International Trade
and Investment Centre

The Conference Board of Canada
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TRENDS IN INTERNATIONAL TRADE

PRESENTATION TO ORGANIZATION OF WOMEN IN INTERNATIONAL TRADE – TORONTO

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- Happy to share with you big picture trends we've explored through our research centre on international trade and investment at the Conf. Board. CBoC is an independent, not-for-profit research organization - focus on evidence-based research that matters to both government and business decision-makers

THE BLACKBERRY

- Start by talking about something everyone can relate to: The BlackBerry, because it illustrates many of the trends I'd like to talk about
- Where is the BlackBerry made? Not straightforward.
- Conception, design, engineering, etc, in Canada
- The BlackBerry's hundreds of parts come from companies all over the world
- Example: BlackBerry Curve screen and storage (Samsung - Korean company), processor from Freescale (based in the US)
- In turn, these companies may manufacture and source parts from Asia, the U.S., Europe and other locations around the globe.
- New products manufactured in Waterloo, then outsourced to Hungary and Mexico
- If live in Asia or Europe, buy a Hungarian-made BlackBerry; my own BB made in Mexico
- Of course, the largest share of RIM's revenues is in the related data contracts that RIM receives from the wireless carriers, which apparently accounts for the largest share of RIM's revenues
- The BlackBerry is an example of a truly globally integrated product
- RIM has created a global value chain – where they make and buy various parts, services, and technologies in Canada and all over the world, from whichever locations can provide them most efficiently – allows RIM to focus on what it does best in Canada and draw on what others do best elsewhere

TREND #1: ACCELERATION OF GLOBAL SUPPLY CHAINS/ THE RISE OF "INTEGRATIVE TRADE"

- The BB is not an exception – it's becoming more and more common, not just for products but also for services to ask where is the best place in the world to buy or make this part or this technology or this service.
- Declining communication costs and the ability to digitize production have made global coordination easier and more attractive.
- A growing body of evidence shows that companies have been not just growing but **rapidly accelerating** their use of global and regional value chains
- What does this trend mean for businesses?
    - Think about where we can be world leaders, where we have niches in global value chains, where the value is created, and where we can adopt the best technologies, inputs, and services from others

  - Example: In our research on Canada's trade in technologies that reduce greenhouse gas emissions such as solar energy, energy-saving appliances – our trade performance relatively weak overall, not among world leaders (there are many reasons for this). The key thing we showed, however, is that we have a number of specific areas in which we do well in global markets. For example, solar PV controllers, waste management products that minimize methane emissions, water management services, tidal wave power, next generation of biofuels.
  - The idea is that we do – or have the potential to do – certain things well. We need to identify those strengths, and build on them. We are not going to be world leaders in everything but we can be in some things.
- <u>Important implications for government policies too</u>
  - For example, policies/free trade agreements traditionally focused on opening access to other markets for our goods, but we need the best technologies, inputs, services from the world in order to have the most competitive Canadian products and services. This means that tariffs, rules that specify local or regional content, can hamper the competitiveness of our own companies over the long-term.

TREND #2: INCREASED TRADE IN SERVICES

- Large part of the BB value – is in the services people buy from RIM all over the world
- Economics 101 will tell you that services can't be traded in global markets – they have to be provided close to their customers
- Still true, but evidence suggests that distance matters much less for selling services than it once did – important growth area for Canada
- Our and others' estimates that measure a broader array of services trade than the narrow reported trade figures show that
  - Global services trade represents roughly half of all trade (if you count only value-added trade)
  - Canada-EU services trade is not only not marginal but half to almost equal in importance to trade in products
- Our broad estimates show that services are not just traded across borders as goods are traded, but are increasingly traded via people movements, via digital transfer (software, music, translation services), by temporary foreign workers, and often by SMEs that are not included in our measured trade statistics
- Sold by setting up a local presence abroad, Example: think of Manulife setting up offices in the EU to sell insurance, again not included in our traditional ways of measuring services trade; We find that Canada-EU services traded primarily not from an office in Canada directly to the EU, but by setting up local affiliates

- <u>Policy</u>: our paper on this to come out soon in order to inform Canada-EU trade talks – affects how we negotiate for services trade access to each others' markets – if we can understand that the role of services trade is important, then our negotiators can place more emphasis on removing barriers to services trade like temporary work visas and spousal visas, for example – which are entirely different issues than for trade in manufactured goods or agricultural products.

- We shouldn't oversell this trend and the global supply chain trend:
  - People still prefer local - lots of evidence that will pay a lot more for something local than far away - one study (Head and Ries) finds that people are willing to pay four times more for service providers within 100 kilometres than for service providers that are approximately 10,000 kilometres away.
  - And there are limits to the services one can truly buy globally or even from someone else: See piece by AJ Jacobs on trying to outsource his life to an assistant in India – he asks her to convince his wife of a point of disagreement, and to call his parents instead of him

TREND #3: GREATER OUTWARD DIRECT INVESTMENT

- A related trend is Canadian businesses investing in other countries with a significant enough size investment that it allows some exercise of control over the investment

- Canada has been relatively good at this, for the last decade doing more of this than attracting such investment in Canada, and growing this rapidly
- This allows Canadian companies to access skilled labour where there is a shortage at home, unskilled labour at lower cost than at home, to tap into clusters of suppliers elsewhere, to access new markets by selling through affiliates (particularly when you have to be close to your customer but where the market is distant), to access new technologies, or to sell certain skills or products that we can't sell through traditional exports. It may also be necessary to go abroad simply because your competitors do it.
- The evidence shows that increases in outward investment lead to increased trade, superior performance and productivity – only if the company had strong performance to start with (it does not always work)
- Caution re downsides ie increased risk

TREND #4: A HIGHLY VOLATILE AND STRONG DOLLAR

- Extreme volatility in the dollar over past few years – hitting historic highs in 2007, rapidly declining in 2008 during the financial crisis, to close to parity now
- One thing to know you'll have a strong dollar, but the volatility obviously makes long-term planning difficult
- One way (in addition to others) to deal with this trend: engaging in global markets via a range of different methods
- This is called operational hedging and leaves companies less exposed to dollar volatility
- Might think manufacturers most exposed to dollar volatility but they in fact are often imported inputs, exporting, investing globally, investing in imported M&E. More exposed may be services providers that tend only to export – therefore are less flexible to respond to currency movements
- Strong dollar situation – The Canadian dollar is just below parity with its U.S. counterpart, and the Conf. Board is predicting that it will remain strong for a long time to come – forecast of over $1 US in 2011
- Can no longer rely on cheap dollar for competitiveness in export markets
- Have to instead increase productivity – working smarter, not harder - by investing in the best global technologies, equipment, etc that we can now buy more cheaply, thinking about investing globally or re-structure their allocation of activities globally, being more innovative

TREND #5: THE RISE OF EMERGING MARKETS

- Economic growth weak in the developed world (roughly 2 percent range this year and next – IMF) and accelerating in the large, developing economies (6-8% this year and next; China at 10% growth this year and next – IMF) – this is where the growth likely to come from over the next few decades
- Starting to be reflected in Canada's trade, which has been gradually diversifying away from the US and towards emerging markets
    - about 70% of goods and services exported to the US, down from 80% in early part of decade, expect this trend to continue
    - Our research shows that Canada-US supply chain activity has plateaued (This is a long-term phenomenon – not just post-9/11, not just in wake of recent financial crisis)
    - But Canada is growing its involvement with supply chains around the world, including with emerging markets in Asia and Latin America (and traditional markets such as Europe)

TREND #6: DIGITAL TRADE OR VIRTUAL TRADE

- Technology and the ability to convert data into digital form and send it anywhere cheaply and quickly
- Changing the nature of trade – anyone can go into business, and anyone can go global instantly, reputation can go viral immediately, can coordinate globally

- "Digital services" – bought and sold on the Internet without anything physical changing hands, such as software
- Kids are spending real dollars on "virtual goods". Example that Gerri Sinclair – digital media professor uses is of Cartoondollemporium. 25 billion users in hundreds of countries - kids buy dresses for their avatar dolls – they did a survey of the girls between 2-11 and asked them how many would rather buy a pretty dress for their avatar than for themselves – about half said they would rather buy it for the avatar
- Sinclair argues that kids born today will have relationships primarily on line rather than offline; if this is true, the implications are significant – for business, but also for social and economic policies.
- This is an area we hope to do more research on, so would be grateful to get your feedback:
    - How is this changing how you sell into or buy from or interact with global markets?
    - Are businesses well positioned to take advantage of digital technologies to succeed in global markets?
    - Are public policies aligned to give Canadian entrepreneurs the tools and skills to be able to succeed in global markets?

CONCLUSION AND THE INTERNATIONAL TRADE AND INVESTMENT CENTRE

- This gives a sense of the long-term trends in our research at the Conference Board of Canada on international trade and investment.

- Not focused on what the trade numbers did this month, or last month but taking an evidence-based approach on what are the important global dynamics that Canadian (business and government) decision makers need to think about.

- I've brought some publications. Our publications are available on the ITIC website (linked to in your invitation for today). And I can put you on the list for future publications if you give me your card.

- For those of you who are interested in finding out more about becoming a member of our centre, I'd be happy to follow up with you.

- Thanks – I'd be happy to take any questions, or also hear whether some of the trends I talked about from a big picture perspective resonate with your on-the-ground experience.

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