



Open Markets for Trade and Investment

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Key message: Even as global economic integration continues, there is growing risk of trade and investment policy fragmentation that is working against open markets for trade and investment.

1. The era of “Integrative Trade”
 - a. Trade theory: comparative advantage.
 - b. Real world practice: liberalized trade and investment means more competition at home, access to global markets, enhanced firm efficiency and improved competitiveness.
 - c. Emergence of global supply / value chains, production-led trade.
 - d. “Integrative trade” – an expression I coined to capture the new international business model where all the elements – imports, exports, investment, services -- are required for firm efficiency and wealth creation.
2. Where are we today?
 - a. North America/Western Hemisphere is now trailing Europe and Asia in the drive to open markets for trade and investment.
 - b. Recently published Conference Board of Canada research measures Canada’s fit into global and regional value chains – Stuck in Neutral: Canada’s Fit into Global and Regional Supply Chains.
 - c. Our research shows that the integration process in North America is on a plateau. Trade in intermediate goods -- inputs and parts -- has not progressed since 2000.
 - d. Increasing Canadian reliance on other markets, especially production inputs from Asia.
 - e. Our research also indicates that a “thicker” Canada-U.S. border is due to increased costs for Canadian firms of meeting U.S. security standards, not to border delays.
3. The “New Protectionism”
 - a. Old protectionism still exists via tariffs, domestic subsidies, quantity limitations, anti-dumping, etc., but is being supplanted by new forms of protectionism.

- b. Non-tariff or Regulatory Barriers: The Tyranny of Small Differences -- especially for trade in services.
 - c. Labour and Environmental Standards – Note that climate change could create huge new trade barriers -- but there is also the need to create a more level playing field on climate change policies.
 - d. Foreign Investment Mercantilism – recent Conference Board of Canada research questioned the OECD's rankings of openness to foreign investment, and showed many countries to be investment mercantilists – open to outward expansion, but closed to foreign acquisitions at home.
4. What to Do About It? Critical Success Factors
- a. Idea leadership: OECD , IMF and WB, along with think-tanks and academics, must continue to make the case for free markets for trade and investment
 - b. Principled political leadership – but can we count on the EU, U.S., or others?
 - c. Non-tariff barriers – can we find a common regulatory standard?
 - d. Services: need to move beyond the bilateral offer / counter-offer approach
 - e. Clarity on FDI review standards and processes, and define the approach to SWFs

The Bottom Line: even as global economic integration continues, there is growing risk of trade and investment policy fragmentation.