

Developed Countries

When identifying export markets in developed countries, there should be an awareness of the instruments available to firms that reduce financial risks, particularly with respect to exchange rate fluctuations. Encouraging exports to markets that regularly experience a high degree of currency volatility should be accompanied by some knowledge of the management of such volatility. That knowledge will make the trade promotion program more complete.

Anti-dumping and Exchange Rate Pass-through

The relationship between exchange rate fluctuations and export prices could have important implications in the context of anti-dumping actions. As outlined in Section 4.3.2, Harris maintains that Canadian exporters generally pass currency movements through to final customers, in which case there could be no claim of dumping. Yet, there is one industry-specific study that shows currency movements are being absorbed by Canadian exporters, resulting in different prices in the Canadian and foreign markets.⁵³ That price gap, even though it is the result of a rational pricing decision by an exporting firm to keep its prices in line with others in the export market so as not to lose market share in the case of an appreciation of the domestic currency, could expose exporters to anti-dumping actions. The Department must be aware of the effects exchange rates can have on export pricing, the types of decisions Canadian exporters must make, and the risk of anti-dumping action by our trading partners. This issue underlines the importance of seeking the reform of current anti-dumping practices.

5.2.3 Financial Institutions As Export Facilitators

In determining the relationship between the presence of domestic financial institutions abroad and the level of exports, two points can be drawn from this Paper. First is the notion that increased trade and increased investment abroad are usually simultaneous events and often reinforce each other. The second point is that some of the main customers of domestic banks in foreign countries are home country corporate clients that have established foreign subsidiaries.

⁵³ See L. Schembri, "Export Prices and Exchange Rates: An Industry Approach." In *Trade Policies for International Competitiveness*. Chicago: University of Chicago Press, 1989, pp. 185-203.