

interaction between exchange rates and net exports tends to make fiscal policy less effective.

Fiscal policy may be less effective, but the free flow of capital increases the flexibility of fiscal management with respect to deficit financing. With an international capital pool to draw from, government deficits need not be financed solely by domestic savings. Canadian provinces, for example, have drawn heavily on foreign markets. Of the C\$85 billion worth of new bonds issued by the provinces in 1991 and 1992, C\$43 billion was placed abroad.

4. TRADE IMPLICATIONS

The globalization of business has an impact on virtually all sectors of the economy, especially trade and investment.¹⁰ To separate those trade effects into parts of the globalization process such as the integration of financial markets is a difficult exercise. The problem is that there are a number of simultaneous events that work to reinforce each other. In essence, there is a circle in which increased investment leads to increased trade which leads to the interdependence of economies which leads back to increased investment. The circle can start anywhere and move in either direction. The following are some of the issues concerning the relationship between trade and the flow of investment in financial markets.

4.1 Increased Access to Capital for Developing Countries

An indirect implication for Canadian trade involves the emergence and internationalization of capital markets in developing countries. For the year ended June 1993, the world's top performing stock markets were in Turkey, Brazil and Indonesia. The rise of developing markets is, in part, thought to be the result of lower yields in developed countries. Whether the interest in developing countries disappears with the return of higher yields in developed countries remains to be seen. In the meantime, increased activity in developing markets should, over time, reduce risks associated with investing in developing countries and provide developing country firms wishing to raise funds with more alternatives to bank financing.

¹⁰ For a comprehensive discussion of globalization, see D. Seebach, *Globalization: The Impact on the Trade and Investment Dynamic*, Policy Planning Staff Paper, No. 93/7 (June 1993).