

EXECUTIVE SUMMARY

This paper identifies the key, far from unambiguous characteristics of economic globalization and briefly outlines the broad implications for public policy. Most of the paper then focusses on specific policy fields (including investment, competition policy, technology policy, and trade and the environment), and their impact on a much more comprehensive and intrusive trade policy agenda. The paper develops a number of specific "micro" policy suggestions. It concludes by emphasizing the growing importance of policy coherence between different levels of government and within the federal public service.

The paper begins by expressing some scepticism about the extent of the globalization of economic processes and the "emergence" of global (or "stateless") firms. Much of the increase in trade in goods and services has occurred on a regional basis. Generally speaking, most G-7 economies have not become more trade dependent in recent years (if measured as a proportion of GDP), although several smaller and/or new entrants have. Cross-border intra-industry trade has increased, but not everywhere to the same degree and much occurs on a regional basis. International intra-firm trade apparently has not grown proportionally more important. The degree of investment-based foreign presence in several G-7 economies has remained the same or declined, although it has increased in the U.S. and the U.K. in particular. We should treat claims about the emerging dominance of "stateless" firms with caution: the direction of intra-firm trade and the commitment to significant research and development efforts are linked primarily to the home base of major international traders.

Yet, at the broadest level, borders have become increasingly fragile in the face of the movement of goods, services and capital at rates that have been increasing considerably more rapidly than global production. Firm behaviour in more countries has rapidly become more outward-looking. Greater telecommunications and transportation efficiencies are reinforcing this growth. Product life cycles have shortened in key areas. Consumer demands for quality, customized products, and after-sales service are increasing and often override local product loyalty.

Increasing economic internationalization puts a premium on improving Canadian competitiveness. Our productivity record is not good in this regard, whether measured in terms of output per worker or total factor productivity growth. Much has been and must be done domestically to address this weakness. Innovative trade policy has a major role to play in the process of recovery.