

Monday, June 14, 2004

CANADIAN BUSINESSES CAN WIN IN THE INCREASINGLY COMPETITIVE GLOBAL ARENA, SAY TD ECONOMISTS

- Globalization is having a profound impact on the Canadian economy
- Many small and medium size enterprises (SMEs) have profited from the increased flow of goods, services, capital and labour – but more gains can be exploited
- The obstacles to engaging in trade and the difficulties of coping with increased international competition can be overcome
- Demographics and the increasing reliance on immigration for population growth will create challenges and profit opportunities that businesses need to be aware of
- The long-term key to success is heightened productivity, which will require producing higher value-added goods and services, investing in additional capital and new technologies, and employing a more skilled workforce
- Canada's various governments have a role to play in encouraging trade and productivity. Getting border and trade arrangements right, ensuring adequate infrastructure, setting competitive tax rates, and fostering a solid education system are all priorities

TORONTO – In a comprehensive report released today, entitled *Canadian Business Goes Global for Growth*, TD Economics examines how Canada's small and medium size enterprises (SMEs) are faring in the global arena. The report is available online at www.td.com/economics. "Always one of the most open economies in the world, Canada has benefited greatly from its heavy orientation towards trade, and it will continue to do so in the future," said Don Drummond, Senior Vice President and Chief Economist, TD Bank Financial Group. The TD Economics report addresses whether the heightened competition from globalization is a peril for Canadian businesses or whether opportunities to tap into other markets offer invaluable possibilities for growth. "Many Canadian SMEs have been taking advantage of the opportunities globalization offers, but there are tremendous potential benefits still to be tapped," noted Drummond.

The Canadian economy is becoming even more open

The trend toward greater openness of the Canadian economy is unmistakable:

- Imports and exports have risen from about 15 per cent of Canada's GDP in the mid-1960s to around 40 per cent today.
- Trade has expanded beyond conventional goods markets, with growth in exports of high-value services outstripping total export growth over the past decade.
- Canadian businesses have increased their outward foreign direct investment at an annual average pace of 24 per cent since 1990, while incoming investment has risen at a pace of 22 per cent per year.
- Permanent and temporary emigration of Canadian workers to the U.S. has steadily risen, although it is still much smaller than immigration.
- Immigration will soon account for all of the population growth in Canada.

Not all SMEs are exporters, but all are affected by globalization

“Small and medium size businesses in Canada are a critical part of the economy. They are found in every industry, and every province and they make up 99 per cent of all business establishments,” remarked Drummond. “Accordingly, it is no surprise that SMEs cannot insulate themselves from the impact of globalization that is shaping Canada's economy.”

However, Canada's exports are concentrated in a small number of large corporations:

- Only 18 per cent of SMEs indicate that they export any of their goods and services.
- Furthermore, a mere two per cent of Canadian firms generate significant export earnings (more than \$30,000 in any year since 1993).
- Almost half of independent businesses that export said that they became exporters because of unsolicited inquiries rather than as part of a planned expansion.

Yet almost all SMEs are now influenced by global developments. They may provide goods or services to a Canadian firm that exports or they may import goods and services to sell in the Canadian market. And, increasingly they sell to and/or employ immigrants.

The barriers to trade are becoming less important

With Canada accounting for less than two per cent of world GDP, and only 0.5 per cent of world population, and slated to grow less rapidly than the world on both measures, there are clearly large and expanding markets abroad for Canadian businesses to tap. It is, therefore, interesting to look at the obstacles SMEs often cite to expanding trading. “Canadian firms, particularly smaller ones, face substantial hurdles to trading in world markets, but many of the obstacles have diminished over time and there is an impressive array of support available from a variety of Canadian sources for potential exporters and importers,” said Drummond.

The report discusses each of the hurdles to trade and the prospects of overcoming them:

- **Products and services not exportable** – technology and declining real prices of transportation and communication are creating new export possibilities.
- **Lack of resources or financing** – federal and provincial agencies and financial institutions, including TD Bank Financial Group, offer support.
- **Duties, tariffs and non-tariff barriers** – the spotlight on particular trade disputes may be obscuring the prominent decline in world trade barriers in recent decades.
- **Exchange rate uncertainty** – Canadian firms, particularly SMEs, have not been taking full advantage of the protection available through exchange rate hedging strategies. Hedging should be thought of as a form of insurance.
- **Language barriers and cultural differences** – the growing use of English as a common business language and Canada’s increasingly diverse population are easing this strain.

- **Increased competition from foreign firms** – Canadian firms will not be successful in domestic or foreign markets unless they can pass the competitiveness test. This is getting tougher as emerging economies become global players. “The key to success is to improve Canada’s relatively lacklustre productivity record,” stated Drummond.

Raising Canadian productivity is the key to success in the global economy

Canada has had a longstanding productivity shortfall with the United States, and the gap has widened in recent decades. Now, there is a growing and legitimate concern that emerging economies such as China and India are competitive threats. “The only answer for Canada’s businesses is to increase productivity and move further up the value-added chain,” observed Drummond. However, this is no easy task, as many global competitors are moving up the chain rapidly themselves.

“Canadian firms will have to work with governments to raise the skill level of workers and ensure a more successful integration of immigrants into the Canadian economy,” remarked Drummond. Businesses will also need to invest in more capital, including adopting new technologies. Further roles for Canadian governments include improving border arrangements, ensuring adequate infrastructure and setting competitive tax rates.

Returning to the central question of whether globalization is a peril or panacea for Canadian business, Drummond concluded, “It is a tough battle, because the rest of the world’s economy isn’t standing still, but Canadian businesses, including SMEs, can build upon their strengths and win in the increasingly competitive global market.”

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The report *Canadian Business Goes Global for Growth* is available in PDF format on TD Economics' Home Page at: www.td.com/economics.