

## The end of globalization? Not so fast

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Global trade in products grew more slowly than the world economy in recent years. This has created concern in some quarters. But globalization is not really slowing down for Canadian firms. Instead, it is changing shape, and in a dramatic way.

A new Conference Board of Canada report entitled “Canada’s New Trade and Technology Paradigm” shows that global and Canadian international business is undergoing a major paradigm shift. While globalization of trade in goods is slowing, there has been an explosion in cross-border flows of services, data, investments, ideas, and people that are not reflected in traditional trade data.

To be sure, growth in global trade in products *has* been slowing down. This is due in part to the drop in many commodity prices, but also to fewer finished and partly finished goods crossing borders. It could mean that global value chains have matured in many sectors and companies are relocating activities closer to customers, and crossing borders less.

This trend has advocates of increased global linkages expressing concern that the pace of globalization is slowing. The fear is that the economic benefits of globalization – higher incomes and stronger growth for many – will be lost. Canada in particular, with its relatively small domestic economy, depends on international trade to raise or at least maintain its citizens’ living standards.

The takeoff in non-traditional forms of trade points to a new kind of trade paradigm. For example, trade in services, such as engineering or computer services, is the fastest-growing part of global trade today. Business services are both large and growing rapidly in both advanced and emerging economies.

Rather than being an afterthought to manufactured products, trade in services represents close to half of global trade, and close to half of Canada’s trade, according to Conference Board of Canada calculations. And Canada has taken advantage of the global growth in services: three out of the five fastest-growing Canadian exports over the past decade were financial services, computer services, and management services. Global sales of these types of services are linked with increased business profitability and high-paying jobs.

The rapid acceleration of foreign direct investment is a related trend in the advance of globalization. Boosted by the emergence of developing economies as key investment players, it represents a huge shift in how global business is being conducted. The global stock of foreign direct investment is now about \$5-trillion (U.S.) more than annual global exports. Although firms can send information around the world in an instant, many successful companies insist on a local presence for suppliers. In particular, services depend on face-to-face relationships.

It is therefore not surprising that Canadian companies sell twice as many services through foreign affiliate sales compared to direct services exports from Canada. This massive growth in foreign investment is not well reflected in traditional trade data.

Perhaps most importantly, flows of data have been accelerating at a phenomenal pace in recent years. We can translate all kinds of real-world information into strings of zeros and ones, and send the information anywhere in the world – instantly. Cross-border data flows were negligible just 15 years ago, but today the GDP impact of data flows exceeds the impact of global trade in goods, according to the McKinsey Global Institute. McKinsey predicts

cross-border bandwidth will grow ninefold in the next five years as digital flows of commerce, information, searches, video, communications, and intracompany traffic continue to surge.

New thinking is required to understand and measure the benefits – and also the dislocations – that arise from globalization. It is no longer enough to make and sell products and resources. Canada's economic future now depends on leveraging data and information, and providing world-leading services – on their own or to add value to products and

resources. The potential to generate new digital opportunities can apply in essentially every sector of the economy as digitization reshapes resource, manufacturing, and services companies in Canada and around the world.

So, globalization is not retreating – far from it. We should anticipate an acceleration in the new global business model where data are king. The ability to measure and understand the new business model, and how Canadian companies are faring, will be critical to effective policy making in Canada.