5. EUROPE 1992: OPPORTUNITIES AND RISKS

What dangers as well as opportunities does Europe 1992 create for Canadian telecommunications and computer firms? It is, of course, the potential opportunities created by the development of a giant common market in Europe that chiefly interests investors. But there are certain dangers, too. There are two types of dangers that can be broadly characterized as "errors of omission" and "errors of commission." The main error of omission has been alluded to above: not responding to a process that is likely to produce a number of new world-scale firms in Europe which will be in a better position to take away North American markets served by Canadian firms. One of the advantages of the Canada-U.S. Free Trade Agreement is that it has already put Canadian firms on alert to external threats.

The main error of commission would be for Canadian firms to simply rush in to fill what is predicted to be a much enlarged market for imports as a result of Europe 1992. A widely quoted estimate of the macroeconomic impact of Europe 1992 is that it will increase EC gross domestic product by 4.5 per cent (Cecchini Report). This amounts to an increase of almost a quarter of a trillion dollars. Even with low import elasticities, this means a substantial spur to European imports of foreign goods and services. But what may be true in total may not apply to most individual firms, at least those located outside the EC. It takes little political savvy to recognize that Europe 1992 is viewed as a spur to European firms as well as a gain to European consumers. It would be highly surprising if the European Community does not do all it can to assure that European-based firms are the chief gainers, via rationalization, from a much-expanded European market -- one free of the border, standards, investment, tax and other irritants that have often hindered intra-EC trade.

Canadian firms wishing to take advantage of the Single Market must make some important strategic decisions. These include determining whether there is a product "niche" which they can conveniently fill, and, if so, *how* to serve these markets. Broadly, the latter decision can be viewed as one between (arms-length) trade and (foreign) investment, or some combination of the two. Where some form of foreign presence is necessary, there are crucial decisions involving whether to directly invest in new facilities, to merge with or acquire an EC-based firm, or to form an alliance or joint venture with a successful EC firm or firms. The globalization of firms as well as markets has combined with a revolution in (firm) organizational form to offer numerous options to a newly expanding firm. These options are compounded by other decisions such as technology-sharing, licensing, or marketing agreements. While the increase in options (or choices) suggests numerous opportunities, there are also pitfalls. The "correct" choice for a specific firm often depends on highly specific (local) circumstances, and is therefore not easily predictable in the abstract. Thus Canadian firms, especially small- and medium-sized ones not yet involved in the EC, must be on their guard against overly optimistic predictions of gain or incautious urgings to "get involved" in the EC.

It is often observed that for a firm to go global, size -- a "critical mass" -- is essential. If this is so, then the opportunities offered to small- and medium-sized Canadian telecommunications and computer sector firms by Europe 1992 would be few and far between. But the conclusion that size is essential overlooks the possibility that a firm, however small, with a specialized good or service that fills a niche, has something more than its product to sell. It is