One of the great economic triumphs of the last 50 years has been the liberalization of international trade under successive Rounds of the GATT [General Agreeement on Tariffs and Trade]. But there has been another process of liberalization which is at least as dramatic as the globalization of trade, and which has taken place largely outside the formal negotiations or international rule making — that is, the liberalization of global capital flows.

These two developments are not unrelated. The systematic reduction of trade barriers worldwide, combined with dramatic decreases in transport and communication costs, has paved the way for the emergence of a truly global system of production — one in which firms are increasingly free to assemble inputs from around the world and to service an equally global marketplace. This in turn has accelerated the globalization of investment, as firms learn that the best way to achieve a comparative advantage in production, in sourcing, and in technology is to establish a direct presence in foreign markets.

Where once trade was about the exchange of goods among national firms operating in national markets, today trade is much more about the movement of components, services and technology within global firms operating in global markets. Where once foreign investment was seen as a way of substituting for trade — a way of jumping over national barriers — it is now seen by many firms as a necessary precondition; to the point where trade and investment are virtually indistinguishable.

Production by foreign affiliates has now overtaken exports as the primary means for delivery of goods and services to foreign markets. Behind this dramatic growth in foreign investment is the so-called transnational corporation. In the 1990s, some 37 000 such corporations generated US$4.8 trillion in sales, accounting for one third of the combined outward investment of their countries of origin, and generated — directly or indirectly — some one third of world output. Taken together, roughly one third of all trade takes place among branches or affiliates of individual firms.

The implication of such numbers is clear. Global investment is becoming at least as important to Canada's economic future as is global trade. Or to put it another way, in order to advance the goals of greater employment and growth, Canada must be a home to firms with global operations and global aspirations.

Though such observations may seem axiomatic to businesses confronted daily with the strategic challenge of positioning themselves in a global economy for global competition, they represent nothing less than a sea change in the way Canadian governments have traditionally viewed foreign investment.

This sea change has given rise to two policy imperatives. First, we have come to the realization that the central problem facing Canada in the 1990s is not how to screen foreign investment, but