2

PLANNING ENVIRONMENT FOR 1999-2002

2.1 Export Environment

2.1.1 Overview

1998 was a year of turmoil in global markets. Prudent fiscal management policies helped to insulate Canada from the worst effects. Still, the "Asian flu", which has since spread to Russia and Latin America, has lowered commodity prices, created hardships for resource-based sectors, and slowed economic growth, especially in British Columbia. Nonetheless, Canada's economy continued to expand at a moderate pace in 1998, with exports of goods and services playing a major role.

Despite recent turbulence in the global economy, government policies to promote higher levels of trade activity will continue to emphasize openness and to seek further progress on liberalization, harmonization and deregulation – particularly in high-growth, emerging markets. However, more emphasis will be placed on the need to make the regulatory environment for world trade more transparent and less corruptible.

Despite worsening financial market conditions in some regions and an unfavourable outlook for global economic growth over the short term, overall international economic activity continues to be characterized by rising levels of integrated cross-border investment and trade. The driving forces are liberalization, which makes globalization possible, and technological change, which leads to lower communication and transaction costs.

A number of significant trends are associated with the globalization of economic activity:

- transnational corporations (TNCs) are of growing importance, accounting for half of the world's foreign direct investment (FDI). Approximately one-third of world trade occurs within their networks. At one time, FDI was used to bypass trade barriers and gain access to foreign markets. Now, the emphasis is on making the best use of a company's competitive advantage by locating production wherever it is most efficient. Most TNCs operate widespread networks of research, component production, assembly and distribution.
- the share of global sales owned by TNCs will continue to expand in coming years as merger and acquisition (M&A) activity picks up. M&A is now the most cost-effective means of obtaining a presence in foreign markets. This increase in mergers could translate into slower growth in the demand for plant and equipment.
- higher FDI by TNCs will likely lead to higher levels of intrafirm trade. As trade between affiliates and branches increases, and suppliers establish stable relationships with large creditworthy TNCs, the need for export credit assistance may grow at a slower rate.
- the worldwide pace of privatization, commercialization and deregulation has accelerated, bringing new investments. Over the next ten years, some 2 500 infrastructure projects are expected to get under way globally. This increasing economic activity presents new risks as more players engage in complex transactions requiring sophisticated financial structures.
- liberalization, and an increasing variety and number of financial instruments, are making it easier for firms – especially SMEs – to access capital. The growth in global capital markets, facilitated by pension and mutual funds, is increasing the pool of resources available for investment projects, international trade transactions and general financing. In coming years, as pension assets increase from US $10 trillion to an estimated US $14 trillion in 2002, the competition to provide financing is likely to become more intense.