in Canada. Similarly, those involved in R&D, design, engineering, sales, marketing, information systems and customer service make a major contribution to this country’s economy and prospects for growth. In this context, government must re-evaluate and coordinate the programs and services it offers to investors and the knowledge sector, as well as to exporters.

A Canadian approach must encompass not only companies that have successfully positioned themselves as leaders of global value chains (typically MNEs), but also small and medium-sized enterprises (SMEs) that are under pressure to innovate and upgrade their operations in order to fully participate in international markets. As global competitive pressures mount in traditional markets, SMEs also need to address the challenges and opportunities of emerging markets, either directly or as players in larger value chains that include emerging market partners; their future growth, if not survival, depends on this.

Growth indicators have been impressive in markets such as China, India, Brazil and other emerging markets. But growth is only one consideration for government in selecting target markets. Convergence of demand and Canada’s supply capacity must be verified as a first step to identifying markets for priority attention.

## **Shifting Gears: Adapting to the New Paradigm**

Canada, like other Organisation for Economic Cooperation and Development (OECD) countries, must factor in a diversity of new, effective players and priorities as emerging markets come to play an increasingly important role in the world economy. Policy challenges arise in balancing interests such as promoting strong trading relations and advancing human rights and sustainable development objectives.

Emerging markets frequently offer production cost efficiencies but sometimes entail risks such as limited intellectual property protection and restricted market access. We must continue to evaluate whether Canada’s current array of policy instruments and business development tools are appropriate to meet available opportunities and the types of challenges and competition we face in the marketplace. Is enough priority being accorded to outward as well as inward investment? How can we best share technologies and develop new partnerships that will promote successful commercialization of research at home and long-term market penetration abroad? What are the skill sets needed that will best help Canadians both to adjust to and benefit from labour mobility in a global context?

## **Potential Emerging Markets**

An emerging market can be a country, a region or a sector that is experiencing rapid and sustained growth, usually attracting the active participation, directly or indirectly, of multinational enterprises. An analysis of the opportunities and challenges of doing business with economic giants, such as China, India and Brazil, will help to shape a framework that identifies priorities and commonalities that can best be addressed through an integrated strategy.