

## THE UNITED STATES MARKET

*The United States is the largest single economy in the world, representing about 37% of the G7's total Gross Development Product (GDP) in 1996. Several U.S. regional economies have a Gross Regional Product (GRP) larger than Canada's GDP, and one region, the Southeast, is almost as big as Italy and the U.K. All 12 U.S. regions have a GRP larger than Mexico's GDP. The U.S. is both the largest international trading and investing country. It has the most technologically advanced economy with the highest R&D expenditures. As result of NAFTA, it enjoys with Canada the world's largest bilateral trade and investment relationship. While it is Canada's most important market for trade, investment and technology, the United States is also Canada's major competitor for foreign direct investment destined to North America.*

### United States' Global Influence

#### 1) Global Trade and Investment: Transnational Corporations

The United Nations' 1997 World Investment Report (UNCTAD) indicates that with an estimated US\$7 trillion in global sales in 1995 – the value of goods and services produced by some 44,000 transnational corporations (TNCs) with almost 280,000 foreign affiliates (of which 183,000 are located in developing countries, Central and Eastern Europe) – international production outweighs exports as the dominant mode of servicing foreign markets. The growth of global sales has exceeded that of exports of goods and services by a factor of 1:2 to 1:3 since 1987. The worldwide assets of foreign affiliates, valued at US\$8.4 trillion in 1994, and global FDI valued at US\$3.2 trillion in 1996 (up from US\$2 trillion in 1993), have been growing faster than world gross fixed capital formation, indicating an increasing internationalization of industrial production.

The UNCTAD study shows that the number of TNCs headquartered in the report's 23 developed countries grew over five times between 1969 and 1995, from 7,000 to 36,380. About 94,000 foreign affiliates are located in developed countries. In 1995, 3,470 TNCs and 18,608 foreign affiliates were located in the U.S. (about 20% of the total affiliates located in developed countries). The U.S. had over 21,300 affiliates located abroad in 1995. In 1996,

worldwide investment in foreign affiliates was an estimated US\$1.4 trillion and of this, only 25% or US\$350 billion were financed by FDI inflows and about 20% by foreign affiliates themselves.

Together, China and the U.S. accounted for about one-third of global inflows in 1995-96. The U.S. and U.K. drove the increase in outflows, together accounting for 40% over the period.

The growth of TNCs' international production reflects rapid changes in their corporate structure and is being pursued through a variety of equity and non-equity link-ups and investment channels. Over 40% of manufacturing sales are accounted for by intrafirm trade – between parent firms and their foreign affiliates. Similarly, on the technology side an estimated 70% of the global payments of royalties and fees constitute such intrafirm transactions. In 1995, U.S. firms received an estimated US\$27 billion in such payments, accounting for 56% of total global receipts (US\$48 billion), compared with US\$6 billion or 50% in 1983. In addition to showing the dominance of the U.S. in this area, this phenomenon underscores the close relationship between FDI and intangible technology flows, as well as the strong proprietary asset base of FDI.

#### 2) U.S. Trade and Investment

The United States has been making rapid gains in international trade and investment. With the passage of NAFTA and the new World Trade Organization (WTO), it has expanded its trade and investment with the growing economies in Asia and Latin America. The fastest growth occurred in Japan and Mexico. Growth in Canada and Europe has occurred at a slower rate. The U.S. is the leading exporter and importer in world merchandise trade\* with 11.6% of the global export and 14.9% of the import markets (respectively US\$5,033 billion and US\$5,170 billion in 1995) and the world's leading exporter of services. Total U.S. exports of goods and services account for almost 11% of the U.S. gross domestic product (GDP), while U.S. goods and services exports to Canada account for 2% of U.S. economic output.

The United States is also the world's largest investment source and destination with 25% and 20% respectively of both the global stocks of outward and inward investment (about US\$3,200 billion in 1996). The U.S. outranks all other FDI source countries by nearly two-to-one.

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